

What needs to be done to rebuild taxpayer confidence - and why this is integral to boosting tax collection

The South African Revenue Service (Sars) has announced that the 2022 tax season will open in July; a condensed filing season compared to 2021, which was extended due to the long-tail impact of the pandemic.



Source: Supplied. Hannes van den Berg, chief executive officer at Consult by Momentum

A key change to this year's tax season sees auto-assessments no longer needing to be manually 'accepted' if the taxpayer agrees with the calculation; an attempt by Sars to bolster tax collection, given the rising number of South Africans who are failing to submit their tax returns.

However, Hannes van den Berg, chief executive officer at Consult by Momentum, believes that there is a great deal of work to be done to rebuild taxpayer confidence in the current structures of Sars if it is to make good on its mission of bolstering the tax coffers.

Van den Berg says that while there has been a couple of high-profile tax-evasion court cases recently, the number of instances where Sars has needed to resort to court measures to recover revenue is relatively low.

Rather, he believes that what we should be very wary of is the increasing migration of taxpayers – a trend that has become evident among high net worth individuals (HNWI), who make up a significant portion of South Africa's taxpayer base.

"We've seen an increase in client inquiries around immigration, dual citizenship and the externalisation (offshoring) of assets, he highlights.

"This has the effect of causing severe leakages in our tax bucket."

Sars' revenue collection a priority

There's no doubt that Sars needs to boost its revenue collection – and fast. The National Treasury and Sars' joint publication on 2021 tax statistics revealed that revenue collection for the 2020/21 fiscal year had declined by almost 8% - or R106.1bn.

However, its options have become increasingly limited against South Africa's current economic backdrop of slow growth, loadshedding, skyrocketing unemployment and rising inflation, says Van den Berg.

"Yes, this past quarter showed signs of recovery, with large retailer groups reporting promising results. Sadly, this is likely to be short-lived, with massive fuel hikes and inflation eating into the income of consumers."

Government knows there is no real wiggle room to increase personal income tax, and its recent announcement around the extension of the fuel-levy cut shows that it is well aware that consumers are on the brink. "Any attempt to increase the individual tax burden could push South Africans over the edge and cause resistance, as we recently saw with the e-toll rebellion."



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Van den Berg says that the only real options available to Sars are to find new ways of increasing revenue through indirect taxes "At the end of the day, consumers will still pay, but it might be a marginally less bitter pill to swallow."

Curbing current exemptions

The other avenue is to increase revenue collection among its current taxpayer base. Sars has announced that it will pursue this route by curbing current exemptions, thereby reducing the system's complexity and broadening the tax base.

“It’s trying to gain a better understanding of the causal factors behind the drop in revenue, but it certainly cannot discount the fact that taxpayers are stretched beyond their limits and frustrated by the current state of affairs,” says Van den Berg.

Another consideration is that a small minority of South Africans are paying an inordinately large amount of tax, says Van Den Berg, but that they are not experiencing satisfactory service delivery, – leading to even more frustration.

He adds that the issue of social grants is another matter that often proves contentious among taxpayers. Van den Berg highlights that while there may be taxpayer buy-in from a humanitarian perspective, many funds allocated towards social expenditure have been lost due to corruption. Moreover, some are concerned that a growing reliance on social grants (SA already spends 3.3% of its GDP on social expenditure) will curb economic recovery.

Poor service delivery at play

“The outtake is that law-abiding citizens who see tax as being integral to a functioning society are growing concerned about dutifully paying their taxes and seeing little return.”

So what can be done to rebuild taxpayer confidence and increase tax collection – critical to SA’s economic recovery?

Van den Berg says that while Sars is a robust institution, it needs to ensure that it employs the necessary skillsets to deeply understand and interrogate the tax affairs of companies and individuals, so that it can make individualised rather than blanket assessments.

“Submitting a tax return is causing fear among taxpayers – this shouldn’t be the case,” he says.

Holding tax evaders to account

Finally – and most importantly – he says, there needs to be an active effort to hold those who are guilty of fraud, corruption and tax evasion to account.

“There should be no fear or favour when it comes to prosecuting guilty parties.

“This proves to taxpayers that no one is above the law and that an active effort is being made to direct tax revenue to where it is needed most – rather than into the pockets of unscrupulous individuals.”

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