

Another side to the BIG issue: what's the plan when SA cannot afford any more tax?

When it comes to funding the basic income grant, Consult CEO Hannes van den Berg cautions against putting further financial pressure on tax-paying citizens and the private sector.

The basic income grant is the BIG issue on the table this year, as Finance Minister Enoch Godongwana prepares his inaugural Budget Speech. At the State of the Nation (SONA) address earlier this month, President Cyril Ramaphosa bought the government a bit of time to make a more permanent decision on the grant, opting instead to extend the Social Relief Distress (SRD) Grant for a further year.

Promised the President in his SONA address, "*During this time, we will engage in broad consultations and detailed technical work to identify the best options to replace this grant. Any future support must pass the test of affordability and must not come at the expense of basic services or the risk of unsustainable spending.*"

Sound sentiments, but then what is the plan to fund the BIG? Hannes van den Berg, Chief Executive Officer (CEO) at Consult, believes that limited options are at the government's disposal. The most likely of the proposed funding mechanisms are also expected to cost the private sector and tax-paying citizens: tax hikes.

Says Van den Berg, "The budget deficit remains at an all-time high. There is additional revenue in the current commodity cycle and a weaker rand. Still, these are cyclical and cannot be incorporated into a longer-term forecast with any degree of certainty. This means there are likely to be tax increases on the table."

Van den Berg warns that while there has been some recovery in tax collection, it is still sluggish. A Value-Added Tax (VAT) hike, personal income tax increase or the implementation of a so-called 'wealth tax' would only add more pressure to a diminishing taxpayer base. "A small portion of the population already pay an inordinately high amount of tax, and the risk is that we will begin to lose this source of revenue should we see further increases — either through tax avoidance or the immigration of highly-skilled individuals."

Most corporates can also ill-afford increasing taxes. "This year's SONA has been widely hailed as the most pro-business speech to date. While the Congress of South African Trade Unions (COSATU) believes that a viable option to fund the BIG could be through adjusting the corporate tax from 27% to 30%, the reality is that we need to grant these companies the leeway they need to create jobs and bolster our economic recovery, which the President acknowledged in his speech," he adds.

Momentum's economists have listed the country's high poverty level and the government's plan to introduce new grants among the main risks to the country's fiscus in 2022. While it noted that tackling inequality was necessary, it said that this would become increasingly challenging considering that South Africa already spends 3.3% of its Gross Domestic Product (GDP) on social expenditure.

There is no disputing that the social need remains dire. According to a panel appointed by the Department of Social Development, the International Labor Organization (ILO) and the United Nations-backed Joint Sustainable Development Goals Fund, 20% of households fall below the food poverty line — equivalent to a monthly value of R595. The SRD Grant did the critical job of supporting the unemployed during the pandemic, lifting millions of people above this food poverty line. "It offered a welcome bit of relief for those who found themselves unemployed and under extreme financial pressure — however, it is far from enough to successfully pull people out of poverty, and it is not a sustainable model in the long term," Van den Berg says.

Invested parties have also raised concerns that the BIG may create a sense of dependency on the State. At the same time, another contingent argues that a functioning social grant sees minor adverse effects in developed countries. Van den Berg says that in South Africa, deep-rooted systematic issues need to be addressed for a grant to do the job for which it's intended; that is, to act as a lifeline for those facing extraordinary circumstances allowing them to get back on their feet.

So, what should the plan be? Van den Berg believes that the government's plan of enabling businesses to thrive is a good one and should be the primary focus.

"The President was right in saying that it is the private sector which creates the majority of jobs, and so we desperately need to free up businesses, allowing them the runway they need to recover and to grow. We need to relook labour legislation so that businesses are not discouraged from employing more staff. Consider how much red tape is required to start a business or the onerous process an informal trader must complete to gain a trading licence. We need to relook our framework to enable, rather than curtail.

"We must create the jobs that give people meaning and empower people to be self rather than state reliant."

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