CALL FOR SUBMISSION TO THE VAT SUB-COMMITTEE OF THE TAX REVIEW COMMITTEE

We refer to the request from the VAT sub-committee for submissions from stakeholders. Enclosed please find the submission of SAICA’s VAT committee. We grouped our comments under the aspects listed in the terms of reference that should receive specific attention from the committee.

Submission with regard to specific point 1: An analysis of the sustainability in the long-run of the overall tax-to-GDP ratio, and the tax-to-GDP ratio for each of the three major tax instruments, Personal Income Tax (PIT), Corporate Income Tax (CIT) and VAT should be undertaken.

As a general comment, Value-Added Tax is the only realistic source of additional revenue capable of proving the necessary funding required for government’s social, infrastructure and other expenditure programs, as well as managing South Africa’s foreign debt position. CIT cannot be increased as it will influence South Africa’s foreign competitiveness. PIT cannot
be increased significantly as it is currently at the levels where further increases will result in incentives to avoid tax. Value-Added Tax as a percentage of GDP on a global scale may not necessarily be the appropriate measurement as SA’s economy faces unique challenges as a third world country. Guidance can however be taken from general trends worldwide, which is an increased focus on indirect/consumption based taxes.

*Submission with regard to specific point 5: Value added tax with specific reference to efficiency and equity. In this examination, the advisability and effectiveness of dual rates, zero rating and exemptions must be considered.*

**Efficiency**
Efficiency is a general requirement for all taxes. It should be measured as the ratio of costs incurred to recover each R1 of VAT. World trends/best practice should be taken as a benchmark to measure efficiency.

**Equity**
Equity is a subjective test and needs to be evaluated based on the appropriate measurement given the specific circumstances prevailing. In South Africa any general increase in VAT without extending the exemptions and zero-ratings, is likely to be viewed as increasing the tax burden of the poor sector of the community. The small tax base currently carrying the majority of the tax burden in turn will argue that an increase in VAT is the only equitable way for solving the current inequity in the spread of the tax burden. We therefore do not believe that equity should play a significant role in the mid-term tax strategy. A long term view may need to include issued of equity.

**Dual rates**
It is our view that duel rates are not advisable. It creates a significant administrative burden on the vendor and on SARS. It also creates opportunities to avoid VAT through classifications and composite supply structures.
Zero rating

The extension of zero-rating and exemptions should be avoided where possible. If anything it should be introduced as a token gesture (for example the zero-rating of school books). Zero-rating and exemptions should be kept to an absolute minimum to avoid unnecessary complexity in managing VAT systems.

Submission with regard to specific point 6: The impact of e-commerce (especially the use of digital delivery of goods and services) upon the integrity of the tax base, in particular upon value added tax and corporate income tax revenues.

This is an issue that needs to be monitored closely and be addressed, where possible, proactively. The South African Value Added Tax rules should follow the OECD rules as closely as possible. It is our suggestion that consideration should be given to the introduction of place of supply rules as a matter of priority.

E-commerce poses a major risk to the SA tax base. In the absence of pro-active measures, the tax leakage may be significant.

We kept our submission concise and are happy to engage with the VAT sub-committee on the matters raised. If more detail is required you are welcome to contact us. We would like to meet with the VAT Sub-Committee in Pretoria to discuss our submission.

Please do not hesitate to contact us, should you have any questions regarding the above.

Yours faithfully

Piet Nel  CA(SA)  Christo Theron  CA(SA)
PROJECT DIRECTOR: TAX  Chairman-SAICA VAT Committee
The South African Institute of Chartered Accountants

cc: vpillay@sars.gov.za