

### Implications of funding a BIG using existing tax instruments

Type of tax	% increase represented by R50bn	% increase represented by R100bn	Impact on economic growth	Intellidex's comments
Personal income tax (PIT)	9%	19%	Significant	South Africa's PIT rates are relatively high and progressive.
				The tax base is very narrow.
				Higher taxes will lead to behavioural responses that reduce taxable income and narrow the tax base further.
				Raising PIT will reduce household savings, with macroeconomic implications.
Value-added tax (VAT)	14%	29%	Modest	The least distortionary of the major tax instruments, and, by developing country standards, is levied at a relatively low rate.
				Politically very difficult to raise because it is the least progressive of the major taxes.
				Raising VAT will immediately translate into higher inflation, with macroeconomic implications, particularly in the short term.
Corporate income tax (CIT)	24%	47%	Severe	South Africa's CIT rate is relatively high.
				The tax base is very narrow, and only a minority of companies pay any tax; 60% of CIT is paid by a few hundred companies.
				The most distortionary tax with greatest impact on growth because of its impact on investment.
Fuel levy	62%	125%	Severe	Fuel levies are deliberately distortionary because they are intended (at least in part) to reduce emissions.
				Raising fuel levies to fund a BIG would be regressive, given the high proportion of household income that is spent on transport in poor households.
				The effect of raising fuel levies would also be immediately inflationary, with macroeconomic implications, particularly in the short term.
Tax on international trade	89%	178%	Severe	Very distortionary, with significant adverse effects on growth in the short and the long term.
				Immediately inflationary, with macroeconomic consequences, particularly in the short term.
Excise duties	107%	214%	Significant	Excise duties are highly regressive (because a larger share of household income is spent on these products in poor households).
				Impact would be severely negative for affected sectors (alcohol, tobacco, retail and leisure).
<b>Minor taxes. The tax bases of these taxes are too small to generate the required revenue, so any increase would have to be part of a package of other increases.</b>				
Dividends tax	179%	358%	Severe	Like CIT, dividends tax is distortionary because it reduces the return on investment, which would fall.
Taxes on use of goods	418%	837%	NA	Taxes on the use of goods are made up by the electricity levy paid by Eskom for generating energy from non-renewable sources (70% of the total, or R8.3bn in 2019), while most of the rest is the "air departure tax" and the emissions tax on new vehicles.
				Increases in the electricity levy are passed on to consumers, while the other taxes are too small (about R1bn each) to make a meaningful contribution to a BIG.
Taxes on payroll / workforce	491%	983%	NA	Raising payroll taxes (in this case, the skills levy, would increase the cost of employment and, therefore, reduce employment growth;
				These taxes are, in principle, ringfenced for skills development.

Transfer duties	702%	1405%	NA	Raising transfer duties makes houses less affordable. Housing markets are too volatile to generate predictable revenues over the long term. Raising the duty for high-value property in 2018 raised very little new revenue.
Securities transfer tax	801%	1603%	NA	The securities transfer tax is too small to support the financing of a BIG. Raising the STT would reduce liquidity of capital markets, raising the cost of capital.
Interest on overdue tax	999%	1999%	NA	Not a viable source of meaningful revenue.
Ad valorem excise duties	1212%	2425%	NA	These are duties imposed on luxury goods imported into the Southern African Customs Union. Raising ad valorm duties in 2018 did not generate new revenues.
Health promotion levy (HPL)	2044%	4088%	NA	The HPL or "sugar tax" is too small to support a BIG, is regarded as regressive in impact, and raising it would further undermine economic activity in this sector.
Estate duty	2442%	4883%	NA	Reasonably high estate duties can play a role in reducing intergenerational inequality, but high estate duties also encourage the adoption of more aggressive "estate planning" activities. The introduction of higher estate duties for large estates in 2018 did not raise significant new revenues.
Interest withholding tax	8382%	16765%	NA	The WTI is a measure designed to ensure that foreign lenders to SA businesses pay taxes on interest paid by local borrowers and is intended to reduce transfer prising risk. The tax is payable by the foreign taxpayer, but the collection rates are low and administratively complex
Donations tax	8737%	17474%	NA	Raising the tax levied on gifts/donations between taxpayers would generate little additional revenue and it would be next to impossible to enforce compliance.
<b>Average increase for all taxes</b>	<b>4%</b>	<b>7%</b>	<b>Severe</b>	SA is already a high-tax economy, with rates levied on the narrow base of taxpayers being very high by global standards. Raising these rates further would increase the distortionary effects of taxation and slow economic growth meaningfully.