BUSINESS FOR SA | COVID-19

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The South African economy needs more tax interventions to mitigate the economic effects of COVID-19 in South Africa.

Kyle Mandy, argues

Even before COVID-19, South Africa was under severe fiscal pressure. It is now accepted that the economic fallout resulting from the outbreak will inflict long-lasting damage to the local economy.

Small businesses, in particular, are vulnerable and many will struggle to survive without support.

Given the urgency of the situation and the sheer scale and magnitude of the crisis, aggressive, decisive and immediate action through temporary and targeted measures is imperative to prevent (as far as possible) long term damage to the South African economy.

In the medium term, more comprehensive policy-based interventions could be considered in order to boost economic growth (such as, for example, tax incentives and reduced tax rates).

The following are the measures that South Africa should adopt urgently:

Tax Administration

- Extensions of deadlines for the filing of tax returns for small and micro business should be granted in recognition of the difficulties many small businesses will face in completing returns.
- Extensions of time periods for compliance, beyond those proposed in the draft Disaster Management Tax Relief Administration Bill, should be provided for in recognition of the difficulties in meeting deadlines.
- COVID-19 related delays should be designated as exceptional circumstances for the purposes of interest, penalties, objections and appeals.
- The payment of tax refunds (including VAT, CIT, PIT and employees' tax) should be fast-tracked in low risk cases to inject liquidity into the economy.

Corporate Tax

- The payment of provisional tax and assessed tax for small and micro businesses, in particular, should be deferred for a limited period to provide liquidity. A deferral of corporate tax for companies with taxable incomes of less than R5 million for 12 months, as similarly proposed by government, is estimated to result in approximately R7.7 billion being paid at least 6 months later based on 2017 data. The time value of money benefit (at a rate of 8.75%) is estimated at up to R675 million.
- Introducing an allowance for the deduction for income tax purposes of donations of essential goods (e.g. sanitizers, facemasks,) to fight the virus will incentivize and reward contributors to the fight against COVID-19.

Indirect Tax

- Deferring the payment of VAT by small businesses for a limited period will provide liquidity.

This will also potentially be more beneficial to many small businesses than a deferral of the payment of provisional tax and employees' tax as many small businesses may not be in a taxable income position or may not have significant employees' tax liabilities as a result of most employees falling below the tax threshold. Based on the Tax Statistics 2019, a deferral of the payment of 100% of the VAT liability by businesses with a turnover of less than R50 million for 4 months paid over the following 6 months would result in approximately R21 billion in VAT payments being deferred (before considering the impact of the lockdown and closure of businesses on VAT liabilities). The cost of this from a time value of money perspective would amount to no more than R775 million at an interest rate of 8.75%, according to our estimates, but would give small businesses vital breathing space.

- A temporary zero-rating of critical goods and services directly related to addressing the COVID-19 pandemic should be introduced.
- Relief from municipal property rates in the form of an exemption for tourism, retail, hospitality and leisure businesses should be provided for a limited period.

Personal income tax

- Deferring the payment of provisional tax and assessed tax for a limited period will provide liquidity to small businesses owned by individuals.
- A temporary increase in the tax-free withdrawal of lump sums from retirement funds would provide support to those who lose jobs.

Payroll tax

- Deferring the payment of employees' tax (as announced by government) for small businesses for a limited period would provide liquidity to small business.
- The Unemployment Insurance Fund (UIF) has a substantial surplus of approximately R150 billion and which is expected to grow to some R160 billion over the next year. It is suggested that the institution of a temporary UIF contribution holiday for both employers and employees for a limited period is feasible given the significant surpluses. Such a contribution holiday would inject much needed liquidity into businesses and provide relief to consumers. A 4-month contribution holiday would inject approximately R7 billion into the economy without substantially eroding the surpluses of the UIF.

- Most of the Sector Education and Training authorities carry substantial reserves and would be more than capable of foregoing a portion of the skills development levies (SDL) for 2020/21. It is accordingly proposed that a temporary suspension of SDL be introduced for a 4-month period which would inject approximately R7 billion into the economy without substantially eroding the financial positions of the SETAs.
- A temporary expansion of the employment tax incentive (ETI) to cover all workers regardless of age, removing the 24-month limit and date of employment restrictions and providing a flat subsidy regardless of earnings (possibly at an increased salary cap) would provide much-needed liquidity to business. It is noted that the proposal in the draft Disaster Management Tax Relief Bill falls short of this, only removing the age and 24-month limits, but retaining the date of employment restrictions, sliding scale subsidy and existing salary cap.

Implementing these measures would have an immediate impact in mitigating the economic effects of the COVID-19 pandemic.

A combination of some or all of these measures, appropriately targeted at SME businesses where appropriate, would be the most effective in keeping SMEs alive and in mitigating against job losses.

Temporarily adopting significant fiscal measures to support small businesses, in particular, and to protect the tax base in the medium term is vital. Not doing so may result in a long-term reduction in the tax base and tax revenues through the closure of businesses and loss of employment and a far deeper fiscal crisis.

Kyle Mandy is an adviser to Business for South Africa COVID-19 Response initiative. The article is a summary of the detailed proposal submitted to National Treasury.