

What you need to know about a tax revolt in South Africa

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South African taxpayers have been hit by more bad news this week with an escalation of load shedding and the announcement that certain medical aid benefits will be scrapped to make way for the NHI.

In a perfect system, this would allow frustrated voters to replace the ruling party with one that more closely aligns with their values and has less of an impact on their pockets, says Dawie Roodt, chief economist at Efficient Group.

He notes that even if this is not the case, there should be greater accountability for the economic issues currently facing South Africa.

“Politicians should be so sensitive that they make changes before being voted out. However, they know that they are safe in their jobs so this ‘political option’ is not really an option at all.

“Confidence is at record-lows as a number of metrics show. However, even as an economist I can measure this just by looking at the rand and can see that it is more undervalued than normal.”

‘Aggressive restructuring’ of taxes

With South Africans clearly ‘gatvol’ of the situation, Roodt said that more taxpayers are ‘aggressively restructuring’ their taxes to pay less.

He noted a growing number of people have show their displeasure for the government and the current economic situation by focusing on their own finances.

He said that a number of clients have approached him directly to assist with this structuring but that it was happening across the country as can be seen by the fact that Treasury’s tax collection statistics are below estimates.

“This is not necessarily ‘tax avoidance’ but instead taxpayers doing everything they can to avoid paying more,” he said.

Roodt added that taxpayers are ‘revolting’ in more direct ways – highlighting the current e-toll situation and the fact that a large number of Gauteng motorists refuse to pay for the system

Tax revolt

While this aggressive restructuring of finances is not a tax revolt in the classical sense, Roodt said that a full-on tax revolt is unlikely to happen without the support of corporate South Africa.

“We are unlikely to see a classical tax revolt and if that really were to happen then you would need financial directors from large companies to simply stop paying tax.

“Although there are not many of these directors, they are responsible for paying a large portion of the country’s corporate tax and VAT.

“Of course if this happens, even at a smallish company, the director will be made an example of and immediately thrown into jail.”

SARS commissioner Edward Kieswetter previously warned that South African taxpayers may start withholding their tax payments due to years of corruption.

However, Jean du Toit, a senior tax attorney at Tax Consulting SA, said that it may already be too late.

Du Toit noted that a ‘tax revolt’ is any situation where taxpayers in an act of solidarity resolve to abstain from their civic duty of paying their taxes. A notorious example of an ongoing tax revolt in this regard is e-tolls – one which objectively speaking is quite successful, he said.

“Under a tax revolt, one may broadly identify two types of taxpayers; those who simply do not and never have paid taxes, perhaps out of disdain for the very concept thereof and those who, from some misguided sense of virtue, feel justified in discontinuing their tax obligations.

“In the latter case, the taxpayer somehow legitimises their behaviour, often because they do not think they have to contribute to a leaky bucket, or they feel they have already contributed more than their fair share,” he said.

Du Toit said that these motives may also be a veneer for the actual reason for adopting a non-compliant lifestyle, which is that the taxpayer has lost the fear of being prosecuted. In either of these cases, the conduct is illegal.

‘Legal’ tax revolt

A second type of tax revolt, a less unscrupulous kind, where taxpayers deprive the taxman of revenue by using legal means, said du Toit.

“On a small scale, this may be achieved by consuming zero-rated goods only, or by kicking your smoking habit and adopting a teetotal lifestyle, thereby depriving the state of VAT and sin taxes,” he said.

“A more drastic and far more effective, yet legal, act of defiance would be to cease your tax residency, in which case SARS would no longer have a claim to your worldwide income and capital gains.

“Arguably, it is this manifestation of a tax revolt that is currently most prevalent and the one giving SARS heart palpitations.”

The government is not taking the threat of a tax revolt sitting down, however, with SARS indicating that it is tightening up its tax collection efforts, and with the new expat tax waiting in the wings for 2020, not even those leaving the country can fully escape the taxman.