

Throttling the golden goose – Financial Mail 9 January 2020

Figures from the SA Revenue Service, released before Christmas, reveal just how frighteningly fragile the corporate sector really is, with dire implications for SA's fiscal sustainability

The Sars building in Randburg. Picture:TYRONE ARTHUR

Finance minister Tito Mboweni gets it, but mineral & energy resources minister Gwede Mantashe doesn't. Reserve Bank governor Lesetja Kganyago is well aware of the problem, but it seems to have entirely escaped health minister Zweli Mkhize and many others in the ruling ANC.

Figures from the SA Revenue Service (Sars), released before Christmas, reveal just how frighteningly fragile the corporate sector really is, with dire implications for SA's fiscal sustainability. Don't let the stifflingly dull title fool you: Sars's 2019 "Tax Statistics" is one of the more terrifying documents you'll read.

It reveals how lopsided the economy really is, reliant on a sliver of individuals to keep everything running. Scarily, this is true for both personal income tax (38.5% of the government's income) and company income tax (16.6%).

Take company taxes. By March 2018, there were 3.2-million companies registered to pay tax in SA, of which 814,151 were recently assessed.

But Sars says that of those companies, "24.3% had positive taxable income, while 48.3% had taxable income equal to zero and the remaining 27.4% reported an assessed loss". In other words, only about one in four SA companies were reporting enough profit to contribute to the fiscus.

Sars elaborates: "The decline can largely be attributed to sluggish economic growth, structural challenges in some sectors of the economy, low confidence levels and political uncertainty. All of these factors play a role in subdued investment activity, resulting in lower profitability."

Since those figures were compiled, it has got worse. Lest we need reminding, GDP growth shrank by 0.6% in the third quarter of last year — and that was before stage 6 load-shedding.

It's not just how weak companies are that's a problem; it's also that there are so few contributing. The fact is, just 380 large companies paid 57.2% of all corporate income tax last year.

It's a skewed reliance that is mirrored in personal income tax too.

The Sars data shows there were just 189,891 people in the country who earned more than R1m each in 2018 and contributed 36.9% of all personal income tax collected — R131bn. It means the government is overwhelmingly reliant on 0.3% of the population to finance its spending on the rest.

Of course, company tax and personal tax are intertwined, as the strain on SA's corporate sector dominoes down the chain onto consumers.

Each November, executive search company Jack Hammer releases a salary and bonus survey, based on views from a cross-section of SA managers and executives. Last year, 56% didn't expect to get a better bonus than they'd got before, while 33% expected no salary increase at all.

The point is, ministers and policymakers who float unhinged policies appear to be entirely unaware of how fragile this ecosystem is. They seem unaware of the risk of overburdening the small pocket of taxpayers who finance the country, and unconcerned about doing the same to the few companies paying taxes.

Mantashe's determination to push through a Mining Charter hostile to companies risks disturbing this balance, as does Mkhize's determination to push through National Health Insurance (NHI), despite the objections over its cost.

To speak with the unbridled arrogance of a politician untethered to fiscal reality about how NHI will be implemented anyway, or how debts owed to banks will simply be written off, to hell with objections, is to play dice with this system.

There's a point at which, no matter how much people like Nomvula Mokonyane believe we'll just be able to "pick up" the rand or the economy, too much damage will have been done.