

Finding solutions for South Africa's tax conundrum

By Theo Boshoff

As the old adage goes, there are only two things that are certain in life: death...and taxes. As social contract theory goes; individuals give up an element of freedom (and money) in exchange for security, services and harmony in society. In other words, we pay taxes so that we can get services such as infrastructure, safety and social security. An element of cross-subsidisation is inevitable but it contributes to the overall stability of society.

This logic has been diluted of late. Government services have increasingly moved towards a 'user-pays principle' and taxes have increasingly been used as a punitive measure to change behaviour. The two examples that come to mind are the Carbon Tax and the Health Promotion Levy. The Carbon Tax Act attaches a price to greenhouse gas emissions. The logic underpinning the Act is that companies would do everything in their power to mitigate their greenhouse gas emissions as emissions will have a direct impact on their balance sheet. The health promotion levy increases the cost of beverages with a high sugar content in an attempt to mould consumer preferences towards healthier options.

Both mechanisms have noble intentions. South Africa is one of the most carbon-intensive economies per capita and sectors such as agriculture will feel the effects of climate change and pollution first-hand. Likewise, South Africa has a real challenge with obesity and the negative health consequences that go with it. Be that as it may, the aim must always be to promote an objective and assist the companies involved in manufacturing affected products to change their behaviour, not to punish them.

To this end, the taxes generated from these levies (if required) should be ring-fenced and used to promote the objective that they were originally created for. For instance, coal-powered electricity generation accounts for an excess of 60% of South Africa's greenhouse gas emissions. We all know that this is not a sustainable situation and we all know that substantial investment is required to transition towards green energy sources. A logical solution would be to ring-fence the funds generated from the carbon tax and invest in state-owned infrastructure to support a green energy revolution. It is certainly true that many companies are incorporating solar into their own energy needs but to achieve the scale required to make a dent in our greenhouse gas emissions, large-scale investments are needed in the transmission grid. At present, our transmission network is designed to source power in the Mpumalanga highveld and transmit it to other areas of South Africa. Large-scale investments are required if we are to make use of the solar and wind potential spread across the country.

Whilst the health promotion levy may be aimed at consumers, a decline in consumption has a disproportional effect on the producers and millers of sugarcane. At present, the industry bares the brunt of the tax with little to no assistance to mitigate against the impact of the tax. An alternative would be to ring-fence the funds and reinvest them into alternative revenue streams for the industry. Sugarcane can also be used to produce bio-ethanol, a renewable energy source. South Africa developed a biofuels strategy as far back as 2009 but was never implemented because of one, fundamental obstacle: global oil prices are notoriously fickle, which makes feasibility studies difficult and long-term investments risky. If the oil price dips, biofuels may be uncompetitive. To mitigate this risk, the 2009 biofuel strategy mooted the idea

of a state subsidy that would kick in if the oil price dipped below a certain level. This could work in theory, but as always, money is tight. Should the health promotion levy be ring-fenced and used for this purpose, it could at least provide alternatives to the industry.

Unfortunately, the current monetary policy is not to ring-fence tax revenue. Instead, all taxes, irrespective of their purpose, are pooled into the national revenue fund. Industries and their respective line departments are then left with the daunting task of motivating a fair budget allocation to address issues such as climate change and biofuels. Surely there are other solutions worth considering?