

South Africa, ever deceptive

The last time I wrote a positive opinion piece about South Africa, it was followed by the July 2021 riots. Let's hope that I don't perform an infamous double! I often say to people that to get a different narrative, you need to change your information source. Beating up on South Africa is the easiest game in town. Even famous UFC fighter Drikus Du Plessis found that one very easy ahead of his recent title fight. However, time after time South Africa surprises even her worst detractors. Yes, we still have load-shedding to come (despite 2 weeks of uninterrupted power supply), water provision is ragged in many municipalities and there is a litany of other service delivery issues. Nonetheless, South Africa stands. Some high-profile financial writers have written doom for some time. One of the most significant issues they raise is the hollowing out of the tax base by emigration. In this article, we look to see if the statistics support the narrative.



**Robin
Gibson**

Emigration is a real thing. Many of the qualified youngsters leave South Africa for better prospects either because of a lack of opportunities in their skillset or because of policies that provide roadblocks to their progress. This is not a situation unique to South Africa. It is a global phenomenon. There are also those wealthy individuals who can afford to relocate and enjoy a similar lifestyle elsewhere. Many

have businesses that they close or relocate on the way out.

Recent changes in tax administration and laws have forced many who have left casually (as opposed to formally) to formalize their tax status at the very least. There are hoards of such individuals, a fact we can attest to as we have a special team assisting these individuals to conform to the new requirements.

This has led to a widely held narrative that the tax base has been hollowed out and that government finances face an inevitable collapse not so much from the weight of debt and social support (grants) but from the dwindling revenue collection as the entrepreneurs and wealthy taxpayers leave the country.

We hold a regular census in South Africa. Population growth hovers around 1.5% per year depending on which period you consider. In 2011 we counted 51.8 million people. This swelled to 62 million by our last census in 2022. The GDP per capita number has shrunk from \$8,173 in 2011 to \$6,766 in 2022 while unemployment

SPEED READ

- **Everybody knows someone or has family that has left South Africa for better prospects. The brain drain is well publicized.**
- **Well-known financial commentators have long predicted the collapse of South Africa's finances on the back of these emigrating hordes. The writers do not provide explicit details but imply that there is no one filling the gap as they leave.**
- **SARS releases comprehensive statistics of taxpayers and various tax collections that allow us to assess what is happening on the ground.**
- **Despite load-shedding, emigration, COVID-19, and a litany of other problems, SARS has both expanded the base and grown revenue collection ahead of inflation, contrary to the negative perceptions created by those financial writers.**

has climbed from around 23.8% at the end of 2011 to the low 30% at the last reading. We understand that the low economic growth rate, poor service delivery, and high emigration are all statistics that easily feed into the narrative of a poor revenue outlook for the Fiscus. Yet what do the real numbers say?

For this exercise, we have compared the 2013 tax year (1 March 2012 – 28 Feb 2013) with the 2023 Tax year (1 March 2022 – 29th February 2023). Another thing we need to consider in comparing the two periods is the inflation rate between them. If SARS were to collect increasing tax

(which they should do purely based on the escalation of numbers by inflation) but that rate of increase was less than the rate of inflation over the period, then effectively they are going backward. The published inflation rate between 1 Feb 2012 and 1 Feb 2022 was 4.95% per annum, and between 28 Feb 2013 and 28 Feb 2023 was 5.11% per annum. To suggest then that the correct inflation number would be 5% per annum over the period would be accurate.

Now consider the tax data. This is summarised in the table. Registered taxpayers at the end of 2013 numbered 15.4 million individuals and 2.2 million companies, while there were 650,540 registered VAT vendors. Not everyone submitted a return or was assessed but taxes totaled R276.7 billion in personal income tax (PIT) including PAYE collected, while Company Tax (CIT) was R160.9 billion and VAT a further R215 billion.

Fast forward to the 2023 tax year and the number of registered taxpayers has escalated to 25.94 million (for all these stats I will quote the percentage change in brackets afterward - in this case it is an escalation of 68%) while PIT grew to R502.2 billion (+81%). Company taxpayers increased to 3.92 million (+78%) with CIT collected at R347.7 billion (+116%) and the number of VAT vendors rose to 953,665 (+46%) paying R422.4 billion (+97%).

What makes these numbers more interesting is the performance relative to inflation (5% per annum over the period). PIT grew by 6.14% per annum, just over 1%

	2013 Tax Year	2023 Tax Year	Change	Annualised
Number of Taxpayers	15,400,000	25,944,652	68.5%	5.35%
Personal Income Tax(PIT, incl PAYE, Rbn)	R276.70	R502.20	81.5%	6.14%
Company Income Tax (CIT, Rbn)	R160.90	R347.70	116.1%	8.01%
VAT (Rbn)	R215.00	R422.40	96.5%	6.99%
Inflation 2013-2023			65%	5%

Extracts from SARS tax data released annually showing the tax base is far from eroding, rather it is being expanded.

“SARS has also used Artificial Intelligence (AI) extensively in their assessment of tax returns and those tax ‘dodgers’ are being found out.”

per annum real growth. CIT grew by 8.01% per annum, just over 3% per annum real growth and VAT grew by 6.99% per annum marginally short of 2% real growth. These statistics certainly do not support the narrative of a shrinking tax base.

There are several things to consider in these statistics. One is that SARS under Edward Kieswetter is a far cry from the SARS under Tom Moyane. Mr Kieswetter is going after the crooks Al Capone style. SARS has consistently reported an increase of taxpayers into the net who have been somewhat delinquent in the past. SARS

has also not shied away from confrontation with one or two companies that have implemented aggressive tax structures, a number of these court cases have been very public and SARS has won some key judgements. This has been very intentional. With a high profile judgement, SARS will find it significantly easier to sway the minds of smaller organizations that have used similar tax structures.

SARS has also used Artificial Intelligence (AI) extensively in their assessment of tax returns and those tax ‘dodgers’ are being found out. I have heard Mr Kieswetter declare that less than 2 out of 10 returns go through human hands anymore. While we would all like to not pay taxes, to know that some of the rebels in our country are being challenged is certainly a breath of fresh air for honest citizens.

Readers should not believe that I am ignorant of the many challenges that South Africa faces. They are real and highly visible, and many financial writers highlight them accurately. I do however feel at times that not enough is done to scratch beneath the surface of our complex society (that in many ways operates counter to traditional economic models) to see that there is a lot more to the story than we might first admit. In my social circle, I am aware of no less than 10 individuals who are gainfully employed, are taxpayers, and consumers falling into the VAT net who would not form part of South African employment statistics and may be considered ‘digital nomads’ – they can earn from anywhere! Let’s not get too despondent just yet.



By the time of our next Insight seminar, our election will be out of the way. We will take the opportunity to review market performance for the first five months of the year, and look ahead to what the second half might hold.

Please note that we will be hosting both a morning and evening presentation in Cape Town. The venues will be communicated once finalised.



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Topic: **Taking Stock: Mid Year Update**

Natal Midlands

Date: 20 June, 2024
Venue: Christ Church Howick, 23 Mare Street, Howick
Morning Time: 10am for 10.30am
Evening Time: 5.30pm for 6pm

Johannesburg

Date: 11 June, 2024
Venue: Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time: 7am for 7.30am


Cape Town

Date: 13 June, 2024
Venue: ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time: 5.30pm for 6pm

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