

No wealth tax, but more enforcement

Further steps to ensure tax enforcement and collection are more likely to be the message in the upcoming Budget Speech than the introduction of a wealth tax.



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“The budget trend since 2019 has mainly been to equip the South Africa Revenue Services (Sars) to enhance tax enforcement and improve tax collections. We do not anticipate a significant departure from this focus in this month’s budget,” says Ekow Eghan, EY’s South Africa tax leader.

A phased-in reduction of corporate tax rates, however unpopular, could help drive South Africa’s trade, economic reform and competitiveness, he said. “The corporate tax rate cut is a matter of when. It is also particularly important in the wake of the pandemic to help corporate South Africa restore finances and by extension, reduce the risk of further job losses.”

Wealth tax

While a wealth tax is politically attractive, the jury is out as to whether such a tax will achieve its objective better than other alternatives. A wealth tax that raises substantial tax revenues in an efficient manner should be welcome but only if that tax is also fair and difficult to avoid.

“Critically, because of the complexities in the design and administration of such a tax, it is not a policy direction SA should rush into without a wider public consultation process” Eghan says.

Enforcement

Despite a lack of clarity about how much additional enforcement capacity currently exists in Sars, some taxpayers can expect a more adversarial relationship with Sars as it pulls all the levers of its powers to enforce compliance to bridge the tax gap.

The tax gap is the difference between the true amount of taxes owed in any given tax year and the amount that is paid on time.

“We expect an uptick in audits plus a more rigorous application and interpretation of tax law. This will inevitably result in more disputes as compliance behaviour comes under the spotlight,” Eghan says.

“Taxpayers should gear up for more regular settlement negotiations with Sars as well as a greater willingness to go to court.”

He adds that a poorly-coordinated or overly aggressive enforcement programme by Sars risked eroding the remaining trust and cooperation between compliant taxpayers and the tax administration.

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