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FINANCIAL TRANSACTIONS TAX, ALTERNATIVE TO VAT INCREASE : By Jonathan Hore

As we begin this year, we can't ignore critical matters that were revealed during the mid-term review of NDP 11 at the end of last year. It became apparent that revenues could not match expenditures and suggestions were made to increase/review the rates of VAT and income tax. For the record, our VAT rate of 12% is the lowest in SADC whilst our corporate tax rate of 22% is second lowest, after Mauritius' 15%. This article is dedicated to analysing the economic implications of a VAT increase as well as suggesting an alternative tax which could be introduced to avoid a VAT rate increase. Other countries which have introduced this tax include South Africa, UK and USA.

VAT INCREASE

Per the BURS reports, the tax collection agency collected VAT of P 6.34bn in the 2016-2017 financial year. This means that if the tax authorities were to increase the VAT rate by say 2%, the additional tax revenue from that increase would average P 130m per annum.

Some of us may remember that the VAT rate was last increased on 1 April 2010 from 10% to 12%. That increase caused a jump in inflation as naturally, increases in VAT translate to an automatic increase in the prices of almost all goods and services, including food, medical services, real estate, among other things. In 2019, South Africa increased the VAT rate from 14% to 15% and there was an immediate outcry from welfare-biased NGOs and low-income earners on the negative effects of the increase.

Inflation, which is synonymous with VAT increases, hits the economically disadvantaged, especially the unemployed and low-income earners. Technically, it erodes the purchasing power of most consumers as they won't afford the same basket of goods and services that they could purchase before the VAT increase. Further, it is known that employers do not always increase salaries in response to a VAT increase. This then leads us to suggest other non-inflationary ways of raising tax revenue.

FINANCIAL TRANSACTIONS TAX

As an alternative to a VAT increase, the tax authorities could consider widening the tax base through non-inflationary means such as introducing a new tax commonly referred to as Financial Transactions Tax (FTT). An FTT is a transactional tax that is charged whenever financial transactions are conducted. This tax can be levied on the following transactions:

- Automated financial transactions such as till-point swipes through bank cards in supermarkets, fuel stations, eating houses, hotels and everywhere a bank card is used.
- Bank deposits and withdrawals via cash, cheque and electronic funds transfers.
- Issuance of loans by banks and other financial institutions.
- ATM withdrawals and deposits.
- Mobile money transfers and deposits through telecommunications platforms by phone, instore or via any electronic gadget.
- Foreign exchange transactions, i.e. when money is converted from Pula to a foreign currency and vice versa as well as money transfers through authorized money transfer agents.
- Sale and purchase of shares at the Botswana Stock Exchange.

The volumes of transactions that fall within the above is enormous. For example, try to imagine how many people swipe when they purchase groceries, fuel, etc or how many EFTs or ewallet transactions are made in a day. Further, the number of ATM withdrawals and deposits is quite significant, not forgetting the number of loans which are issued by banks and micro-lenders. By way of estimation, the total of such financial transactions that are conducted, considering weekends and holidays could, in my view (and also supported by independent estimates) average 700 000 each day. Should the tax authorities levy a P3.50 tax per transaction, that would raise about P2.45m daily, translating to almost P1bn per annum. Some of the transactions may be taxed using percentages of their monetary values, which could even raise more revenue. The increase in VAT as stated above only yields around P130m, which is roughly P 870m lower than what the authorities could raise through an FTT.

ADVANTAGES OF FTT

Besides the fact that introducing an FTT raises more revenue than an increase in VAT, it has the added advantage of being non-inflationary. In other words, an FTT does not necessarily translate into an increase in the prices of goods and services, hurting the purchasing power of the populace. Secondly, the rate of the FTT is so negligible and it is targeted at those who have the capacity to pay the tax. A VAT increase on the other hand affects everyone, whether rich or destitute. An FTT is also easy to collect as tax authorities simply need to designate selected businesses as tax collection agents, being banks, telecommunication companies, traders in goods & services and the BSE.

PRACTICAL MATTERS

The FTT would obviously require a new piece of legislation falling under the Ministry of Finance & Economic Development. The law could require the designated agents to file bi-monthly returns with BURS reflecting the tax collected. Such traders would simply need to automate their systems to enable the collection of the tax per each transaction.

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