

CORONA COULD HURT TAX COLLECTIONS: By Jonathan Hore

I don't think I will ever attend as many gatherings where people talk about health matters and disease prevention like I did this past week. The corona virus dominated all those meetings and as the confirmed cases in South Africa continue to rise, this has the possibility of upsetting regional economic growth. Without a doubt, the corona virus has and will continue to affect the global economy and as you may know, there is a direct nexus between economic performance and tax collections. If an economy shrinks, so will the tax collections. I want to analyse how the corona virus may affect tax collections and what that means to you.

SACU REVENUES

You may know that SACU revenues used to be the country's second contributor to government revenue, after mineral income. When the South African economy caught a cold a couple of years back, the SACU revenues started shrinking but according to BURS 2018 annual report, they recently made a rebound and bolstered tax collections. For those who may not know what SACU revenues are, these are customs duties that are collected by each of the 5 countries in the Southern African Customs Union comprising of South Africa, Botswana, Eswatini, Lesotho and Namibia. Customs duties are levied whenever goods originating from outside SACU are imported into each of these countries and the revenues are redistributed using a set formula.

Much of the imports occur in South Africa and if anything wrong happens to that economy, it will also affect SACU revenues and that will have a knock on effect on our tax collections. The recent numerous corona virus cases in South Africa, coupled with a weakening rand and sluggish economic activity may cause a slowdown in imports. When the future is not certain, businesses take the wait-and-see attitude and that naturally means reduced spending, weak imports and consequently, reduced SACU revenues for all member states.

VAT

We are very fortunate that we still have not yet recorded a confirmed case of the virus. However, if we are to record a case, businesses may also play the wait-and-see game, as spending becomes riskier whilst prospects of making profits dwindle. That also has a direct impact on VAT collections as sales go down, meaning that BURS collects lesser VAT than it would without the pandemic. You may have heard that tourists have already started cancelling trips whilst scheduled meetings, gigs and events have also been cancelled. All that is, in simple terms, cancellation of VAT which BURS would have collected had the cancellations not been made. We may of course realise an increase in the demand of other products such as sanitisers and masks but that is insignificant when compared to the VAT lost due to cancellation of events. So buddy, if you have never prayed, this could be the right time to do so; this virus shouldn't shake this economy.

PAYE

I certainly don't want to be a prophet of doom but if businesses realise reduced demand, employees are always the first to bear the brunt of management's backlash. Reduced demand, cancelled flights, postponed events etc all means less revenue for businesses but the salary bill remains constant. So, as a response to such a scenario, businesses may be forced to reconsider their manpower needs, which cuts PAYE. We have already seen one airliner in the UK, Flybe file for bankruptcy as a direct result of the virus and that simply means job cuts. These factors all translate to reduced PAYE collections for any tax authority.

CORPORATE TAX

Corporate tax is bolstered by buoyant economic activity and vice versa. The ravaging effects of the virus on the global economy will slow down almost every other country's performance, cutting down on corporate profits and corporate tax as well. Experts tell us that China and the USA are the major importers of diamonds and their economies are limping as you read this article. The effects of that limping will manifest through reduced profits by some local corporates, which may lead to the plummeting of corporate tax collections.

CONCLUSION

A reduction in tax collections means that you will not be able to receive the same amount of public services such as new schools, hospitals etc as compared to what you would have had if the tax collections had not dwindled. In simple, government debt may widen and that may be met by reduced spending, which could have ripple effects including but not limited to job cuts and that is the last thing you and I want. Let's pray that this virus does not hit home with the same impact that we witnessed in other nations, particularly China and Italy.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.