

**SECOND READING DEBATE ON THE
MUNICIPAL FISCAL POWERS AND FUNCTIONS BILL
ADDRESS BY MINISTER OF FINANCE, TA MANUEL MP
NATIONAL ASSEMBLY**

7 JUNE 2007

Madam Speaker

Honorable Members

The Constitution assigns the responsibility for macroeconomic policy, an integral part of which is fiscal policy, to the national sphere of government. The national executive is therefore charged with the responsibility of ensuring coherence of the tax system across all three spheres of government. To this end, government has embarked on a significant tax reform strategy, the goals of which are to develop a system that is efficient, equitable, internationally competitive and simple to administer. In 2003 this House passed the Provincial Tax Regulation Process Act which sets out the framework for regulating provincial taxes. The Bill we are debating here today sets out a similar framework with respect to local government.

It is with this constitutional framework as the basis, that we ask the House to pass the Municipal Fiscal Powers and Functions Bill today. This legislation will regulate the imposition of surcharges on fees for services by municipalities, as provided by section 229 (1) (b) of the Constitution. A municipality may impose other taxes, levies and duties appropriate to local government or to the category of local government into which that municipality falls if authorized by national legislation. Viewed in this context; this Bill is an enabling legislation. Without it municipalities cannot legally impose any new taxes. This Bill presents our municipalities with the opportunity to introduce new taxes, but within a carefully managed national macroeconomic policy framework.

Process for the introduction of a new municipal tax

The Bill gives the Minister of Finance the authority, to evaluate requests for the introduction of new municipal taxes by a municipality, group of municipalities or organised local government to ensure consistency with national economic policy and

other constitutional requirements. If an application is approved, then the Minister of Finance will issue regulations that will prescribe the date from which and the framework in terms of which the municipal tax may be imposed. This legislation will therefore put in place a pro-active framework for the exercise of local fiscal powers and functions by ensuring that there is appropriate interaction between spheres of government prior to the introduction of any new municipal taxes.

The Bill is intended to strike an appropriate balance between the right of municipalities to impose taxes, levies, duties and surcharges that will enable them to play a more meaningful and effective role in the development of their communities by delivering additional and better services to them, on the one hand, and with the constitutional responsibility of national government to oversee sound macro-economic policy of the country, on the other.

The intention is to ensure that our municipalities are financially viable in order to guarantee that the communities they serve benefit especially with regard to basic services. We do not want to allow a situation where taxes are imposed without appropriate control mechanisms that ensure that these same communities suffer directly either by having to pay more in taxes than they are able to afford. Or alternatively by losing through loss of jobs and income when it becomes economically unsound for businesses to remain in a particular area due to the high tax burdens imposed by that municipality

Regulation of surcharges on municipal services

The Municipal Fiscal Powers and Functions Bill also deals with municipal surcharges and municipal taxes referred to in Section 229 of the Constitution. A surcharge on a municipal service is an additional charge levied by a municipality in addition to the fee or tariff charged for the provision of a municipal service. A surcharge can therefore be viewed as an indirect tax, as it is a payment in addition to the normal charge. Surpluses generated from trading services, such as electricity and water, are used by municipalities for the funding or subsidising of other essential municipal activities where limited or no charges are levied.

The legislation will prescribe, through regulations, compulsory national norms and standards for imposing surcharges, including maximum surcharges that may be imposed by municipalities on fees for services provided by them or on their behalf. The norms and standards for surcharges on specific municipal services will be developed in consultation with relevant industry stakeholders. As pointed out, we want to ensure that the taxes and surcharges imposed do not impede the development of the local economy. This function of regulating this authority is best placed centrally with national government .

As national government, the interests of the members of our communities have always been given priority and this proposed legislation seeks to continue to protect them through the regulation of taxes and surcharges at the level where it affects their daily access to basic services.

In conclusion

Although proposals have been made that an independent regulator be appointed to undertake these functions, as I previously indicated to this house during our deliberations on the Division of Revenue Bill, as elected representatives we have a collective responsibility in ensuring proper coordination of macroeconomic policy objectives across the three spheres of government.

The legislation will not set specific taxes which municipalities may impose, but provides that the Minister of Finance, or a municipality, group of municipalities or organized local government may initiate a municipal tax and, if approved, how these taxes are imposed by municipalities.

Lastly, I want to thank the Portfolio Committee on Finance, ably presided over by the honourable Nhlanhla Nene for the hard work that they put in to finalise the proposed legislation. We recognise the importance of the processes of consultation undertaken and we thank you for the frank and in-depth discussions with regard to the provisions and implications of the bill.

I thank you.