MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY MINISTER OF FINANCE MALUSI GIGABA

2017 Tax Indaba

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Commissioner of SARS, Chief Executive of the South African Institute of Tax Professionals, Mr. Keith Engel, Ladies and Gentlemen: I am pleased to join you this morning to open the 2017 Tax Indaba.

Taxation is at the very core of democracy. It is central to the social compact between the citizenry and their government. Citizens fund democratic government by paying tax, to enable the state to provide public services.

Government must collect tax fairly and progressively, and bears the responsibility to manage public finances prudently and effectively. Today I would like to update you on our economic outlook, before sharing some high-level reflections on the linkages between tax policy and our economic development agenda.

ECONOMIC OUTLOOK

South Africa's GDP growth rebounded in the 2nd quarter of 2017 following two consecutive quarters of contraction in Q1 2017 and Q4 2016. GDP grew by 2.5% in Q2, on a quarter-on-quarter basis. On a year on year basis, GDP grew by 1.1% in Q2. A sectoral analysis of the contraction in GDP in Q1 2017 indicated worrying broad-based weakness in the industrial and services sectors. Services sectors had been the mainstay for growth in the last few years.

The improvement in the second quarter is encouraging as all sectors, except construction and government services, improved. Although the Budget Review GDP growth projection for 2017 of 1.3% remains at risk, we are increasingly optimistic that reasonable GDP performance may materialise in the coming quarters. On the demand side, household consumption was the largest contributor to GDP growth in Q2 2017, growing by 4.7 per cent quarter-on-quarter seasonally adjusted annual rate (saar) following a contraction in Q1 2017 (-2.7% q/q saar). Despite this rebound, other indicators of household consumption – including consumer confidence, employment prospects, and credit growth – unfortunately remain weak.

We therefore remain cautious on the prospects of sustained household consumption expenditure at this pace. As the NDP correctly diagnosed, the most important step we can take to develop our country is to get more South Africans working. We therefore welcome commitments by the CEOs Initiative and Business Leadership South Africa to create jobs by growing the economy inclusively.

Favourably, the global economy continues to grow moderately, supported by stronger trade and industrial production. The IMF expects global growth to accelerate in 2017 and 2018, although risks to medium-term growth remain biased to the downside. Global financial markets have also been supportive towards emerging markets, and commodity prices have risen this year. This is a critical opportunity for our economy. We need to take advantage of favourable global conditions by getting our sectors working. Mining, manufacturing and tourism must take advantage of these conditions, and we need to take advantage of this global economic situation aggressively to drive the industrialisation programme and move our economy away from heavy reliance on primary production.

Investment was also affected by subdued business confidence and higher policy uncertainty. It is for this reason that we remain committed as government to implementing the 14 confidence-boosting measures we announced in June this year aimed at providing policy certainty by implementing much-required sector reforms. Growth in real fixed investment contracted from +1.3 per cent q/q (saar) in Q1 2017 to -2.6 per cent q/q (saar) in Q2 2017, with investment by both public corporations and private enterprises contracting on a quarterly basis.

Other factors supporting the growth forecast have broadly remained in place, or improved:

- The IMF expects global growth to accelerate, to 3.5 and 3.6 per cent in 2017 and 2018, respectively.
- Inflation has moderated by more than anticipated at the 2017 Budget, particularly as food inflation has eased. Headline consumer inflation has eased from 6.8 per cent in December 2016, to 4.6 per cent in July this year. The fall in inflation provides some support for household spending, as their purchasing power improves. Improvements in the inflation outlook also resulted in a lowering of the repo rate in July 2017, by 25 basis points, which provides further support to credit constrained households. The labour relations environment has improved, supported by agreements on the national minimum wage, and reforms to collective bargaining, which include dispute-resolution mechanisms to lower the incidence and extent of disruptive strikes.
- Agricultural production has improved in farming regions where the drought has ended.
- Electricity performance has also improved, with Eskom's energy availability factor rising to 77.3 per cent in its 2017 financial year (2016: 71.07 per cent).
- The financial sector remains relatively stable. South Africa has well-developed and deep capital markets. The introduction of the Financial Sector Regulation Act is expected to further promote this, as the "Twin Peaks" model will improve oversight of risks taken by the financial sector, and also ensure fair treatment of financial consumers.
- Government has introduced the Inclusive Growth Action Plan to respond

to sustain momentum on the 9-point plan for growth and employment. The action plan is a coordinated effort by government to restore confidence in the short term, and lay stronger foundations for economic growth.

• The updated economic outlook will be presented in the 2017 Medium Term Budget Policy Statement. Our current level of growth which is outpaced by the rate of growth of the population is clearly insufficient and unsustainable. We simply have to take drastic measures and do better to get the economy growing faster, bigger, sustainably and inclusively. We cannot afford to become complacent as a result of the Quarter 2 GDP growth of 2.5% which has got us out of the recession much as it came as a welcome relief for all of us.

REFLECTIONS ON TAX POLICY

As I turn to some high-level reflections on tax policy, it is important then that we consider taxation in the context of economic development more broadly. One of the development imperatives that we have identified, along with our sister countries in the African Union, is the need for domestic resource mobilization. This speaks to the need for African countries to finance their own development. Development aid and partnerships are both important and welcome.

Critically, these must complement, not replace, our own resource mobilization through appropriate tax policy and effective tax administration, along with other elements such as increased savings and well developed capital markets. Thus the tax system we have developed as well as the world class tax administration we have in the South African Revenue Service are important contributors to our development agenda.

The topic of taxation will always be high on the agenda for taxpayers of all types, regardless of where we find ourselves in the economic cycle. Yet with the past few years of below par growth and the need for government to raise additional revenues, greater interest has been taken in tax policy and the changes required to meet those revenue requirements. Although the flexibility of the tax system is key to achieving a sustainable fiscal position, higher economic growth must remain as the main objective to reach the levels of social development that this country deserves.

Yet government cannot do this alone, and the positive actions of business, labour, communities and individuals will be vital to setting the country on an improved growth path for the benefit of all. Such positive actions would not only be reflected through additional investment or improved productivity, but also through appropriate taxpayer behaviour. The tax revenues that are collected keep this country running, paying for social upliftment and poverty alleviation through grants and the multitude of services that the government provides, much of which benefits the most vulnerable in our society.

The social cohesion in the country rests on the ability of government to provide these benefits from the taxes collected, and the willingness of taxpayers to pay their taxes is a crucial part of gathering sufficient resources to keep that social cohesion intact. Tax morality plays a significant role in the success of a country and government recognizes that tax morality is closely linked to the efficient use of resources and a reduction in corruption. Government needs to do its part in showing that the taxpayers' money is used wisely, that efforts are taken to reduce wasteful expenditure and that taxpayers are treated fairly.

The latest report by the Tax Ombud is an example of the actions that can be taken to improve taxpayer confidence and I am glad to see that he is scheduled to talk later in the week. Alongside these efforts taxpayers should recognise the importance of their contributions and their behaviour to the functioning of our society. Even the most upstanding of taxpayers would argue, however, that they are justified in minimizing their tax through the options that are available to them.

It is our job to ensure that those opportunities are removed as far as possible to keep the system fair. We should not have a situation where individuals who can afford to pay for advisors or complicated structures end up paying less tax than those who cannot afford such services. The closing down of the use of interest free loans to trust s to avoid donations, tax and estate duty is an example of the measures we need to take to ensure equity between individuals.

Action must also be taken to ensure corporates pay their fair share, which we are attempting to address through measures such as those which are currently proposed to stop the use of share buybacks and dividend stripping to avoid capital gains tax. An area where we will increasingly devote attention to, is arresting illicit financial flows. Several studies including Former President Thabo Mbeki's High-Level Panel on Illicit Financial Flows, reports by Global Financial Integrity and the Panama Papers demonstrate how African countries lose billions of dollars per year to trade mispricing, illegal offshoring by the wealthy for tax evasion, as well as by criminals and corrupt persons.

National Treasury, the South African Reserve Bank and SARS are tightening controls in these areas. Our signing of the Financial Intelligence Centre Amendment Act in June this year was an important step in enhancing our ability to combat corruption, money laundering and illicit financial flows. Accordingly, government is eager for all taxpayers to be compliant and pay their fair share, as was shown through the introduction of the Special Voluntary Disclosure Programme which came to an end on 31 August.

The regular Voluntary Disclosure Programme will continue to be available through SARS and any remaining non-compliant taxpayers should genuinely consider their options before SARS begins to receive individual taxpayer information from other countries through the Automatic Exchange of Information that begins this month.

We encourage you as tax professionals to help us send the message that individuals and businesses should obey the law, disclose their offshore assets, and pay their fair share, before they are caught out. Unfortunately, as long as taxpayers either remain non-compliant or move to reduce their tax burdens, there will need to be corresponding tax policy amendments to uphold the integrity of the tax system. This creates a complicated tax regime, where even five days may be insufficient to discuss the many tax policy areas that have been subjected to change in recent years. Government does endeavour to remain highly consultative with the public on tax policy changes and welcome the oversight that Parliament provides.

The 2017 Tax Indaba should be a fantastic opportunity to not only educate and inform others on the latest tax updates, but as a platform for meaningful discussion into how the tax system can best serve both those who pay tax in all its forms and our society as a whole.

I thank you.