NATIONAL COUNCIL OF PROVINCES

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 48

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Mr. T D Harris (DA-WC) to ask the Minister of Finance:

(1) Whether, in light of the recent decline in domestic demand, the National Treasury or the SA Revenue Service (SARS) have conducted a study into reducing tax in differentiated manner to stimulate the economy, through reforms like those seen in other countries (details furnished), or any other means; if not, why not, if so, what are the relevant details;

(2) whether the National Treasury or SARS have calculated an updated estimated tax revenue shortfall figure for the financial year based on revenue collection trends for this year; if not, why not; if so, what are the relevant details?;

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REPLY:

1. Yes, the government continually researches tax and other measures taken by other countries to stimulate the economy during the current financial crisis, including engaging with other countries through the G20 and other forums. Government also anticipated the decline in economic growth at the time of the 2009 Budget, though not to the full extent as subsequent data has revealed. The 2009 Budget was therefore built on a fiscal stimulus package, which is counter-cyclical and shifted the budget from an initially budgeted surplus of 0.5% in 2007/08 (as announced in the 2008 Budget) to a budgeted deficit of 3.8% (in the 2009 Budget), and also provided personal income tax relief of R13.5 billion. As a result, households have more money to consume, and spending on infrastructure increased (to promote growth), and social welfare grants were increased and expanded in order to protect the poor. In addition the automatic stabilizer effect of the fiscal framework during the current downward phase of the business cycle (lower tax revenues and the maintenance of public expenditure levels) contributes towards a counter-cyclical fiscal policy stance that helps to stimulate aggregate demand.

Post-budget and after the elections, Government has also announced measures like the training "layoff" allowance and some financial support to companies in distress via the Industrial Development Corporations (IDC).

2. As announced previously the estimated tax revenue shortfall for the 2009/10 fiscal year will be between R50 and R60 billion. This figure will be revised as additional data becomes available and an official updated figure will be announced at the time of the medium term budget policy statement (MTBPS) in October 2009.

END