The choice between growth and revenue

The global trend towards lower corporate tax rates puts South Africa at a crossroads, with the choice being economic growth or generating additional revenue.

“The Trump administration has vowed to significantly reduce corporate taxes in the USA, and in the United Kingdom, Prime Minister Teresa May has also suggested cutting the corporate tax rate to as low as 15%,” say Tertius Troost, tax consultant at Mazars.

These moves benefit the countries’ economies by allowing corporates to increase spending, grow employment numbers and ultimately make for increased collection of tax revenue from individual taxpayers.

He adds that corporate tax rates for the highest income brackets in the UK and the USA are at 20% and 35% respectively. “South Africa’s corporate tax currently stands at 28%, which is considered high, and increasing this would impair the country’s status as an attractive investment destination.”

The Australian example

“One country with a current situation similar to South Africa is Australia, with a corporate tax rate of 30%. However, last year Australia’s National Treasury announced that corporate tax rates will systematically be reduced to 25% over the next decade,” Troost continues.

The rationale behind Australia's decision is to make its companies more internationally competitive in a tough global market place. This is expected to yield a permanent increase in the size of the country's economy of just over 1% in the long term.

The same trend is also being observed in countries like Finland, Denmark, Poland and closer to home, Botswana.

Dire need to stimulate growth

Troost points out that South Africa is not in a position to do the same. "The issue with reducing corporate tax is that it takes a significant amount of time to produce any positive results for an economy. Given our country's vast budget deficit, the short-term effects of this would only further increase Treasury's shortfall. In addition, the high risk of a ratings downgrade will substantially increase the cost to finance South Africa's budget deficit."

"At the same time, Treasury has indicated that there is a dire need to stimulate economic growth. There seems to be an understanding within Treasury that corporate tax increases would erode international investor confidence. It will therefore be interesting to see whether Minister Pravin Gordhan can find a way to help the economy grow without allowing government coffers to run dry," Troost concludes.