



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**MINISTER OF FINANCE SPEAKING NOTES FOR PARLIAMENTARY DEBATE ON
DISASTER MANAGEMENT TAX RELIEF BILL AND DISASTER MANAGEMENT TAX
RELIEF ADMINISTRATION BILL**

25 AUGUST 2020

Honourable Chair, Honourable Members

Firstly, let me thank the Standing Committee on Finance and its Chair, Honourable Maswanganyi for deliberating on these Bills under new and difficult circumstances. The Tax Bills are never straightforward, and to consider these matters under tight deadlines and through a new communication medium makes it even more challenging. But you have risen to the challenge and I thank you for your commitment.

We announced a massive intervention programme to fight against the COVID-19 pandemic and what we needed to do to restart the economy. I am pleased to say that the collaboration between the Ministry of Finance and the Department of Health has been very productive and helpful to all of us. We have managed to bend the curve of infections, improving recoveries through the process.

An economic system is about production, it's about distribution, it's about exchange and it's about oiling the wheels of the economy. When we talk about economic transformation, we talk about what we do in agriculture, mining, finance, transport logistics, government and community services and therefore all South Africans need to participate in all the activities. In the process of all these economic activities, taxation needs to be raised to finance the major needs and demands of the country. But when we are in a crisis we should also consider how we can use the tax system to support the economy as a whole. This is what we trying to do by these interventions.

The President, Honourable Cyril Ramaphosa, announced the first measures to combat the COVID-19 pandemic on 15th March and on 23rd March he announced a

nationwide lockdown. Recognising that the lockdown will constrain business activity the President announced new tax relief measures as part of the package to limit the impact on households and the economy. Within 8 days of the first COVID announcement we had announced tax policy changes to provide support to businesses and employees that begin on the first day of April. Government acted with speed.

However, speed does come with some risks and requires extra care. To illustrate some of the care we took to implementing these interventions, there were three different versions of the draft legislation published for public comment. We received many useful comments which led to revisions in each round. A lot of comments requested additional support, which was followed by the President announcing an expansion of the quantum of the tax relief that would also apply to a greater number of companies.

Specifically, the additional employment tax incentive amount was increased from R500 per month to R750 month and the amount of monthly pay-as-you-earn tax that could be deferred was increased from 20 per cent to 35 per cent. The gross income threshold for which companies could apply for the PAYE and provisional tax deferrals was increased from R50 million to R100 million. While the additional employment tax incentive could be claimed for all employees who earned below R6 500 per month, this greatly expanded the number of employees who were eligible as it removed the age requirement and the criteria for how long the individual had been employed. This was on top of a four-month exemption of the skills development levy, a delay in payments for the carbon tax, 90 day deferrals for excise duties for companies in the alcohol and tobacco industry, additional tax deductions for donations to COVID-19 relief organisations and greater access to living annuity funds. All companies, including those with gross incomes greater than R100 million, were able to apply to the South African Revenue Service on a case-by-case basis to potentially defer tax payments.

These proposals sought to provide much needed cash flow relief for businesses, to incentivise the retention of lower income employees and increased donations for the fight against the pandemic and to provide assistance for households during this incredibly difficult period. Even though the tax revenue shortfall is expected to be

considerable due to the reduction in economic activity and will be even larger owing to the provisions in these bills, the tax system is an excellent mechanism to provide the quickest possible boost to cash flows. There is no need for a pre-approval process to get money into the economy through these tax measures, businesses and individuals can immediately act to receive what is in effect either a grant or an interest free loan from SARS.

However, given the pace with which the amendments were implemented, I have noted that some Honourable Members questioned the role that Parliament plays, since the executive is introducing policies where the bills that include those changes only come to the committees after they have taken effect. I must reiterate that the crisis we have been facing was swift in its arrival and severe in its impact and required a comparably speedy and substantial response. It would have been unwise to wait for too long before providing support to businesses and households. Even so, the committee has played an invaluable role in providing assistance with the adequacy of the amendments and after their suggestions they accepted the proposal to extend some of the tax relief due to the length of the mitigation measures.

The tax measures in these bills were always part of a much broader package announced by the President to combat the impact of COVID-19 and these bills before you only reflect one portion of that package. There are those who have said that the Supplementary Budget only implemented R36 billion of the R500 billion package announced by the President. That number reflects the increase in non-interest expenditure for 2020/21 in the Supplementary Budget compared the Budget in February. Yet this number completely ignores the other elements of the package, such as the additional spending through the Temporary Employment Relief Scheme as administered by the Unemployment Insurance Fund, the credit guarantee scheme, which we have been modifying to facilitate greater extension of credit through a larger number of financial institutions, and the relief mechanisms you see in front of you which are contained in the Disaster Management Tax Relief Bill and Disaster Management Tax Relief Administration Bill.

Thank you again for your consideration of these bills and your prompt action to support this economy and the vulnerable households through this challenging period.

Thank you.