Rethinking Economic Policy for South Africa in the Age of Covid-19:
Innovative policy responses for the post-lockdown Phase

New approaches to financing the fiscus

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Considering new approaches to financing the fiscus

by

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Executive summary

This policy paper considers ways in which government can use the current COVID-19 crisis to think how it can move away from a reliance on wage labour as a revenue generation tool, while simultaneously ensuring people's social security. The paper highlights the country's reliance on personal income tax as the main source of tax revenue and the source of frustration this tax structure has been to both government and citizens alike, given the inability of the South African labour market to absorb a large share of the population into productive work.

Despite South Africa's persistently high unemployment rate and accompanying challenges related to poverty and inequality, the revenue structure has remained mostly intact, with the exception of company income tax and a gradual decline in the marginal tax rate of the top income group over the post-apartheid period. To consider alternative examples of financing the fiscus, this paper includes a discussion highlighting the tax structure of countries which are considered 'tax havens', those who rely heavily on rents from natural resources, and those with large informal sectors. The countries discussed in this paper do not rely primarily on personal income tax as a main source of revenue and thus provides a view of the many alternative ways in which resources can be mobilised in a way that is more suitable to the domestic context.

The paper primarily questions the ability of wage labour to be a sustainable source of government revenue going into the future and particularly in a post-COVID South African economy. The current revenue model has created a 'labour market trap' for both government and its citizens and acknowledging that this trap exists is the first step towards finding productive solutions out of it.

While this paper was more conceptual and did not include an empirical analysis, the actual feasibility of the key policy recommendations identified would require further analysis. These recommendations include:

- An introduction of a progressive tax rate on properties above a certain threshold value to minimise distorting effects of the tax.
- Abolishing taxes for small business corporations.
- Introducing differential rates in social grants to accommodate households which are relatively more vulnerable.
- The permanent (or long-term) implementation of an unemployment grant.
- Determining whether funds used for service delivery in areas which government has performed particularly poorly could be channelled towards increased grants or a similar distribution tool for citizens.