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Provinces should raise own revenue

There should be compensation to regions for boosting national coffers

By Mzimkulu Malunga

PROVINCES SHOULD BE allowed to raise their own revenue to supplement their income from the national budget.

This is one of the key proposals contained in the Financial and Fiscal Commission (FFC)'s recommendations on how the country's tax base should be shared between provinces and the national Government in the 1997/98 budget.

The latest proposals advocate the creation of a tax room through which provinces will be able to raise their own revenue.

The rationale behind the tax room is to compensate provinces for the contribution they make to the national coffers, particularly those like Gauteng and Western Cape which generate the bulk of the country's income.

How tax room will work

The way the tax room is envisaged to work is that, if the average national income tax is 25 percent, with effect from next year's budget, the national Government will collect 24 percent while the remaining percentage could be levied by the provinces.

If the recommendation is given a go-ahead by both the centre and the provinces, a portion that goes to the provinces will be increased by a percentage point each year over six years.

'The tax room has been designed to ensure that the rising needs of provinces do not result in a hike in the tax burden'

Eventually, each province will be entitled to levy up to seven percent on its personal income tax base leaving the centre with 18 percent.

The proposals also leave room for flexibility where a province could approach the national Government to increase the surcharge rate on its personal income tax up to 12 percent.

The FFC says the tax room will enable provinces to "raise revenue levels substantially higher than those currently raised through such instruments as motor vehicle licences, horse racing and casinos".

The commission's chairman Murphy Morobe says the tax room has been designed in such a way as to ensure that the rising needs of provinces do not result in a hike in the tax burden.

He emphasises that the tax room only applies to personal income tax and will not cover other forms of taxation like Value Added Tax and company tax.

The commission, he argues, recommends transitional measures that will enable the system to come into effect immediately even though Parliament is yet to pass enabling legislation.

But the provinces are not going to have their own inland revenue services as the South Africa Revenue Services will act for them on agency basis – probably for a fee.

The latest recommendations also propose that the provinces' share of the budget allocations escalate by 0,5 percentage point annually for the next six years.

In the 1996/97 budget, provinces' share of the budgeted revenue amounted to 51,85 percent. If the proposal is accepted, then the provincial government's share of the national budget will be 54,85 percent by the 2002/03 financial year.

In addition to the tax room, the FFC proposes that grants be allocated to provinces to cover the running costs of school education, primary and district health, legislature and provincial executives.

An additional basic grant is recommended out of which provinces could cover any other costs at their discretion.

General support

Morobe says there is "general support" for proposals among provincial governments but there is "understandable caution" at national level.

He says the amended formula does not depart from FFC's central objective of ensuring that no province is prejudiced when it comes to sharing the national resources equitably.

The commission says the idea is to take needs into account without unduly prejudicing those provinces that generate the bulk of the country's revenue.

With the population being the main driver of the FFC's formula, the more rural provinces stand to benefit from the 25 percent accorded to every rural person.

Effectively, this means that when it comes to spending per head more money should be spend in the rural areas where there is a greater need.

For instance, if R1 is spend on an urban person, the figure should be R1,25 for a person living in rural South Africa.