

Soaking the rich ... Really!!?

In reaction to last week's budget, Finance Minister Pravin Gordhan stands accused that he targeted the rich with his recent budget and that he did so from some sort of malevolent, anti-rich stand-point. I am perplexed by this reaction as that is not what the numbers tell us.

The switch from Secondary Tax on Companies

The switch from Secondary Tax on Companies (STC) to dividend tax cost R2 billion. STC would have brought in R7.5 billion; dividend tax (at 15%) only R5.5 billion. The R2 billion less is because the retirement industry is exempt from the new dividend tax, but fell under the old STC tax.

(Which, by the way, tells us that the retirement industry is one of the big winners in this budget. They get R2 billion that previously would have gone to the taxman.)

The increases in capital gains tax would yield an extra (wait for it)... R2 billion! The similarity of the numbers raises the suspicion that the minister raised capital gains tax not for some malevolent reason, but simply because he had a R2 billion hole to fill. This interpretation is confirmed by a Treasury insider. It is cashflow, not ideology.

However, the figures reveal more.

Personal income tax relief came to R10.5 billion. To pay for that the minister increased indirect taxes by some R8.3 billion. Thus, petrol users, smokers, drinkers and gamblers pay more so that personal taxpayers can pay less.

Smokers, drinkers, gamblers ... sure let them pay more. Although there is a limit there too. Push sin taxes too high and smuggling flourishes as even the well-developed Canada discovered a few years ago when it pushed tobacco taxes too high.

Petrol is different. It hits the middle and poorer classes much harder. Transport costs form a significantly higher proportion of income for the middle class and poorer people than for high income earners. Consider the teacher driving to school, the factory worker getting to shift, the small business making deliveries, or even the Karoo farmer travelling 75 km a week to the nearest town. From their perspective the minister takes R4.8 billion in petrol taxes, but only R2 billion in capital gains taxes. They may certainly feel that the minister could have taken much more in dividend and capital gains taxes.

Indeed, the left has accused the minister of taxing the poor to give to the rich.

A view, by the way, that one does not see reported in the mainstream media. One has to rely on websites and email distribution to hear what the left has to say. The mainstream media is dominated by comments from the right of the political-economy spectrum. Here an interesting dichotomy opens up: the public noise is about right versus the centre. The policy debate in the country, however, is left of centre versus centre. We must not confuse noise with the real debate. This may change in due course, but this is where we are now.

Back to the budget

A good budget balances the interests of the poor and the rich. In times of austerity both rich and poor must chip in. The whinge from the monied classes that they are being soaked ignores the numbers and can therefore safely be dismissed (as can the assaults from the left). Good budgets stand in the middle.

Budget 2012 does precisely that.