

Sources of government revenue in south africa



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Topic

Describe and explain sources of revenue for national, provincial and local spheres of government in South Africa. What are some of the ways in which government has encouraged the provincial and local spheres to generate additional sources of revenue to address the growing needs of communities?

Introduction

Revenue for South Africa is a massive task due to the corruption taking place. , all 3 spheres of government must work together to stop corruption. Since 2012 an anti corruption team has been set up to solve this issue. This assignment will focus on ways the government tries to encourage other speheres to generate their own income.

In a more specific detail this assignment will focus on ways national government promote ways to generate income for provincial and local government. This is not an easy task and thus the challenges is also a main concern and will outline the challenges and possible solutions to overcome this.

Solutions will be outlined in a detailed way to overcome the issues we are facing , the definitions of the terms as well as the Significance of the Study. This assignment will conclude the information gathered and what steps needs to be taking to achieve greater results.

How does national government get income?

Taxes collected are the main source of revenue of national government. 97, 1% of revenue of national government was collected as tax. The main
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sources of tax for national government are taxes paid by individuals, taxes paid by businesses, value added tax and excises (statssa.gov) Taxes on income, profits and capital gains are attributed either to individuals or to businesses. These taxes are generally levied on wages, salaries, other compensation, interest, rent, capital gains, profits of businesses, and taxable portions of pension.

The first type of tax and income for the government is *Value-added tax (VAT)*. VAT is a tax on goods and services collected in stages by enterprises but which is ultimately charged in full to the final purchaser. VAT is usually charged at 14% on consumers final goods and is included in the price you pay for most items such as food items, petrol, etc. the second type of tax collected by the government is excises tax. Excises are taxes levied on particular products and may be imposed at any stage of production or distribution. Excise duties are imposed mostly on high-volume daily consumable products (e.g. alcohol and tobacco products) as well as certain non-essential or luxury items (e.g. electronic equipment and cosmetics).

Administrative fees are also another income for government. Administration fees are similar to user charges, but differ in the sense that the service (or benefit) received in return for the fee is defined rather broadly and imprecisely. Such fees include business licences, television licences, diamond export rights, fishing licences, and motor vehicle licences. The dreaded parking ticket and speeding fine can also be added to the list. Administrative fees and fines are insignificant sources of revenue.

South Africa's major source of income is borrowing and taking loans from other countries to sustain the economy and the needs of the citizens. Government can borrow from its own citizens and from abroad. Borrowing is often used to finance capital expenditure. Borrowed funds must be repaid at some point and therefore amount to deferred taxes. Because lenders have to be adequately compensated for current consumption forgone, it is imperative that borrowed money should be spent on productive activities. Sometimes government uses borrowed funds to finance current consumption, a practice that cannot always be defended on economic grounds.

Classification of taxes

There are two types of taxes such as direct and indirect. Below are the two types of taxes discussed and defined.

Direct Taxation

Direct taxes are imposed directly on individuals and companies (e. g. personal income tax and company tax). This distinction fundamentally revolves around the issue of tax incidence (i. e. the question of who really pays the tax). It would suffice to say that we simply cannot tell with certainty in advance what the outcome is going to be. The second type of tax is Indirect taxes. Indirect taxes are taxes which are likely to be shifted and are imposed on commodities or market transactions. Examples are excise duties and fuel levies. It is also more difficult to adjust the tax rate to the personal circumstances of the consumer. In the case of indirect taxes it is often possible to shift the burden of the tax to someone else.

There are various types of taxes which government collects revenue from. A primary source of wealth tax for the government is property tax. The property tax base can be defined very broadly to include real property (realty) and personal property (e. g. furniture, motor vehicles, shares, bonds, and bank deposits). Another important tax is the capital gains tax. Capital gains can be defined as increases in the net value of assets over a period (e. g. an accounting period or fiscal year). the most popular type of tax is the wealth tax. Income and consumption are flow concepts since both are measured over a period of time. Income consists of wages, rental income from property, interest on savings, dividends on shares, and so on. In contrast to income, wealth is a stock concept which is measured at a particular point in time.

Acts and laws pertaining to national government revenue

The main act with regard to national revenue is *the Public finance management act* . The Public Finance Management Act, 1999 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) The Act promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of the limited resources and focuses mainly on national and provincial spheres of government.(treasury. gov. za). the second and one of the most discussed about act is the *National Revenue Fund* . There is a National Revenue Fund into which all money received by the national government must be paid, except money reasonably excluded by an Act of Parliament. (sa constitution)

How does the National budget effect other speheres of government

The national budget plays a major role . each year the budget gets less for the community for goods and services. Our recent budget speech , more money will be spent on eskom rather than other essential needs of the community . with a limited budget , revenue will be hard to receive for other spheres and thus have to generate their own income

How provincial government gets revenue

Provinces have little revenue of their own but there is a process governed by the Division of Revenue Act as amended which enables a formula to be used so that provinces receive shares of revenue collected nationally. Provinces then have some discretion as to allocation of what they receive. government research in 2008 showed that Mpumalanga spent a lower percentage on health than did Western Cape as an example. The needs for the community is growing and with a limited budget and corruption in national government revenue for provinces becomes less each year. President zuma has now given more funds to eskom to settle the energy crisis thus making it less for other departments.(SONA).

The only way now for provincial government to provide services is to get back to basics. In a recent interview with our provincial mayor, getting back to basics is a must.(daily news) . Kwa zulu natal relays mainly with tourism. 2014 has had the most tourism compared to any other year. Also each province relays on own source of revenue such as provincial taxes and fee , license and fines. A government may expose taxes other than income tax , etc. Durban also has one of the biggest harbours in the world and receives a lot from custom tax. Johannessburg has the biggest international airport in

Africa also benefits a lot from foreigners for tourism. National government is also aiding provinces with grants due to the service deliver protest.

Provinces still have little revenue of their own and are highly dependent on the national sources. It is fortunate that this is governed by legislation. The national government cannot discriminate against opposition controlled provinces such as WC now and KZN previously. There are also joint meetings between provinces and national government which look at issues like resource allocation.

How does national government encourage revenue for provincial sphere

One of the main ways provinces gets a share from national is the Financial and Fiscal Commission (FFC). The FFC is an independent body that is set up under the Constitution to advise government on the portion of revenue that should go to provincial and local government to subsidise services for poor people. But these funding are not adequate , thus the provinces have to generate own source of income . generating income is not an easy task for the provinces as the unemployment rate is rising each year and citizens don't have enough buying power or to support any fund raising activities.

South Africa is known for the variety of sports we play and throughout the year there is various international and local events happening. Each province generate income through sports , generating income from the citizens via the sales of tickets , etc. cricket , soccer and rugby are the main sports in south Africa with a huge support of fans. South Africa is currently in the bid for the 2022 common wealth games which is to take place in Durban . This can contribute to a even higher revenue for that year for the province as <https://assignbuster.com/sources-of-government-revenue-in-south-africa/>

over 20 countries participate in these games with tourism for all over the world.

Conferences is also taking place in south Africa and Durban ICC remains positive, new destinations and Convention Centres are being developed throughout the world, which will result in even greater competition for conferences and events in the future. Each province also has a main attraction and highlight to attract visitors , example: Durban has the beautiful beaches , ushaka marine world and a diverse of cultures. Cape town has robben island , table mountain and the beautiful scenery.

Johannesburg is the hub for film and tv casting , with tall skyscrapers and movie studios , as well as theme parks , shopping malls , and best airport in Africa.

Laws and policies pertaining to provincial sphere to promote revenue and to provide services.

One of the main laws which was recently passed was the *Inter-governmental Relations Framework Act* . It was passed to make sure that the principles in Chapter Three of the Constitution on cooperative government are implemented. The Act seeks to set up mechanisms to coordinate the work of all spheres of government in providing services, alleviating poverty and promoting development. (etu. org. za) Another structure in place is the *Provincial Inter-governmental Structures* . This act is about the relationships between the three spheres of government The Premier in each province is responsible for coordinating relationships between national, provincial and local government in the province. A Premier's Inter-governmental Forum

consists of the Premier, the local government MEC, other MECs, Metro and other mayors. (etu. org. za) _National government also contributes by new laws which makes new business to open easier and funding if you follow the BBBEE, Act, 2013 (Act No. 46 of 2013). Broad-Based Black Economic Empowerment (B-BBEE) is a specific government policy to advance economic transformation and enhance the economic participation of black people in the South African economy.(seda. org. za)

How local government gets revenue

Municipalities get their revenue from three sources. First, they raise some of their own revenue by charging all people who own property such as land, houses and businesses rates based on the value of their property. The second way they raise revenue is by charging tariffs for services like water, electricity, refuse removal and the use of municipal facilities such as sports grounds. Some municipalities can generate a lot of revenue in this way, while poorer municipalities raise virtually nothing and are almost totally dependent on funding transfers from national government, which is the third source of revenue for municipalities. Municipalities also receive funding from national government in the form of conditional grants .

(localgovernmentaction. org)

Challenges for local government

Local government relays more on taxes. There has been many challenges regarding taxes as more than 50 percent of south Africa lives in informal settlements and don't pay taxes. In the past, municipalities have not spent all the money allocated to them through this grant due to a lack of capacity

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and the mismanagement of funds. During the 2010/11 financial year, for example, 272 municipalities in South Africa did not spend a quarter of what was available to them and some of this money had to be returned to Treasury. This has most certainly contributed to the slow pace at which municipalities are providing infrastructure for services.

(localgovernmentaction.org)

Although funding from national and provincial government are given to local government, many ward municipal managers do not do their jobs to monitor and evaluate the needs for the community thus from above funds was given back to the treasury.

How does national government encourage revenue for local sphere

National government encourages various ways to get income. First they offer many incentives in the form of money. These usually occur if they follow the BBBEE procedure. Secondly, fund raising take place, many NGOs often have fund raising schemes to help support a needy course or to fund problems in the area. NGO's play a vital role and a big help to the government for providing goods and services to the community. Examples of NGO'S are " feed the babies fund", and NORSA. Municipalities with the most clean audits also gets rewards.

The link between national sphere, provincial sphere and local sphere

The different spheres of government depend on each other for support in project implementation, and regular communication is essential. For example, when a municipality proposes the development of a new township

in its Integrated Development Plan, health and education services have to be provided by provincial government. Water services have to be provided by national government, and finances for housing development have to be transferred from national to provincial government from where it goes to the housing developers approved by the municipality.

Laws and policies pertaining to local sphere to promote revenue and to provide services.

The first act is the Municipal systems act 32 of 2000 . It is a Framework for planning, performance management system, effective use of resources and organisational change. , it also provides Core principles and mechanisms and processes necessary for community participation. Chapter 4 of the Act deals with community participation and define the need for the development of community participation. *Another act which relates to this is the Municipal Finance Management Act 56 of 2003*. This act regulates budget and financial management practices in municipalities and Helps to maximise the capacity of municipalities to deliver services to all communities.

Integrated development plan (IDP)

The IDP is a 5 year plan by the government to eridacte poverty and to create jobs . Every municipality has to draw up an Integrated Development Plan (IDP). An Integrated Development Plan is a super plan for an area that gives an overall framework for development. It aims to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in an area. It should take into account the existing conditions and problems and resources available for

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development. The plan should look at economic and social development for the area as a whole

Conclusion

From the above discussion all spheres of government must work together to achieve greater results. They need to be inter related and distinctive. All the steps and policies must be implemented to achieve best results and a corruption free society and country. The national budget as we learnt also plays a vital role in the revenue for all 3 spheres of government.

Ward councillor's and mayors have a big task to maintain and improve conditions for society. There are many challenges which all spheres need to overcome in order to maintain a good service delivery to the community

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