**REPORT: SETTING OUT THE REQUESTED CHANGE**

**MEASURING THE IMPACT OF MARGINAL TAX RATE REFORM**

**ON THE REVENUE BASE OF SOUTH AFRICA**

**USING A MICROSIMULATION TAX MODEL**

In the conclusion a more in-depth discussion covers the link between the modeling results and the conclusion. A paragraph is added to explain the most favourable scenario (lower marginal tax rates) available in order to reach the optimal PIT/GDP ratio. The PIT/GDP ratio would actually decrease from 6.7 to only 5.6 per cent with lower marginal rates (12 to 30 per cent). The loss in revenue will have to be compensated for but basic theory explains that in the longer term the revenue base will be broadened as a result of the efficiency gains that exceed the loss in revenue.

The option of lower marginal tax rates will initially cause a decrease in revenue but it will be covered by an increase in productivity and capital flows that further advance economic growth and thereby expand the revenue base. It has also been concluded that such a re-alignment of marginal rates will benefit taxpayers primarily in the middle income groups which comprise a large cohort of South African employees. For example, the analysis for the income group R130 000 to R180 000 demonstrates that with the lower rates, the proposed tax liability decreases by 37 per cent while tax efficiency increases by 65 per cent. Should the tax authorities in South Africa target the optimal PIT/GDP growth level (6,7 per cent) the decline in marginal rates do not have to be as extreme as indicated and will reduce the revenue loss but obviously also reduce the gain in efficiency.