


Resilience of Eastern Cape Business Establishments and Income Tax Implications During Economic Downturns



APPROVED

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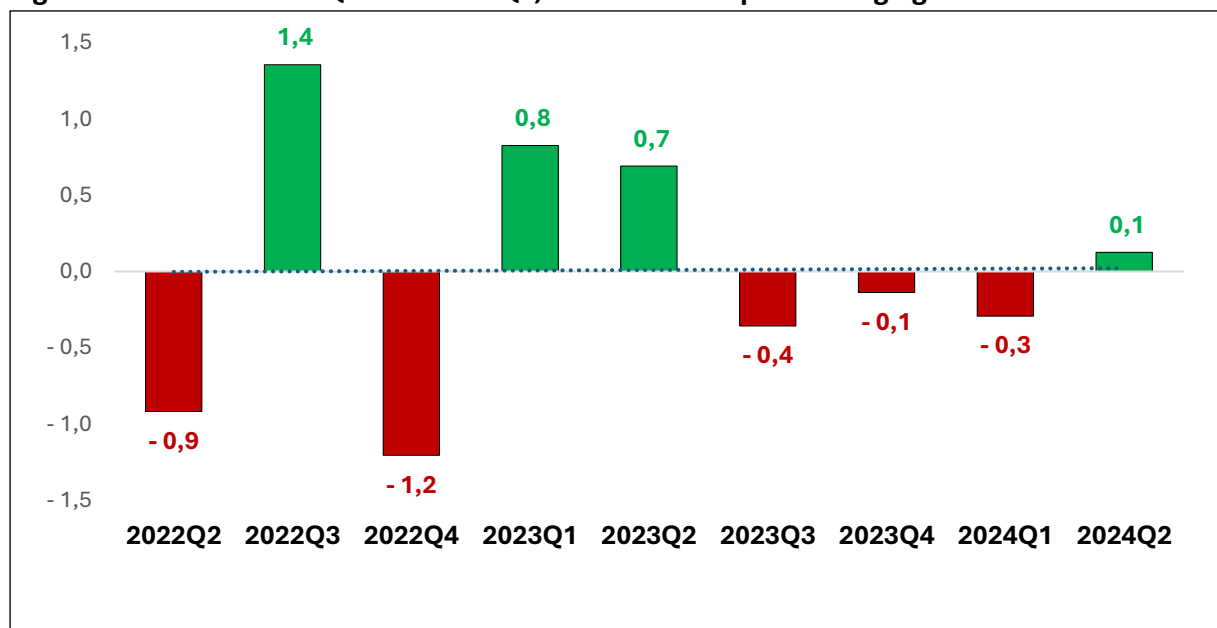
Descriptive Research Report

1. Introduction

1.1 Background

The Eastern Cape is a province with significant potential for economic growth, but it also faces persistent challenges, including high unemployment, income inequality, and underutilization of business opportunities. Recently, the province has experienced a technical recession, with three consecutive quarters of negative growth in 2023 (Q3 and Q4) and 2024 (Q1). **Over the period between Q2 2022 and Q2 2024, the Eastern Cape's average growth rate was 0.0%, indicating stagnant economic activity** (See Figure 1). Despite this, understanding the interplay between business establishments, employment, earnings, and personal income tax remains crucial for developing policies that can foster sustainable economic development.

Figure 1. Between 2022Q2 and 2024 Q2, the Eastern Cape's average growth rate was 0.0%



Source: Statistics South Africa, 2024

The current economic downturn has further exposed the province's vulnerabilities, particularly in terms of declining business resilience and low levels of personal income tax collection. There is a significant gap in understanding how the presence and size of business establishments contribute to local employment and income levels, and how these factors, in turn, affect the region's fiscal health, especially during periods of economic stagnation. The

lack of comprehensive data and analysis on these relationships hinders the development of effective policies aimed at economic revitalization.

Therefore, this study seeks to bridge the gap by exploring the connections between business establishments, employment, GDP, earnings, and personal income tax in the Eastern Cape, with a focus on identifying factors that influence economic growth and fiscal sustainability in the province. Using data from National Treasury, HSRC, Quantec, and Statistics South Africa, the study examines how resilient businesses weather economic downturns while maintaining tax contributions. By doing so, it aims to provide valuable insights that can guide local government and stakeholders in making informed decisions to boost economic activity and improve fiscal outcomes

1.2 The role of business resilience during economic downturns

The resilience of businesses can directly influence economic stability in the Eastern Cape. By examining how local business establishments withstand economic shocks, we can identify strengths and weaknesses in the provincial economy, which is essential for effective policymaking and planning. Business establishments are vital for job creation. Analysing their resilience helps predict employment trends during downturns, allowing stakeholders to implement strategies to mitigate job losses and support affected workers. The performance of businesses during economic downturns has direct implications for income tax revenue. Understanding how business resilience affects tax contributions can inform government budgetary decisions and public service funding. Thus, insights from this study can guide policymakers in designing interventions that support business establishments during this era of the Government of National Unity (GNU). Additionally, identifying resilient sectors can help prioritize investments and support for industries that can thrive even in challenging conditions. The resilience of businesses also affects consumer confidence and spending. Understanding these dynamics can provide valuable insights into consumer behaviour during downturns, which is critical for both businesses and policymakers.

1.3 Definition of key concepts

In this section, definitions of selected variables are provided as well as their behavior during economic depression.

Personal Income Tax (PIT) is a tax levied by the government on an individual's earnings, including wages, salaries, dividends, interest, and other forms of income. The tax is typically progressive, with higher income levels taxed at higher rates. Personal income tax is a significant source of government revenue and is used to fund public services and infrastructure. It also affects disposable income and consumer spending, which can influence economic activity. During a recession, PIT revenue tends to decline as employment and wages fall, impacting government revenue and limiting its ability to fund public services or stimulate the economy.

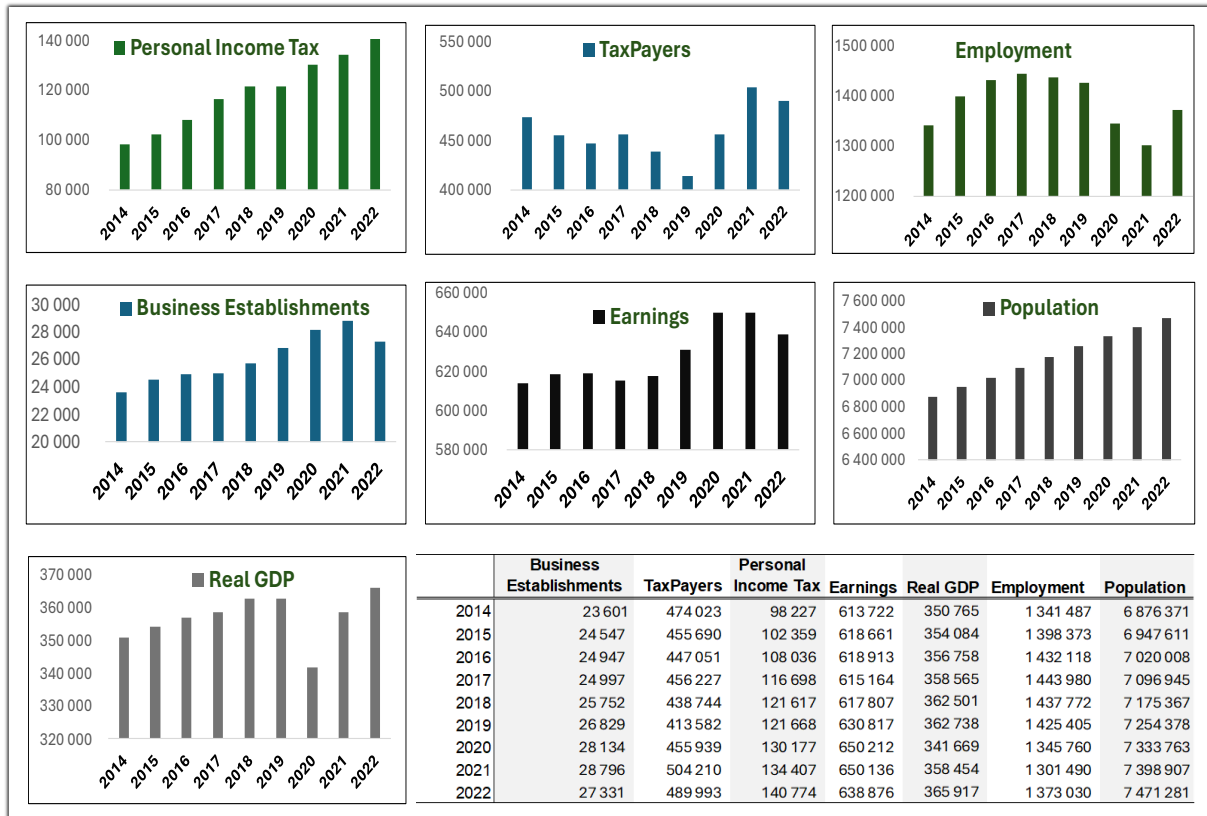
Business establishments are typically defined as single physical locations where business activities are conducted, or services or industrial operations are performed. For example, if there are 100 retail stores, 50 manufacturing plants, and 30 hotels in a region, the "number of establishments by industry" would be 100 for retail, 50 for manufacturing, and 30 for hotels. In an economic downturn, business closures or reduced operations can lead to job losses, lower production, and decreased tax contributions.

Earnings refer to the financial compensation or income received by an individual for their labor or services. This includes wages, salaries, bonuses, commissions, and other forms of payment from employment or self-employment. Earnings are a primary source of personal income and are crucial for determining an individual's standard of living, purchasing power, and ability to pay taxes. Higher earnings contribute to increased tax revenues and can stimulate economic growth through enhanced spending. During economic downturns, earnings often decrease as businesses cut back or close, reducing consumer spending and tax contributions, which further depresses the economy.

The number of taxpayers refers to the total count of individuals or entities required to file a tax return and pay income tax to the government within a specific period, typically a tax year. The number of taxpayers is an important indicator of the tax base and the distribution of tax

liability across the population. It is also used to assess the effectiveness of the tax system and to plan public revenue. In a recession, the number of taxpayers may shrink due to layoffs or business shutdowns, reducing the tax base and fiscal stability for the government.

Figure 1: Trend analysis of key concepts



Source: National Treasury & HSRC; Quantec.

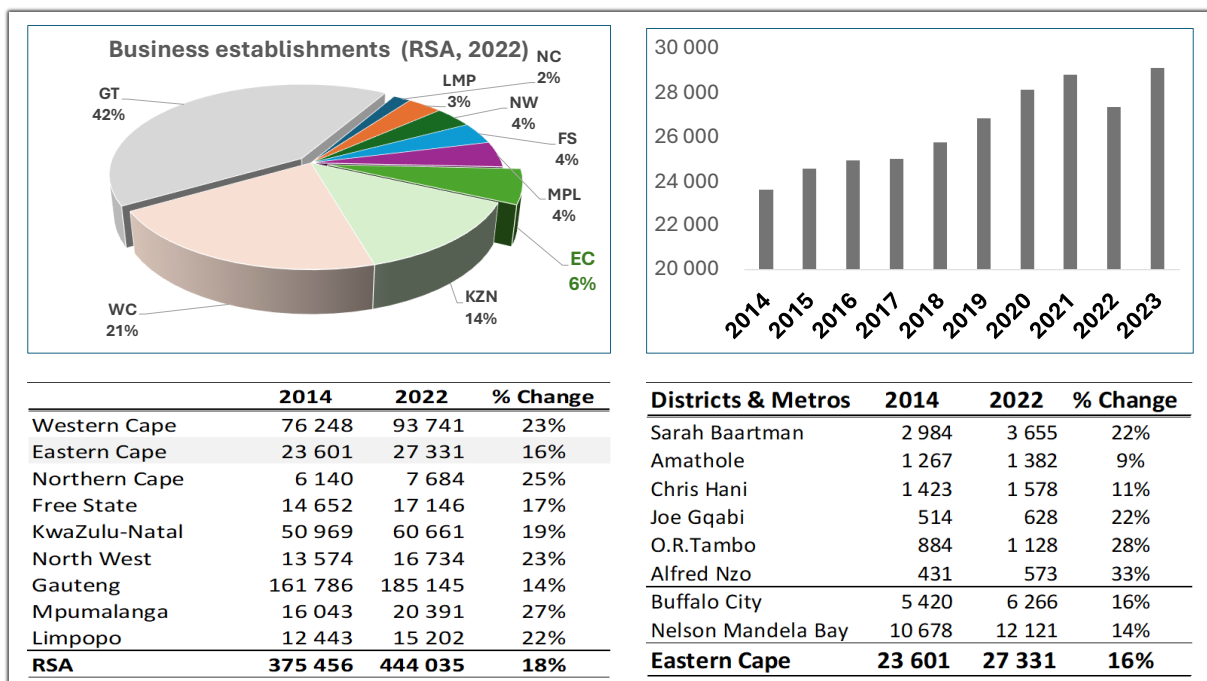
In 2022, the Eastern Cape had 27,331 business establishments, which represented only 6.2% of South Africa's total. Similarly, the province's earnings of R638,876 million also accounted for just 6.2% of national earnings. The personal income tax collected in the province totaled R140,774 million, representing a slightly higher contribution of 6.8% to the national personal income tax revenue. Furthermore, with 489,993 taxpayers making up 8.2% of South Africa's total, this indicates a relatively higher level of individual tax compliance compared to the number of business establishments. Additionally, the Eastern Cape contributed 8.0% to the country's real GDP, highlighting a stronger economic output per establishment. This contrast emphasizes that while the number of business establishments is limited, their impact on GDP and tax revenue showcases opportunities for growth and development amid regional challenges.

2 Number of business establishments in the Eastern Cape

2.1 Spatial distribution of business establishments across the province

Starting with the distribution of business establishments across the provinces, Figure 2 shows that Gauteng holds the largest share at 42%, followed by the Western Cape at 21% and KwaZulu-Natal at 14%. The Eastern Cape accounts for only 6% of total business establishments in South Africa, highlighting its relatively smaller economic footprint compared to these more dominant provinces.

Figure 2. Number of business establishments in the Eastern Cape



Source: National Treasury & HSRC; Quantec

In terms of growth rate, between 2014 and 2022, the Eastern Cape experienced a 16% increase in business establishments, which, while positive, falls below the national average growth rate of 18%. Other rural provinces, such as the Northern Cape (25%) and Limpopo (22%), have shown more robust growth, underscoring the Eastern Cape's slower economic expansion. Growth in business establishments is crucial for job creation, particularly in a province like the Eastern Cape, which often grapples with higher unemployment rates. The province's slower growth could indicate challenges in generating sufficient employment opportunities to meet the needs of its population.

Within the Eastern Cape, districts like Alfred Nzo (28%) and O.R. Tambo (22%) exhibit significant growth. Conversely, Nelson Mandela Bay shows a more modest growth rate of 14%, raising concerns about its economic vitality and the need for targeted interventions.

To stimulate business growth in the Eastern Cape, the government may need to implement targeted policies that support emerging sectors and improve the overall business environment. Focusing investments on rural districts like Alfred Nzo could help distribute economic activity and job opportunities more evenly throughout the province. More importantly, the province should provide support for small and medium enterprises (SMEs) in the Eastern Cape to foster resilience and economic diversification.

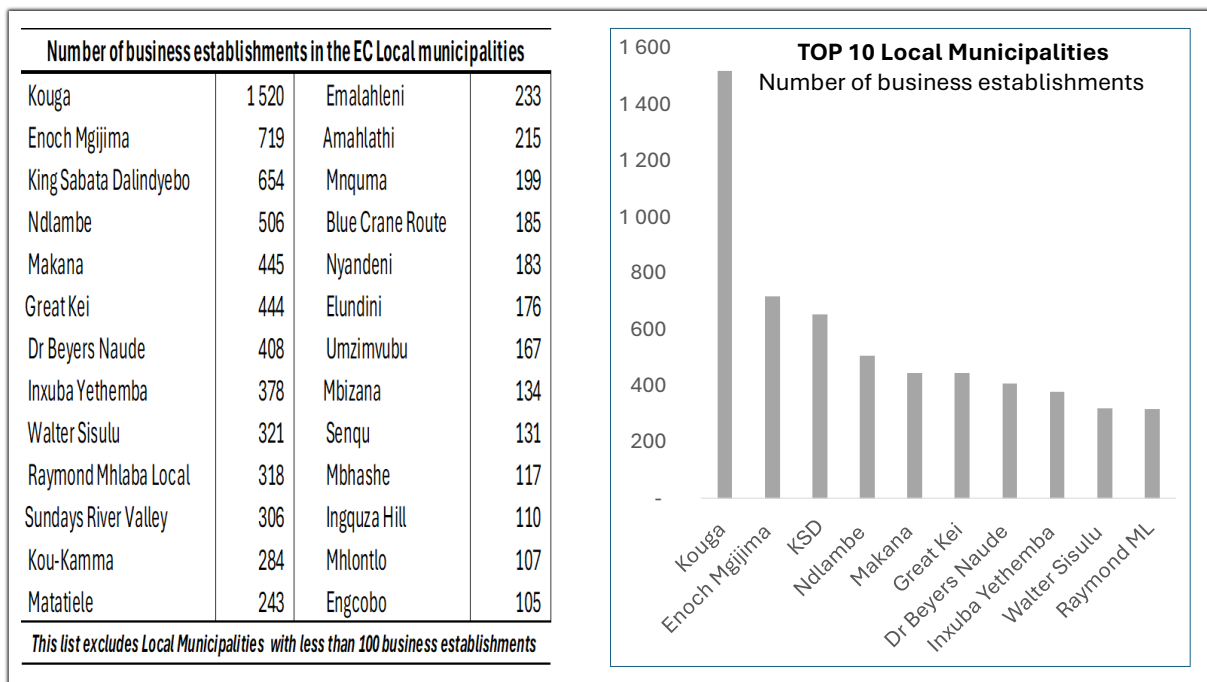
2.2 Spatial distribution of business establishments across local municipalities

Figure 3 illustrates the distribution of business establishments across local municipalities in the Eastern Cape, highlighting significant disparities among them. Kouga stands out as the municipality with the highest number of business establishments, totalling 1,520. This figure is substantially higher than that of the second-ranked municipality, Enoch Mgijima, which has 719 establishments.

The top 10 local municipalities in the Eastern Cape by the number of business establishments are as follows: 1. Kouga (1,520 establishments), 2. Enoch Mgijima (719), 3. King Sabata Dalindyebo (654), 4. Ndlambe (640), 5. Makana (445), 6. Great Kei (444), 7. Dr. Beyers Naude (392), 8. Inxuba Yethemba (378), 9. Walter Sisulu (318), and 10. Raymond Mhlaba Local (318). Additionally, municipalities like Emalahleni (233) and Amathole (215) with relatively low numbers of establishments highlights potential areas for economic development.

Overall, this distribution raises concerns about economic inequality within the local municipalities. The reality is that municipalities with fewer establishments may struggle with limited job opportunities and economic growth. Such local municipalities will rely on government subsidies for their survival.

Figure 3. Spatial distribution of business establishments across local municipalities



Source: National Treasury & HSRC; Quantec

2.3 Sector analysis of business establishments in the Eastern Cape

Table 1 outlines the distribution of business establishments across various sectors within the Eastern Cape, highlighting their significance to the provincial economy. It shows that trade (Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles) is the dominant sector, accounting for 16.7% of establishments. The over-reliance on the wholesale and retail sector raises concerns about economic resilience, as changes in consumer behavior or economic downturns could significantly impact this sector.

Manufacturing follows at 12.4%. Other sectors, such as Professional, Scientific, and Technical Activities (7.7%) and Agriculture, Forestry, and Fishing (7.3%), also play crucial roles, though they are smaller in comparison. Targeted investments in manufacturing and professional services could lead to higher value-added jobs, enhancing the overall economic profile of the Eastern Cape. This would also help reduce reliance on less stable sectors.

Additionally, sectors such as Arts, Entertainment, and Recreation (2.0%) and Real Estate Activities (2.3%) show limited establishment numbers, indicating underdevelopment in these areas. This lack of diversity can hinder overall economic resilience. The presence of business establishment in sectors like Mining and Quarrying (1.5%) and Utilities (water supply, waste

management, etc.) at 1.1% is minimal, suggesting a need for investment in these critical infrastructure services.

Overall, the distribution of business establishments in the Eastern Cape reveals a significant reliance on the wholesale and retail sector, with lower representation in high-value sectors.

Table 1. Sector analysis of business establishments in the Eastern Cape

| Ranking the business establishments by economic sectors | Number | Share % |
|---|---------------|----------------|
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 5 024 | 16,7% |
| Manufacturing | 3 738 | 12,4% |
| Professional, scientific and technical activities | 2 326 | 7,7% |
| Agriculture, forestry and fishing | 2 198 | 7,3% |
| Construction | 2 129 | 7,1% |
| Other service activities | 1 789 | 5,9% |
| Administrative and support activities | 1 762 | 5,9% |
| Financial and insurance activities | 1 673 | 5,6% |
| Human health and social work activities | 1 657 | 5,5% |
| Transportation and storage | 1 207 | 4,0% |
| Accommodation and food service activities | 1 201 | 4,0% |
| Education | 1 063 | 3,5% |
| Public administration and defence; compulsory social security | 949 | 3,2% |
| Information and communication | 904 | 3,0% |
| Real estate activities | 686 | 2,3% |
| Arts, entertainment and recreation | 598 | 2,0% |
| Mining and quarrying | 453 | 1,5% |
| Water supply; sewerage, waste management and remediation activities | 344 | 1,1% |
| Electricity, gas, steam and air conditioning supply | 176 | 0,6% |
| Activities of households as employers; and activities of households for own use | 120 | 0,4% |
| Activities of extraterritorial organizations and others, etc. | 77 | 0,3% |
| | 100.0% | |

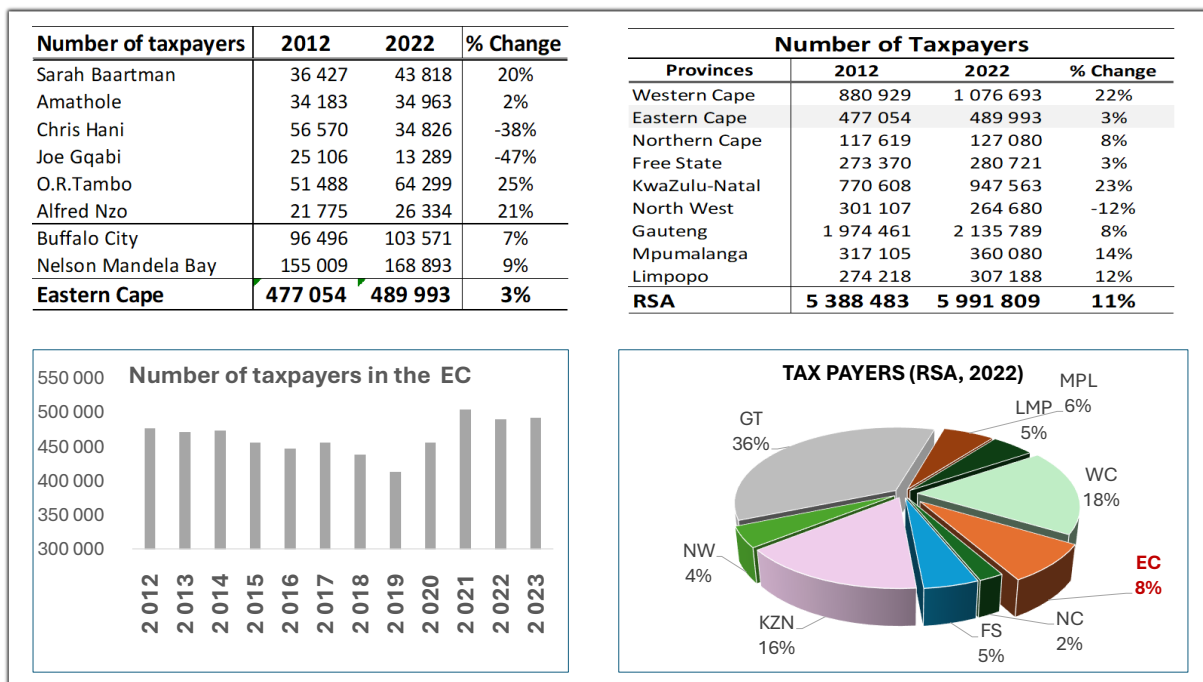
Source: National Treasury & HSRC; Quantec

3 Analysis of taxpayers and personal income tax in the Eastern Cape

3.1 Tax base

In the Eastern Cape, in 2022, there were 489,993 taxpayers with a total taxable income of R140,774 million. The tax assessed amounted to R25,402 million, leading to an average taxable income of R287,298 per taxpayer (See Table 2). This data highlights the province's tax base and provides insights into the economic landscape, indicating the financial capacity of individuals in the Eastern Cape's contribution to the fiscus.

Figure 4 Number of taxpayers in the Eastern Cape



Source: SARS, National Treasury & HSRC; Quantec

Figure 4 shows that the Eastern Cape had a modest increase of 3% in the number of taxpayers, rising from 477,054 in 2012 to 489,993 in 2022. This growth rate is significantly lower than the national average increase of 11% across South Africa, indicating potential economic challenges within the province. The Eastern Cape's increase in taxpayers is substantially lagging behind provinces like Western Cape (22%) and KwaZulu-Natal (23%).

While some Districts within the Eastern Cape, such as O.R. Tambo (25% growth) and Alfred Nzo (21% growth), show encouraging increases, others, like Chris Hani (-38%) and Joe Gqabi (-47%), exhibit significant declines. This disparity highlights economic instability and varying levels of development among different districts within the province.

The Eastern Cape accounts for only 8% of the total taxpayers in South Africa, as shown in the pie chart (See Figure 4). Provinces like Gauteng and Western Cape have a large taxpayer base.

3.2 Tax base and personal income tax at provincial levels.

Table 2. Tax base and personal income tax at provincial levels.

| | Number of Tax payers | Taxable Income (Million) | Tax Assessed (Million) | Average Taxable Income (R) |
|-------------------|-----------------------------|---------------------------------|-------------------------------|-----------------------------------|
| Western Cape | 1 076 693 | 368 249 | 80 354 | 342 019 |
| Eastern Cape | 489 993 | 140 774 | 25 402 | 287 298 |
| Northern Cape | 127 080 | 39 165 | 7 709 | 308 192 |
| Free State | 280 721 | 81 390 | 15 112 | 289 932 |
| KwaZulu-Natal | 947 563 | 278 328 | 53 962 | 293 730 |
| North West | 264 680 | 82 204 | 16 773 | 310 579 |
| Gauteng | 2 135 789 | 863 185 | 207 477 | 404 153 |
| Mpumalanga | 360 080 | 111 128 | 22 851 | 308 620 |
| Limpopo | 307 188 | 93 391 | 17 944 | 304 019 |
| RSA (2022) | 5 989 787 | 2 057 814 | 447 584 | 343 554 |

| | Number of Tax payers | Taxable income | Tax assessed | Fiscal Average (%) |
|-------------------|-----------------------------|-----------------------|---------------------|---------------------------|
| Western Cape | 18,0% | 17,9% | 18,0% | 17,9% |
| Eastern Cape | 8,2% | 6,8% | 5,7% | 6,9% |
| Northern Cape | 2,1% | 1,9% | 1,7% | 1,9% |
| Free State | 4,7% | 4,0% | 3,4% | 4,0% |
| KwaZulu-Natal | 15,8% | 13,5% | 12,1% | 13,8% |
| North West | 4,4% | 4,0% | 3,7% | 4,1% |
| Gauteng | 35,7% | 41,9% | 46,4% | 41,3% |
| Mpumalanga | 6,0% | 5,4% | 5,1% | 5,5% |
| Limpopo | 5,1% | 4,5% | 4,0% | 4,6% |
| RSA (2022) | 100% | 100% | 100% | 100% |

Source: SARS, National Treasury & HSRC; Quantec

Some insights emerging from table 2 are as follows:

- The number of taxpayers is a critical indicator of the economic health and tax base. Table 2 shows that Gauteng leads with 2,135,789 taxpayers, representing a substantial 35.7% of the national total. In contrast, the Eastern Cape has 489,993 taxpayers, accounting for only 8.2% of the total. This disparity highlights a significant challenge for the Eastern Cape, as

a smaller tax base and lack of revenue can stifle economic growth, perpetuate unemployment, and hinder the province's overall development, making it difficult to attract new businesses.

- Taxable income reflects the financial capacity of individuals and entities within the province to contribute to government revenue. Table 2 indicates that the Western Cape has the highest taxable income at R368,249 million, while the Eastern Cape reports a taxable income of R140,774 million. This indicates that individuals and entities in the Eastern Cape earn significantly less on average, impacting the province's ability to generate revenue. The taxable income in the Eastern Cape constitutes only 6.8% of the national total.
- The tax assessed is a measure of the total amount of tax owed by taxpayers based on their reported taxable income. The Western Cape has the highest tax assessed at R80,354 million, while the Eastern Cape has a much lower figure of R25,402 million, constituting only 5.7% of the total assessed taxes in South Africa. In 2022, the average taxable income in the Eastern Cape was R287,298, which is notably lower than that of the Western Cape at R342,019 and Gauteng at R404,153.

3.3 Tax base and personal income tax at district and metro levels

Between 2012 and 2022, the Eastern Cape experienced significant growth in taxable income, increasing by 80% to reach R140,774 million, with notable contributions from municipalities such as Alfred Nzo (126%) and OR Tambo (124%). Tax assessed also rose by 91%, totaling R25,402 million, reflecting improved revenue generation across the region. However, the number of taxpayers grew only marginally by 3%, reaching 489,993, with certain municipalities like Chris Hani and Joe Gqabi facing declines of -38% and -47%, respectively. The average taxable income increased to R287,298, a 75% rise since 2012, though disparities remain evident among municipalities, with some showing lower growth rates, highlighting the need for targeted economic development initiatives in the Eastern Cape

Table 3. Tax base and personal income tax at district and metro levels

| Taxable income (R million) | R million | | Growth rate (%) | | Distribution (%) | |
|-------------------------------|-----------|---------|-----------------|-----------|------------------|------|
| | 2012 | 2022 | % | R million | 2012 | 2022 |
| Eastern Cape | 78 201 | 140 774 | 80% | 62 573 | 100% | 100% |
| BCM | 17 414 | 31 943 | 83% | 14 529 | 22% | 23% |
| NMB | 26 854 | 51 131 | 90% | 24 277 | 34% | 36% |
| Alfred Nzo | 3 164 | 7 166 | 126% | 4 002 | 4% | 5% |
| Amathole | 4 968 | 8 691 | 75% | 3 723 | 6% | 6% |
| Chris Hanani | 8 438 | 9 198 | 9% | 760 | 11% | 7% |
| Joe Gqabi | 4 012 | 3 348 | -17% | 664 | 5% | 2% |
| OR Tambo | 8 137 | 18 264 | 124% | 10 127 | 10% | 13% |
| Sarah Baartman | 5 214 | 11 033 | 112% | 5 819 | 7% | 8% |
| TOTAL | 78 201 | 140 774 | 80% | 62 573 | 100% | 100% |
| Tax assessed (R million) | 2012 | 2022 | % | R million | 2012 | 2022 |
| Eastern Cape | 13 269 | 25 402 | 91% | 12 133 | 100% | 100% |
| BCM | 3 115 | 6 040 | 94% | 2 925 | 23% | 24% |
| NMB | 4 711 | 9 539 | 102% | 4 828 | 36% | 38% |
| Alfred Nzo | 443 | 1 193 | 169% | 750 | 3% | 5% |
| Amathole | 742 | 1 425 | 92% | 683 | 6% | 6% |
| Chris Hanani | 1 363 | 1 532 | 12% | 169 | 10% | 6% |
| Joe Gqabi | 715 | 546 | -24% | 169 | 5% | 2% |
| OR Tambo | 1 221 | 3 129 | 156% | 1 908 | 9% | 12% |
| Sarah Baartman | 959 | 1 998 | 108% | 1 039 | 7% | 8% |
| TOTAL | 13 269 | 25 402 | 91% | 12 133 | 100% | 100% |
| Number of taxpayers (Number) | 2012 | 2022 | % | Number | 2012 | 2022 |
| Eastern Cape | 477 054 | 489 993 | 3% | 12 939 | 100% | 100% |
| BCM | 96 496 | 103 571 | 7% | 7 075 | 20% | 21% |
| NMB | 155 009 | 168 893 | 9% | 13 884 | 32% | 34% |
| Alfred Nzo | 21 775 | 26 334 | 21% | 4 559 | 5% | 5% |
| Amathole | 34 183 | 34 963 | 2% | 780 | 7% | 7% |
| Chris Hanani | 56 570 | 34 826 | -38% | 21 744 | 12% | 7% |
| Joe Gqabi | 25 106 | 13 289 | -47% | 11 817 | 5% | 3% |
| OR Tambo | 51 488 | 64 299 | 25% | 12 811 | 11% | 13% |
| Sarah Baartman | 36 427 | 43 818 | 20% | 7 391 | 8% | 9% |
| TOTAL | 477 054 | 489 993 | 3% | 12 939 | 100% | 100% |
| Average taxable income (Rand) | 2012 | 2022 | % | Rand | 2012 | 2022 |
| Eastern Cape | 163 926 | 287 298 | 75% | 123 372 | | |
| BCM | 180 468 | 308 416 | 71% | 127 948 | | |
| NMB | 173 239 | 302 742 | 75% | 129 503 | | |
| Alfred Nzo | 145 310 | 272 120 | 87% | 126 810 | | |
| Amathole | 145 347 | 248 577 | 71% | 103 230 | | |
| Chris Hanani | 149 161 | 264 113 | 77% | 114 952 | | |
| Joe Gqabi | 159 820 | 251 938 | 58% | 92 118 | | |
| OR Tambo | 158 029 | 284 048 | 80% | 126 019 | | |
| Sarah Baartman | 163 926 | 251 792 | 54% | 87 866 | | |

Source: SARS, National Treasury & HSRC; Quantec

What can explain a small growth in the tax base (3%) being associated with high growth in taxable income (80%)? Economic factors such as inflation can increase income levels across the board, resulting in higher taxable incomes. Even without a significant increase in the number of taxpayers, the overall tax base can expand as existing taxpayers earn more. Additionally, adjustments in tax policy or rates can incentivize higher reporting of income among taxpayers. If tax rates are perceived as favorable, existing taxpayers may report higher incomes, leading to increased taxable income and tax assessments.

The issue of high inequality also plays a role. For example, if existing taxpayers experience significant increases in their incomes—whether through salary raises, promotions, or enhanced business revenues—this can lead to a substantial rise in taxable income and the total tax assessed, even if the overall number of taxpayers remains relatively stable.

The dynamics of income growth among existing taxpayers, inequality, economic conditions, tax policy, and sector-specific growth can result in high taxable income and tax assessments, despite a relatively small increase in the number of taxpayers.

4 Earnings by South African Citizen, permanent residents, and foreign nationals

4,1 Difference between citizens, permanent residents, and foreign nationals

Citizens, permanent residents, and foreign nationals differ primarily in their legal status and rights within a country. Citizens are individuals who have full legal rights and responsibilities in a country, including the right to vote, run for public office, and receive government benefits; they typically acquire citizenship by birth or naturalization. Permanent residents, on the other hand, have been granted the right to live and work in a country indefinitely but do not possess all the rights of citizenship, such as voting. They may eventually apply for citizenship after meeting certain criteria. Foreign nationals are individuals who are not citizens or permanent residents of a country; they may be in the country temporarily (such as tourists or students) or for specific purposes (like work visas), and their rights are generally limited and subject to the terms of their visa or residency permit.

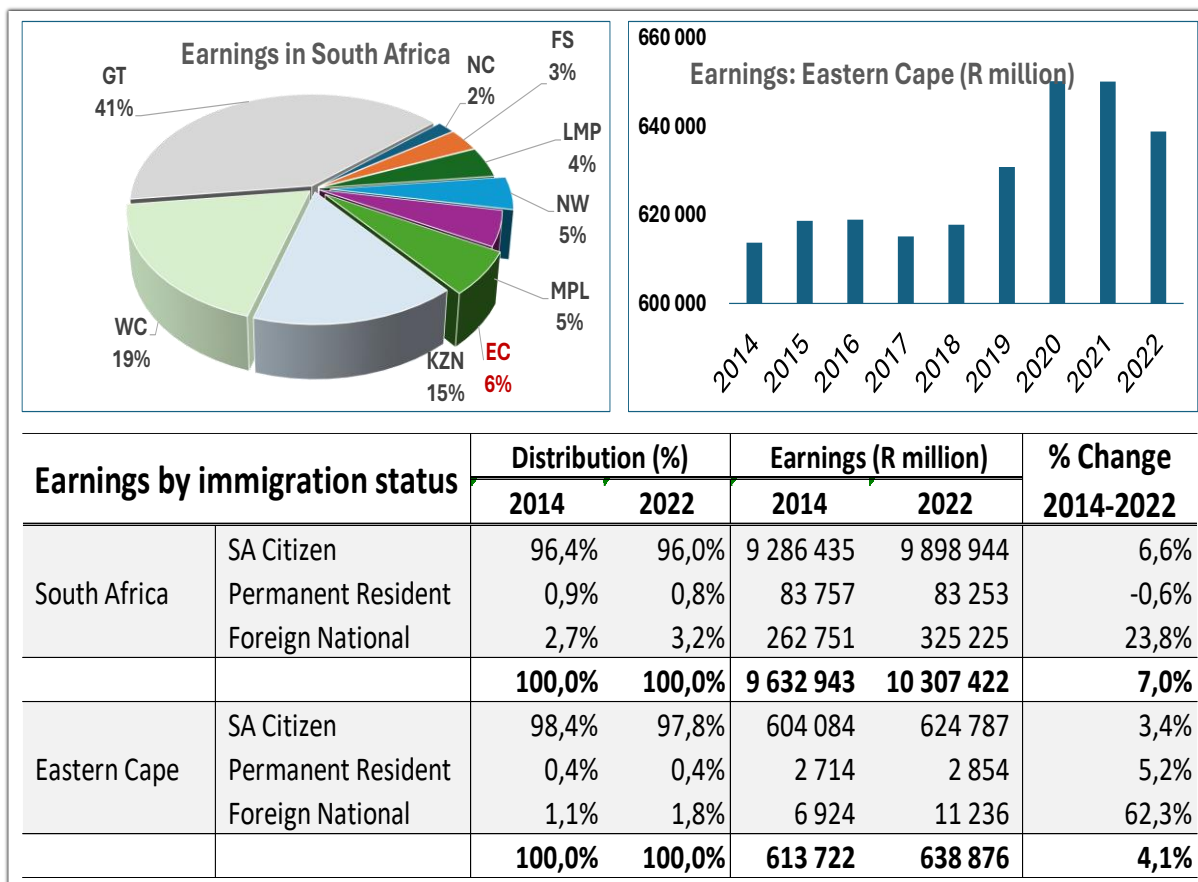
4.2 Analysis of Earnings by immigration status in South Africa

Figure 5 highlights significant disparities in earnings among South African citizens, permanent residents, and foreign nationals, raising critical debates regarding the impact of foreign nationals on the job market. In South Africa, during 2022, citizens accounted for 96.0% of total earnings (97.8% for Eastern Cape), permanent resident accounted for 0.8% (0.4% for Eastern Cape), while foreign nationals represented only 3.2 % nationally and 1.8% in the Eastern Cape. This small percentage raises concerns among citizens about foreign nationals potentially "taking jobs" that could otherwise be filled by South Africans, particularly in a context of high unemployment. The perception that foreign nationals are disproportionately occupying jobs, especially in low-skilled sectors, can fuel resentment and xenophobia.

Furthermore, the presence of illegal migrants in the informal sector exacerbates these tensions. Many of these individuals work in unregulated environments where their earnings go unrecorded, contributing to a lack of transparency in the labor market. This situation not only affects wage levels but also diminishes the overall tax base, as illegal workers typically do not contribute to public revenue. The informal nature of their employment means that they often accept lower wages, which can undercut local labor standards and create competition for jobs that might otherwise offer more stable conditions to citizens.

Key questions arise in the context of foreign nationals versus permanent residents: How can the government balance the need for skilled labor provided by foreign nationals against the imperative to protect local jobs? What policies can be implemented to ensure that foreign nationals contribute to the economy without displacing citizens? Additionally, how can the informal sector be regulated to account for illegal migrants and ensure fair wages and working conditions for all workers? Addressing these questions is critical for fostering a more inclusive labor market and mitigating tensions between different groups within the economy.

Figure 5 Earnings by immigration status in South Africa



Source: SARS, National Treasury & HSRC; Quantec

4.3 Analysis of earnings by immigration status in the Eastern Cape

Table 4 provides data on earnings distribution and growth by immigration status from 2014 to 2022, covering both South Africa as a whole and its provinces, including the Eastern Cape. This analysis highlights key trends in how earnings among different groups (South African citizens, permanent residents, and foreign nationals) have evolved over time in the Eastern Cape.

In terms of earnings distribution (2014 vs 2022), data from SARS shows that the share of earnings by South African citizens in the Eastern Cape slightly declined from 98.4% in 2014 to 97.8% in 2022. This indicates that, while local citizens remain the primary contributors to earnings, their dominance has weakened marginally. For permanent residents, their share remained constant at 0.4% between 2014 and 2022, showing very modest participation in earnings generation. However, for foreign nationals, the share of earnings increased from

1.1% to 1.8%, suggesting that foreign workers are playing an increasingly significant role in the Eastern Cape economy.

When considering the actual earnings in Rand values, we see strong growth across different immigration statuses:

- Earnings for citizens increased from R612,787 million in 2014 to R824,787 million in 2022, showing a growth of 34.6%. This robust growth reflects improvements in wages or increased economic activity among citizens.
- Earnings for permanent residents grew from R2,714 million to R2,854 million, marking a modest 5.2% increase, which indicates limited economic mobility for this group.
- Earnings by foreign nationals rose significantly from R6,924 million to R11,236 million, representing an impressive 62.3% increase. This suggests that foreign nationals are becoming more integrated into the labor force and are earning more over time.

This trend in earning has policy implications. The substantial growth in earnings for foreign nationals (62.3%) points to their increasing integration into the Eastern Cape economy. Policymakers may need to assess how foreign workers are influencing local labor markets, particularly in terms of competition for jobs and resources. At the same time, this trend presents an opportunity to leverage the skills and contributions of foreign nationals through supportive immigration policies and work regulations that ensure foreign workers complement the local labor force without displacing citizens.

Meanwhile, the stagnant earnings growth for permanent residents (5.2%) suggests a need for policies aimed at fostering greater economic participation for this group. This could include expanded access to formal employment opportunities or targeted incentives to stimulate their involvement in high-growth industries. If left unaddressed, this segment could become increasingly marginalized, limiting its contribution to the province's economic growth.

The fact that earnings growth for foreign nationals significantly outpaced that of permanent residents also highlights a growing disparity in income levels between these groups. This calls for a nuanced approach to employment policy, particularly to ensure equal job opportunities across immigration statuses, while also safeguarding the interests of local workers. A

balanced approach can help prevent tensions between citizens and foreign workers, particularly during economic downturns when job scarcity becomes an issue.

On a national level, South Africa as a whole experienced a 7.0% growth in earnings, with foreign nationals seeing a much larger increase (23.6%) compared to citizens. However, in the Eastern Cape, the growth in earnings among citizens (34.6%) was significantly higher than the national average. In contrast, provinces like the Western Cape and Gauteng saw much larger earnings increases for foreign nationals (80.1% and 9.3%, respectively). The Eastern Cape's slower, yet steady growth, shows that it has not experienced the same level of foreign workforce expansion as some other regions. This could be due to the province's relatively lower economic growth, fewer job opportunities, or stricter immigration policies. Nevertheless, the continued integration of foreign nationals into the Eastern Cape economy, although slower, points to the need for long-term strategies to manage this shift and ensure that it supports, rather than undermines, the economic prospects of local residents.

Table 4. Total earnings by immigration status in the Eastern Cape

| Earnings by immigration status | | Distribution (%) | | Earnings (R million) | | % Change 2014-2022 |
|--------------------------------|--------------------|------------------|---------------|----------------------|-------------------|-----------------------|
| | | 2014 | 2022 | 2014 | 2022 | |
| South Africa | SA Citizen | 96,4% | 96,0% | 9 286 435 | 9 898 944 | 6,6% |
| | Permanent Resident | 0,9% | 0,8% | 83 757 | 83 253 | -0,6% |
| | Foreign National | 2,7% | 3,2% | 262 751 | 325 225 | 23,8% |
| | | 100,0% | 100,0% | 9 632 943 | 10 307 422 | 7,0% |
| Western Cape | SA Citizen | 96,6% | 95,3% | 1 527 206 | 1 815 466 | 18,9% |
| | Permanent Resident | 0,7% | 0,7% | 11 636 | 13 959 | 20,0% |
| | Foreign National | 2,6% | 3,9% | 41 742 | 75 179 | 80,1% |
| | | 100,0% | 100,0% | 1 580 584 | 1 904 604 | 20,5% |
| Eastern Cape | SA Citizen | 98,4% | 97,8% | 604 084 | 624 787 | 3,4% |
| | Permanent Resident | 0,4% | 0,4% | 2 714 | 2 854 | 5,2% |
| | Foreign National | 1,1% | 1,8% | 6 924 | 11 236 | 62,3% |
| | | 100,0% | 100,0% | 613 722 | 638 876 | 4,1% |
| Northern Cape | SA Citizen | 99,0% | 97,7% | 149 493 | 181 992 | 21,7% |
| | Permanent Resident | 0,2% | 0,4% | 296 | 714 | 141,3% |
| | Foreign National | 0,8% | 1,9% | 1 184 | 3 547 | 199,7% |
| | | 100,0% | 100,0% | 150 973 | 186 254 | 23,4% |
| Free State | SA Citizen | 97,5% | 97,9% | 336 437 | 335 563 | -0,3% |
| | Permanent Resident | 0,3% | 0,4% | 1 105 | 1 344 | 21,6% |
| | Foreign National | 2,2% | 1,7% | 7 607 | 5 935 | -22,0% |
| | | 100,0% | 100,0% | 345 149 | 342 841 | -0,7% |
| KwaZulu-Natal | SA Citizen | 98,4% | 98,3% | 1 441 281 | 1 564 978 | 8,6% |
| | Permanent Resident | 0,5% | 0,4% | 7 438 | 6 866 | -7,7% |
| | Foreign National | 1,1% | 1,3% | 15 847 | 20 018 | 26,3% |
| | | 100,0% | 100,0% | 1 464 566 | 1 591 862 | 8,7% |
| North West | SA Citizen | 94,1% | 94,4% | 445 860 | 460 296 | 3,2% |
| | Permanent Resident | 0,7% | 0,7% | 3 292 | 3 249 | -1,3% |
| | Foreign National | 5,2% | 4,9% | 24 613 | 23 852 | -3,1% |
| | | 100,0% | 100,0% | 473 766 | 487 397 | 2,9% |
| Gauteng | SA Citizen | 95,5% | 95,2% | 3 880 097 | 3 977 795 | 2,5% |
| | Permanent Resident | 1,2% | 1,1% | 49 379 | 46 441 | -5,9% |
| | Foreign National | 3,3% | 3,7% | 135 495 | 154 013 | 13,7% |
| | | 100,0% | 100,0% | 4 064 970 | 4 178 249 | 2,8% |
| Mpumalanga | SA Citizen | 96,2% | 96,6% | 487 474 | 499 612 | 2,5% |
| | Permanent Resident | 1,0% | 0,8% | 4 818 | 4 276 | -11,3% |
| | Foreign National | 2,8% | 2,6% | 14 348 | 13 378 | -6,8% |
| | | 100,0% | 100,0% | 506 640 | 517 265 | 2,1% |
| Limpopo | SA Citizen | 95,8% | 95,3% | 414 503 | 438 456 | 5,8% |
| | Permanent Resident | 0,7% | 0,8% | 3 080 | 3 550 | 15,3% |
| | Foreign National | 3,5% | 3,9% | 14 992 | 18 066 | 20,5% |
| | | 100,0% | 100,0% | 432 574 | 460 073 | 6,4% |

Source: SARS, National Treasury & HSRC; Quantec

4.4 Analysis of earnings by immigration status in Eastern Cape Districts & Metros

Table 5 provides a detailed breakdown of earnings by immigration status across various districts in the Eastern Cape from 2014 to 2022. This analysis highlights the earnings trends among South African citizens, permanent residents, and foreign nationals, and examines the implications for regional economic growth. The results across the Eastern Cape districts show varying trends in earnings growth and distribution by immigration status. While most districts exhibit growth in citizens' earnings, there is a noticeable disparity in how foreign nationals and permanent residents are contributing to local economies. Districts such as Sarah Baartman and Joe Gqabi have seen significant increases in foreign nationals' earnings, indicating a greater reliance on foreign labor. In contrast, districts like Chris Hani and Nelson Mandela Bay have experienced declines in foreign nationals' earnings.

In Sarah Baartman, South African citizens' share of earnings decreased from 97.3% to 93.7%, while foreign nationals saw their share rise dramatically from 2.3% to 5.9%. Permanent residents' share remained constant at 0.4%. Citizens' earnings grew by 12.9%, but foreign nationals experienced substantial growth of 205.6%, rising from R1,585 million in 2014 to R4,586 million in 2022. This indicates a significant increase in foreign nationals' contribution to the economy, particularly in industries that likely benefit from foreign labor.

In Amathole, the distribution of earnings among South African citizens remained stable at 98.2%, while permanent residents' share grew slightly from 0.4% to 0.5%. Foreign nationals' share also increased from 1.4% to 1.3%. Earnings for citizens increased by 4.7%, while foreign nationals saw a substantial rise of 63.2%. Permanent residents experienced moderate growth at 31%. Similarly, in Chris Hani, South African citizens' share remained constant at 99.1%, while foreign nationals' earnings share declined from 0.6% to 0.5%. Permanent residents' share remained stable. The district experienced negative growth in citizens' earnings (-1.4%) and a significant decline in foreign nationals' earnings (-13.7%). Permanent residents' earnings also fell by 49.4%, indicating a contraction in the district's economic activity.

In Joe Gqabi, the share of earnings for South African citizens remained largely unchanged at 99.5%, while the share for foreign nationals increased slightly from 0.3% to 0.5%. The district saw a modest increase in citizens' earnings (10.1%), but foreign nationals' earnings grew significantly by 116.6%, highlighting their growing presence in the local economy.

However, in the O.R. Tambo district, South African citizens continued to dominate earnings, with their share slightly increasing from 98.4% to 98.6%. Foreign nationals' share, however, decreased from 1.2% to 1.0%. Citizens' earnings grew by 11.7%, while foreign nationals experienced a sharp decline of 39.3%. Permanent residents' earnings increased by 17.3%.

In the more remote and rural Alfred Nzo district, citizens maintained a dominant position, accounting for 99.0% of total earnings in both 2014 and 2022. Permanent residents' share remained steady at 0.4%, while foreign nationals saw a slight decrease from 0.6% to 0.5%.

Turning to Buffalo City Metro, citizens' share of earnings remained stable at 98.6%, while foreign nationals' share increased slightly from 0.9% to 1.0%. Permanent residents' share remained constant. The metro saw 6.9% growth in citizens' earnings, with foreign nationals' earnings increasing by 3.5%. Permanent residents' earnings grew moderately by 1.1%. While foreign nationals' earnings are growing, their economic impact in Buffalo City remains modest. In contrast, in Nelson Mandela Bay Metro, the share of earnings for citizens slightly declined from 98.4% to 98.3%, while foreign nationals' share increased from 1.1% to 1.5%. Citizens' earnings grew by 4.4%, whereas foreign nationals experienced a decline of 3.5%.

Table 5. Total earnings by immigration status in Eastern Cape Districts & Metros

| Earnings by immigration status | | Distribution (%) | | Earnings (R million) | | % Change 2014-2022 |
|--------------------------------|--------------------|------------------|---------------|----------------------|----------------|-----------------------|
| | | 2014 | 2022 | 2014 | 2022 | |
| Eastern Cape | SA Citizen | 98,4% | 97,8% | 604 084 | 624 787 | 3,4% |
| | Permanent Resident | 0,4% | 0,4% | 2 714 | 2 854 | 5,2% |
| | Foreign National | 1,1% | 1,8% | 6 924 | 11 236 | 62,3% |
| | | 100,0% | 100,0% | 613 722 | 638 876 | 4,1% |
| Sarah Baartman | SA Citizen | 97,3% | 93,7% | 63 839 | 72 222 | 13,1% |
| | Permanent Resident | 0,4% | 0,4% | 265 | 287 | 8,0% |
| | Foreign National | 2,3% | 5,9% | 1 500 | 4 586 | 205,6% |
| | | 100,0% | 100,0% | 65 605 | 77 095 | 17,5% |
| Amathole | SA Citizen | 98,2% | 98,2% | 51 778 | 54 228 | 4,7% |
| | Permanent Resident | 0,4% | 0,5% | 237 | 310 | 31,1% |
| | Foreign National | 1,4% | 1,3% | 712 | 415 | -41,7% |
| | | 100,0% | 100,0% | 52 727 | 54 954 | 4,2% |
| Chris Hani | SA Citizen | 99,1% | 99,1% | 48 967 | 48 260 | -1,4% |
| | Permanent Resident | 0,3% | 0,3% | 139 | 207 | 49,4% |
| | Foreign National | 0,6% | 0,6% | 296 | 256 | -13,7% |
| | | 100,0% | 100,0% | 49 402 | 48 723 | -1,4% |
| Joe Gqabi | SA Citizen | 99,5% | 99,5% | 16 583 | 18 254 | 10,1% |
| | Permanent Resident | 0,2% | 0,2% | 29 | 30 | 1,2% |
| | Foreign National | 0,3% | 0,3% | 50 | 108 | 116,6% |
| | | 100,0% | 100,0% | 16 662 | 18 392 | 10,4% |
| O.R.Tambo | SA Citizen | 98,4% | 98,6% | 52 891 | 59 038 | 11,6% |
| | Permanent Resident | 0,4% | 0,4% | 214 | 251 | 17,4% |
| | Foreign National | 1,2% | 1,0% | 636 | 386 | -39,3% |
| | | 100,0% | 100,0% | 53 741 | 59 676 | 11,0% |
| Alfred Nzo | SA Citizen | 99,0% | 99,1% | 26 573 | 29 660 | 11,6% |
| | Permanent Resident | 0,4% | 0,4% | 119 | 111 | -6,8% |
| | Foreign National | 0,6% | 0,5% | 161 | 82 | -49,1% |
| | | 100,0% | 100,0% | 26 853 | 29 852 | 11,2% |
| Buffalo City | SA Citizen | 98,6% | 98,5% | 130 740 | 139 738 | 6,9% |
| | Permanent Resident | 0,5% | 0,5% | 658 | 665 | 0,9% |
| | Foreign National | 0,9% | 1,0% | 1 200 | 1 259 | 4,9% |
| | | 100,0% | 100,0% | 132 599 | 141 661 | 6,8% |
| Nelson Mandela Bay | SA Citizen | 98,4% | 98,3% | 212 712 | 203 386 | -4,4% |
| | Permanent Resident | 0,5% | 0,5% | 1 053 | 995 | -5,6% |
| | Foreign National | 1,1% | 1,2% | 2 368 | 4 143 | 75,0% |
| | | 100,0% | 100,0% | 216 133 | 208 524 | -3,5% |

Source: SARS, National Treasury & HSRC; Quantec

5. Analysis of economic and fiscal ratios

This section presents an analysis of economic and fiscal ratios focusing on key indicators such as business establishments, personal income tax, earnings, employment, and GDP. Analysing these ratios is critical to understanding the health and dynamics of the provincial economy. It helps assess how well fiscal policies are performing in promoting economic growth, generating employment, and ensuring equitable tax collection. It offers valuable insights into areas where economic activity can be strengthened and highlights potential opportunities for policy intervention.

5.1 Personal income tax ratio

Table 6 shows that the Eastern Cape is making strides in personal income tax collection and contribution, but key gaps remain compared to the national averages, particularly in tax efficiency, employment contributions, and per capita tax revenues.

Table 6. Personal income tax ratio

| Analysis of personal income tax | Ratio | EC | | RSA | |
|--|-------------------------------|-------|-------|-------|-------|
| | | 2014 | 2022 | 2014 | 2022 |
| Business contribution to tax revenue | PIT / Business establishments | 4,162 | 5,151 | 3,449 | 4,634 |
| Tax collection efficiency ratio | PIT / Number of taxpayers | 0,207 | 0,287 | 0,245 | 0,344 |
| Tax burden per earning | PIT / Earnings | 0,160 | 0,220 | 0,134 | 0,200 |
| Tax per GDP ratio | PIT / GDP | 0,280 | 0,385 | 0,297 | 0,447 |
| Employment contribution to tax revenue | PIT / Employment | 0,073 | 0,103 | 0,086 | 0,134 |
| Personal income tax per capita | PIT / Population | 0,014 | 0,019 | 0,024 | 0,034 |

Source: Own calculations, data derived from SARS, National Treasury & HSRC; Quantec

- **Business contribution to tax revenue** (PIT / Business Establishments) measures the average contribution of each business establishment to the total personal income tax collected. A higher ratio of 5.151 in the Eastern Cape compared to 4.634 for RSA in 2022 indicates that businesses are contributing more to personal income tax revenue, likely due to larger staff sizes or higher wages. The establishment of new businesses could further strengthen this contribution, especially in the province with low business density.
- **Tax collection efficiency ratio** (PIT / Number of Taxpayers) measures the average personal income tax collected per taxpayer. Although both the Eastern Cape and RSA show

improvements in tax collection efficiency, the province (0.287 in 2022) still lags behind the national average (0.344 in 2022), signaling the need for improved tax compliance or wage growth. Enhancing tax collection methods could improve tax revenue without raising tax rates.

- **Tax burden per earning** (PIT / Earnings) reflects the proportion of earnings paid as personal income tax. A higher ratio indicates a higher tax burden on income. The Eastern Cape's tax burden per earning (0.220 in 2022) has increased more sharply than RSA's (0.200 in 2022), indicating that a larger share of income is being paid as tax in the province.
- **Tax per GDP ratio** (PIT / GDP) measures the share of GDP that is collected as personal income tax. Between 2014 and 2022, it increased from 0.280 to 0.385 in the province and from 0.297 to 0.447 in RSA. The increase indicates that a larger portion of economic output is collected as tax, showing the government's capacity to generate revenue relative to the economy's size. Although the Eastern Cape has seen a significant increase in the share of GDP collected as tax, it still lags RSA. This suggests room for further improvement in tax collection relative to the economy's size. The provincial government should stimulate economic growth while maintaining or improving tax efficiency to help sustain revenue without overburdening taxpayers.
- **Employment contribution to tax revenue** (PIT / Employment) measures the average personal income tax contribution per employee. This contribution increased from 0.073 to 0.103 in the province and from 0.086 to 0.134 in the country. Though the Eastern Cape has improved, it still trails RSA, suggesting the potential for policies that focus on wage growth or better tax compliance among employees in the province.
- **Personal income tax per capita** (PIT / Population) reflects the average personal income tax paid by each person in the population. A higher ratio suggests a higher overall tax burden per capita or higher average income. The ratio in the Eastern Cape (0.014 in 2014 to 0.019 in 2022) is significantly lower than in RSA (0.024 in 2014 to 0.034 in 2022),

suggesting that per capita contributions to tax revenue are much lower, possibly due to lower average incomes or a larger proportion of non-taxpayers

5.2 Earnings ratio

Table 7. Earnings ratio

| Analysis of earnings | Ratio | EC | | RSA | |
|-------------------------------------|------------------------------------|--------|--------|--------|--------|
| | | 2014 | 2022 | 2014 | 2022 |
| Earnings per business establishment | Earnings / business establishments | 26,004 | 23,375 | 25,657 | 23,213 |
| Earnings per taxpayer | Earnings / Taxpayer | 1,295 | 1,304 | 1,820 | 1,721 |
| Tax burden | Earnings / PIT | 6,248 | 4,538 | 7,439 | 5,009 |
| Earnings per GDP | Earnings / GDP | 1,750 | 1,746 | 2,208 | 2,241 |
| Earnings per employment | Earnings / Employment | 0,457 | 0,465 | 0,641 | 0,672 |
| Earnings per capita | Earnings / Population | 0,089 | 0,086 | 0,177 | 0,169 |

Source: Own calculations, data derived from SARS, National Treasury & HSRC; Quantec

- Earnings per business establishment** (Earnings / Business Establishments) measures the average earnings generated per business establishment. In the Eastern Cape, the ratio decreased from 26,004 in 2014 to 23,375 in 2022, and in South Africa, it decreased from 25,657 to 23,213. This decline in both EC and RSA suggests that the earnings generated per business establishment have decreased over time, possibly due to lower productivity or economic challenges affecting businesses. This could indicate shrinking revenues per business or rising business costs, leading to lower earnings per establishment. The declining earnings per business establishment highlight the need for targeted interventions to improve business productivity, such as skills development, access to finance, and technological upgrades.
- Earnings per taxpayer** (Earnings / Taxpayer) measures the average earnings per taxpayer. The table shows a slight increase in the Eastern Cape from 1,295 in 2014 to 1,304 in 2022, while RSA saw a decrease from 1,820 to 1,721 over the same period. With earnings per taxpayer remaining steady in EC, there's potential for policies focused on improving job quality and wage growth to further enhance earnings and tax contributions.

- **Earnings per personal income tax** (Earnings / PIT) reflects the total earnings compared to personal income tax collected. Both EC and RSA show declines in this ratio, suggesting that a larger portion of earnings is being captured as tax over time, leading to a reduced gap between earnings and tax collected. The decline in the earnings per PIT ratio also suggests an increasing tax burden. Revisiting tax policies to prevent overburdening individuals while encouraging greater disposable income may help reverse this trend. Government policies focused on reducing tax burdens and promoting income growth could be beneficial.
- **Earnings per GDP** (Earnings / GDP) measures the proportion of GDP contributed by earnings. This ratio remained stable in the Eastern Cape, from 1,750 in 2014 to 1,746 in 2022, while in South Africa it increased slightly from 2,208 to 2,241, indicating a marginally greater contribution of earnings to GDP at the national level. Stable earnings as a share of GDP in EC suggest that earnings growth has been in line with overall economic growth.
- **Earnings per employment** (Earnings / Employment) reflects the average earnings per employed individual. The ratio increased from 0.457 in 2014 to 0.465 in 2022 in the Eastern Cape, and from 0.641 to 0.672 in South Africa. This suggests that workers are earning more, which could contribute to improved living standards and increased consumption.
- **Earnings per capita** (Earnings / Population) measures the average earnings per person in the population. The decline in both EC and RSA—from 0.089 in 2014 to 0.086 in 2022 in the EC, and from 0.177 to 0.169 in RSA—indicates that average earnings per person have slightly decreased, possibly due to slower income growth or an increasing population without proportional income growth. The declining earnings per capita highlight the importance of not only creating jobs but ensuring that new jobs provide sufficient earnings to support the growing population.

5.3 Business establishment ratio

This table compares various ratios related to business establishments in the Eastern Cape (EC) and South Africa (RSA) for 2014 and 2022.

Table 8. Business establishment ratio

| Analysis of business establishments | Ratio | EC | | RSA | |
|---|-------------------------------------|-------|-------|-------|-------|
| | | 2014 | 2022 | 2014 | 2022 |
| Business establishments per taxpayer | Business establishments /Taxpayers | 0,050 | 0,056 | 0,071 | 0,074 |
| Business establishments per personal income tax | Business establishments /PIT | 0,240 | 0,194 | 0,290 | 0,216 |
| Business establishments per earnings | Business establishments /Earning | 0,038 | 0,043 | 0,039 | 0,043 |
| Business establishments per GDP | Business establishments /GDP | 0,067 | 0,075 | 0,086 | 0,097 |
| Business establishments per employment | Business establishments /Employment | 0,018 | 0,020 | 0,025 | 0,029 |
| Business establishment density | Business establishments /Population | 0,003 | 0,004 | 0,007 | 0,007 |

Source: Own calculations, data derived from SARS, National Treasury & HSRC; Quantec

- Business Establishments per Taxpayer (Business Establishments / Taxpayers)** The rise in this ration in both EC and RSA (from 0.050 (2014) to 0.056 (2022) in the Eastern Cape and from 0.071 to 0.074 in South Africa) indicates an increase in business establishments relative to the number of taxpayers. This suggests either an increase in the number of businesses or a slower growth in taxpayers compared to business establishments. A growing number of businesses per taxpayer may indicate a healthy business environment, though it could also point to a concentration of businesses in fewer hands or a slower rise in individual taxpayers. Business growth and tax base expansion driven by rising number of business establishments relative to taxpayers suggests a need for policies that ensure businesses contribute adequately to the tax base without overburdening them.
- Business Establishments per Personal Income Tax (Business Establishments / PIT)** shows the number of business establishments per unit of personal income tax collected. The ratio has decreased in the Eastern Cape from 0.240 (2014) to 0.194 (2022) and in South Africa from 0.290 to 0.216, implying that personal income tax collections are growing faster than the number of business establishments. Put differently, businesses are contributing more to tax revenues relative to their numbers, which could indicate higher average wages or more employees per business. However, it may also reflect a heavier tax burden on business-generated income.
- Business Establishments per Earnings (Business Establishments / Earnings)** it reflects the number of business establishments relative to total earnings. Both EC and RSA show stable or slight increases in this ratio, indicating that the growth in business establishments is

keeping pace with earnings growth. Stable earnings per business establishment suggest that businesses are maintaining or slightly improving their ability to generate income.

- **Business Establishments per GDP (Business Establishments / GDP)** This ratio indicates the number of business establishments relative to the total GDP. The increasing ratio in both EC and RSA suggests that the number of business establishments is growing faster than the GDP, potentially indicating business expansion or diversification within the economy. A growing number of businesses relative to GDP could enhance economic resilience, but only if these businesses are productive and contribute significantly to economic output. to ensure businesses contribute meaningfully to GDP growth.
- **Business Establishments per Employment (Business Establishments / Employment)** The table shows increasing ratio in both regions suggests a rise in business establishments relative to employment levels, which could indicate smaller business sizes or growth in sectors with lower labor intensity.
- **Business Establishments density (Business Establishments / Population)** which reflects the number of business establishments relative to the population. The slight increase in EC from 0.003 (2014) to 0.004 (2022) and stability in RSA at 0.007 in 2014 and 2022 indicate that the growth in business establishments has kept pace with population growth, although the ratio remains much lower in EC than RSA. The lower ratios in the Eastern Cape compared to RSA imply regional disparities in business establishment density and economic activity. It means that there are fewer business establishments per capita, which could limit employment and economic opportunities for residents. Policies should focus on addressing these disparities through investment and infrastructure development in the Eastern Cape.

Overall, the table reveals positive trends in business establishment growth, but highlights challenges related to employment generation, tax burden, and regional disparities.

5.4 GDP and employment ratios

Table 9. GDP and employment ratios

| Ratio | EC | | RSA | |
|----------------------------|--------|--------|--------|--------|
| | 2014 | 2022 | 2014 | 2022 |
| GDP / Establishment | 14,862 | 13,388 | 11,621 | 10,358 |
| GDP /Taxpayer | 0,740 | 0,747 | 0,824 | 0,768 |
| GDP /PIT | 3,571 | 2,599 | 3,369 | 2,235 |
| GDP /Earning | 0,572 | 0,573 | 0,453 | 0,446 |
| GDP /Employment | 0,261 | 0,267 | 0,290 | 0,300 |
| GDP /Population | 0,051 | 0,049 | 0,080 | 0,075 |
| | | | | |
| Ratio | EC | | RSA | |
| | 2014 | 2022 | 2014 | 2022 |
| Employment / Establishment | 56,840 | 50,237 | 40,032 | 34,545 |
| Employment / Taxpayer | 2,830 | 2,802 | 2,839 | 2,561 |
| Employment / PIT | 13,657 | 9,753 | 11,607 | 7,454 |
| Employment / Earning | 2,186 | 2,149 | 1,560 | 1,488 |
| Employment / GDP | 3,824 | 3,752 | 3,445 | 3,335 |
| employment / Population | 0,195 | 0,184 | 0,276 | 0,251 |

Source: Own calculations, data derived from SARS, National Treasury & HSRC; Quantec

The decline in the GDP per Establishment ratio for both the Eastern Cape (EC) and South Africa (RSA) indicates lower productivity or output per business, which could signal economic challenges affecting businesses' ability to contribute to overall GDP. However, the stable GDP per Taxpayer ratio in EC and slight decline in RSA suggest that individual taxpayer productivity has remained steady in EC but is weakening slightly in RSA, potentially indicating lower economic contributions per taxpayer.

The table also shows a decline in the GDP per PIT ratio in both EC and RSA, which implies that a growing portion of GDP is being taxed. This may indicate higher tax burdens or improved tax collection efficiency but could also negatively affect disposable income. The GDP per Earning ratio remains stable, showing that the contribution of earnings to GDP is consistent, implying balanced wage growth relative to GDP in both regions.

Looking at GDP per Employment, the table shows a slight increase, indicating that each employed worker is contributing more to GDP over time. This suggests potential improvements in productivity or higher-value employment. On the other hand, GDP per Population reveals small declines, suggesting that population growth is outpacing GDP growth. This indicates a need for stronger economic policies to raise per capita GDP.

Turning to the employment ratios, the decline in the Employment per Establishment ratio indicates that businesses are employing fewer workers, possibly due to automation or economic pressures, which could affect overall employment rates. Employment per Taxpayer shows a stable trend in EC but a decline in RSA, implying that fewer workers are contributing to the tax base, potentially shrinking the pool of taxable incomes.

The decline in the Employment per PIT ratio reflects a shrinking workforce relative to tax contributions, which could signal reduced employment opportunities or increasing pressure on fewer workers to support tax revenues. Similarly, the slight drop in the Employment per Earnings ratio indicates that fewer employees are needed to generate the same earnings, suggesting rising productivity or potential workforce reductions.

An important indicator, Employment per GDP, reveals a decrease in this ratio, suggesting that the contribution of employment to GDP is diminishing. This indicates a shift towards other forms of productivity growth not directly tied to employment levels. Additionally, Employment per Capita (Employment per Population) has declined, indicating that employment growth is not keeping pace with population growth. This highlights potential labor market challenges that may require policy interventions to stimulate job creation.

6. Conclusion

This study explored the connections between business establishments, employment, GDP, earnings, and personal income tax in the Eastern Cape, focusing on identifying key factors that influence economic growth and fiscal sustainability. Drawing on data from National Treasury, HSRC, Quantec, and Statistics South Africa, the analysis examined how resilient businesses in the province withstand economic downturns while maintaining consistent tax contributions.

Findings, salient diagnostics, and policy questions that emerged from the study are summarized below.

The report highlights a concerning decline in the number of taxpayers. Despite an increase in business establishments, there is a noticeable drop in the number of taxpayers from 2014 to 2019. This raises significant concerns about tax compliance and the effectiveness of current tax policies. The further decline in the taxpayer base in 2022 prompts critical questions regarding whether these policies adequately capture income from all segments of society, particularly in the informal sector.

Additionally, the study reveals that earnings in the province show limited growth compared to overall economic indicators. This stagnation may indicate that wage growth is not keeping pace with inflation or rising living costs, potentially leading to a decline in taxpayers' disposable income. According to data from SARS, in South Africa during 2022, earnings by citizens accounted for 96.0% of total earnings (and 97.8% for the Eastern Cape), while earnings by permanent residents accounted for 0.8% (and 0.4% for the Eastern Cape). Foreign nationals represented only 3.2% nationally and 1.8% in the Eastern Cape. In the province, the earning by foreign nationals is miniscule.

Over the period between Q2 2022 and Q2 2024, the Eastern Cape's average economic growth rate was 0.0%, indicating stagnant economic activity. This stagnation is coupled with high unemployment, especially among the youth. The fluctuations in real GDP alongside changes in employment and earnings suggest potential sustainability issues. These economic challenges may lead to increased emigration of skilled labor in search of better opportunities abroad, exacerbating the brain drain and hindering local economic development.

Moreover, there is a notable disparity between employment and real GDP. While real GDP shows fluctuations, employment figures do not consistently align with GDP growth. This discrepancy raises questions about the quality of jobs created and whether they are sufficient to drive economic stability. The data reflects a significant dip in employment growth during 2020, likely due to the COVID-19 pandemic, highlighting the economy's vulnerability to external shocks and the need for robust emergency measures. As the population continues to grow, employment figures do not reflect a proportional increase. This disconnect could lead to higher unemployment rates and social unrest if job creation does not keep pace with population growth.

Furthermore, the increasing number of business establishments does not correlate with rising taxpayer figures, suggesting potential issues with tax compliance or the informal economy. This situation could undermine fiscal sustainability. Additionally, the limited growth in personal income tax earnings may indicate increasing income inequality, with wealth becoming concentrated among a small segment of the population. This poses challenges for social cohesion and economic equity.