2018

Budget Review

22 February 2018

On the back of a tumultuous economic and political Zuma era, our Finance Minister, Malusi Gigaba, has the unenviable task of plotting the fiscal road ahead for South Africa's underperforming economy. With a growth rate of less than 2%, the main concerns for the country was finding a way to reduce the growing budget deficit, fund the budget shortfall and find funding for the growing need for free higher education.

Budget Highlights

- ↑ **VAT (14% to 15%) -** Effective 1st April 2018, **increase** in Value Added Tax on goods and services supplied by registered vendors. This will be the first increase in more than 20 years.
- ↑ **Estate Duty (20 to 25%)** - Effective 1st March 2018, **increase** on duty rate for Estates above R30 million.
- ↑ **Donations Tax (20% to 25%)** - Effective 1st March 2018, **increase** in donations tax on donations of more than R30 million.
- ↑ **Sin Tax**: Alcohol excise duties will **increase** between 6% - 10%, tobacco and excise duties on Tobacco products will **increase** by 8.5%.
- ↑ **Ad valorem excise duties (7% to 9%):** Effective 1st April 2018, **increase** on duty rate of luxury goods such as motor vehicles, cosmetics, electronics and golf balls.
- ↑ **General Fuel Levy and Road Accident Fund (RAF) Levy -** Effective 4th April 2018, **increase** of 22cents per litre on Fuel Levy and **increase** of 30 cents per litre on RAF levy
- ↑ **Environmental Taxes -** Effective 1st April 2018 **increase** of tax rate on plastic bags, incandescent light bulbs and vehicle emission tax plus the health promotion levy on sugary beverages
- ↑ **Medical Tax Credits** - **increase** from R303 to R310 per month for 1st two beneficiaries (2.3%) and from R204 to R209 per month (2.5%) for remaining beneficiaries.
- ↑ **Special Voluntary Disclosure Program (SVDP)** – SVDP expired in August 2017, however government is still **allowing** taxpayers the opportunity to report undisclosed foreign assets or income.
- ↑ **Pension & Retirement Annuity (RA) Funds Annuitisation** – compulsory **annuitisation** of **two-thirds** of all pension funds at date of retirement, with Provident funds allowing benefits to be commuted in full, until 1 March 2019. The threshold below which a full fund benefit from a Pension or RA is allowed to be commuted is R247 500 effective 1 March 2016.

Implications of Tax proposals

- Proposed tax measures will raise an additional R36 billion in 2018/2019
- VAT increase and Medium-Term Expenditure cuts will fund the R56 billion allocated for free higher education and training
- Partial relief for bracket creep will raise an additional R6.8 billion

Macro-Economic Outlook

- **Gross Domestic Product (GDP)** - forecasted to grow at a rate of 1.5% in 2018.
- **Consumer Price Index (CPI) Inflation** - expected to remain unchanged at 5.3% in 2018 but is forecasted to grow to 5.5% in 2020.
- **Budget deficit** - expected to narrow from 4.3% of GDP to 3.5% in 2020/21.
- **Consolidated expenditure** - expected to increase to R1.6 trillion, of which R1.02 trillion will consist of expenditure on Social Services.
- **Debt-service costs** - set to increase from R163.2 billion to R213.9 billion by 2020/21.
- **Net debt** - expected to stabilise at 53.2 % of GDP in 2023/24.

Conclusion

South Africa's low growth rate, increasing sovereign debt and free-higher education funding requirements meant that the increase in VAT and other ancillary levies was inevitable. The budget also indicated South Africa's willingness to tackle the issue of its inefficient SOE's and bloated government expenditure, with the Medium-Term Budget Speech indicating that a reduction in inter-departmental government expenditure would amount to an R85 billion claw back to the national fiscus. Encouragingly, the markets reacted quite positively to the budget with the Rand strengthening to R11.63 to the Dollar. How these measures will be translated by the rating agencies is anyone's guess at this moment. But considering the government has just admitted it can do better, the budget speech has put forward a strong case for a recovering economy.