

Budget Speech

2021



Even the usually jovial Minister of Finance, Tito Mboweni turned serious very quickly during his budget speech today. Still making a quick tongue-in-cheek comment every now and then (we can never be sure *exactly* at who those are aimed, but they make us grin in any case), the Minister's reasons to be hopeful, were perhaps overshadowed by the reality of the dire position of our public finances.

In the run-up to the speech, most commentators agreed that having to come up with the budget was a very unenviable task and that we should be prepared to be disappointed. We dare say that he probably did as well as anyone could have expected, perhaps even surprising to the upside here and there.

Some mind-boggling numbers

Real GDP is expected to grow by 3.3% in 2021 and then taper off to 2.2% in 2022 and 1.6% in 2023.

Treasury expects a **budget deficit of 14%** to GDP in 2020/21 due to the pressures of Covid-19. Consolidated **spending** will reach around **R2 trillion** each year over the medium term, with the bulk

of this allocated to learning and culture, social development and health. More than R10 billion has been allocated to the purchase and delivery of Covid-19 vaccines over the next 2 years.

Government's **borrowing** will remain well above **R500 billion per year** in the medium term with gross loan debt to increase to **R5.2 trillion** in 2023/24. On balance, treasury estimates that it is on track to return to a **budget surplus in 2024/25** after which debt is expected to stabilize at 88,9% by 2026 (80.3% in 2021).

Where will the money go?

Shifting to economic reforms, the importance of infrastructure development was highlighted with the Minister confirming a **R791.2 billion infrastructure investment** drive, in partnership with the private sector and "other players".

Further to the R83.2 billion that was made available for public employment in the August Special Adjustments Budget, another R11 billion has now been allocated to the Presidential Youth Employment Initiative bringing the funding for **employment creation** to close to **R100 billion**, specifically targeting the employment of young people.

Government plans to finalise 1409 restitution claims at a cost of R9.3 billion over the next three years to achieve redress and equitable access to land.

R4 billion has been allocated to the development of township and rural enterprises, which will include finance initiatives.

Focus on taxes

Treasury expects to collect R1.21 trillion in taxes during 2020/21, which is about R213 billion less than budgeted. This is the **largest tax shortfall on record**.

Against this backdrop, we were pleasantly surprised by the **reduction in corporate tax** to 27% for years of assessment commencing from 1 April 2022. There will be some limitations on corporate interest deductions and assessed losses carried forward, but any reduction in tax, even only 1% is a positive at this point. Perhaps this pre-broadcast of a lowering in tax that really only applies one tax year out, was a small way of manufacturing that hope that we all need at the moment.

Personal income tax brackets will be increased by 5%, which is above the published inflation rate, with the tax burden mostly reduced for lower- and middle-income households. This was one area in which we thought the Minister would have no choice but to increase taxes, but by his own acknowledgement, he realized that he was facing a potential tax revolt if he did.

Table 4.4 Personal income tax rates and bracket adjustments

2020/21		2021/22	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R205 900	18% of each R1	R0 - R216 200	18% of each R1
R205 901 - R321 600	R37 062 + 26% of the amount above R205 900	R216 201 - R337 800	R38 916 + 26% of the amount above R216 200
R321 601 - R445 100	R67 144 + 31% of the amount above R321 600	R337 801 - R467 500	R70 532 + 31% of the amount above R337 800
R445 101 - R584 200	R105 429 + 36% of the amount above R445 100	R467 501 - R613 600	R110 739 + 36% of the amount above R467 500
R584 201 - R744 800	R155 505 + 39% of the amount above R584 200	R613 601 - R782 200	R163 335 + 39% of the amount above R613 600
R744 801 - R1 577 300	R218 139 + 41% of the amount above R744 800	R782 201 - R1 656 600	R229 089 + 41% of the amount above R782 200
R1 577 300 and above	R559 464 + 45% of the amount above R1 577 300	R1 656 600 and above	R587 593 + 45% of the amount above R1 656 600
Rebates		Rebates	
Primary	R14 958	Primary	R15 714
Secondary	R8 199	Secondary	R8 613
Tertiary	R2 736	Tertiary	R2 871
Tax threshold		Tax threshold	
Below age 65	R83 100	Below age 65	R87 300
Age 65 and over	R128 650	Age 65 and over	R135 150
Age 75 and over	R143 850	Age 75 and over	R151 100

Source: National Treasury

There was no surprise however in the increases in sin taxes, with the cost of a 750ml bottle of spirits increasing by as much as R5.50 with immediate effect. The price of a packet of 20 cigarettes will increase by R1.39. This all due to an 8% increase in excise duties on alcohol and tobacco.

Fuel levies will increase by 27 cents per litre.

Tax collection & enforcement

During the coming year, SARS will be dedicated to improving collections from wealthy individuals with complex financial arrangements. To this end, it is expanding its specialised audit and investigative skills in the tax and customs areas to renew its **focus on the abuse** of transfer pricing, **tax base erosion and tax crime**. The first group of targeted individuals can expect a communication from SARS in April! We feel that the enforcement and collection of existing taxes is a much more effective step towards fiscal stability than increasing the tax burden on already thinly stretched taxpayers and we will be watching this initiative with keen interest.

What fell short?

We didn't get quite enough confirmation that the prevention of **corruption** in government procurement processes (not only PPE related) is on track. While many other successful prevention initiatives were mentioned, we would have liked to know that government is focused inward first and foremost when it comes to corruption.

We felt that more than the cursory mention that support to **state-owned entities** will be done in line with the Medium-Term Budget and a new allocation of R7 billion to the struggling Land Bank, would have gone a long way to creating confidence.

The amendment of **Regulation 28** of the Pension Funds Act (the regulation that governs how retirement funds may be invested) is also a source of great concern to the public and the quick mention that Treasury merely seeks to make it easier for retirement funds to increase investment in infrastructure, did nothing to allay our nerves. The proposed amendments will be published for public comment "this week" - watch this space for more information.

Lastly, the Minister did well to steer clear of the elephant in the room - the public sector wage bill. This takes the biggest bite out of the apple by far and has long since been fingered to be at the core of our fiscal problems. There was mention that "Minister Senzo Mchunu, is working with our partners in organised labour to achieve a fair public-sector compensation dispensation when negotiations on a new multi-year wage settlement begin later this year.", but you can't blame us for having hoped there would be more said on this topic. For now, we will have to take comfort from our favourite quote from the speech:

"...getting our fiscal house in order is the biggest contribution we can make to support our Economic Reconstruction and Recovery Plan... We remain adamant that fiscal prudence is the best way forward. We cannot allow our economy to have feet of clay."

For the full speech, and various explainers, visit Treasury's website [here](#).