

# A CAUTIOUSLY- OPTIMISTIC BUDGET

SA takes a step back from the  
fiscal cliff, but risks remain

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THERE IS cautious optimism that South Africa's fiscal picture is improving after Finance Minister Enoch Godongwana delivered his maiden Budget speech on 22 February 2022.

Higher commodity prices, more resilient corporate income, and improved collections of personal income tax and VAT combined to ensure tax collections were

better than expected, netting the fiscus a R181 billion tax windfall—taking revenue to a record R1.5 trillion.

The Budget deficit has reduced to 5.7% of GDP rather than the 6.6% anticipated in November 2021's Medium Term Budget Policy Statement. National Treasury says that it remains committed to reducing the fiscal deficit and stabi-

lising debt. South Africa's debt servicing costs remain a challenge, and are the fastest growing expenditure item on the Budget. In the next financial year, South Africa will spend R301.8 billion of its total R2.16 trillion budget on servicing debt of R5.43 trillion.

The prospect of a rising global interest rate environment also remains a risk.

Higher tax collections are primarily the result of a boom in the price of commodities. Godongwana is well aware that permanent expenditure cannot be planned on the basis of what is likely to be a temporary increase in commodity prices.

While acknowledgement of this fact is positive, it remains to be seen if expenditure creep can be held at bay over time.

### Good news for taxpayers

There was good news—and some relief—for taxpayers given that there will be no increase in personal tax or the VAT rate. The latter would certainly have been a hugely unpopular hike.

An expected hike in fuel levies did not materialise.

In this respect, it is pleasing to see that the Minister has agreed with former Finance Minister Mboweni's position that South Africa is past the point of diminishing returns when it comes to the tax yield generated from increasing tax further.

Personal income tax brackets were adjusted upwards by 4.5%, following last year's above-inflation upward adjustment of 5%, providing taxpayers with ongoing inflation protection.

For the past two years National Treasury has been focused on broadening the tax base rather than hiking taxes. Godongwana revealed that tax hikes in recent years have failed to generate the expected revenue. Interestingly, the increase of the top marginal rate to 45% for high income earners generated far less than the expected R4.4 billion a year.

The offshore limit for local pension and savings funds to invest offshore has been adjusted to 45%, including the 10% allowance for investments into other countries. This limit was previously 30%. The amendment announced in the Budget means that funds can now invest up to a maximum of 35% outside Africa.

The Finance Minister also confirmed that the corporate tax rate would be reduced by 1% to 27% for companies with tax years ending either on or after 31 March 2023. While this reduction is a welcome move, South Africa's corporate tax rate remains higher than the 23% average

corporate tax rate of the Organisation for Economic Co-operation and Development (OECD) member countries.

### Economic risks

Despite the tax windfall, Godongwana is aware that the economy continues to face enormous risks. He stressed that without structural reforms to enable economic growth, encourage investment, and create jobs, it will be hard to turn the tide.

### SOEs remain a drain

State owned enterprises (SOEs) continue to pose a risk to the economy, and a drain on the fiscus. While Godongwana promised 'tough love' to SOEs, more than R308 billion has been allocated to bailing them out. However, he revealed that the Presidential State-Owned Enterprises Council would be considering

which SOEs to retain and which should be disposed of (or consolidated), based on the value they create and their potential sustainability.

### State employee salaries

The public sector wage bill poses another major risk to the economy. Public sector employees will continue to receive the monthly non-pensionable cash payment of between R1 200 and R1 700 until negotiations have concluded, said the minister.

In a recently-published report, the IMF said it did not believe the state would be able to honour its commitment to rein in the public sector wage bill.

### Unemployment, welfare payments

South Africa's unemployment statistics are a significant cause for concern. Godongwana revealed that social grants are

# 2022 TAX PROPOSALS

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## PERSONAL INCOME TAX

### HOW DO THE PERSONAL INCOME TAX CHANGES AFFECT YOU?

The 2022 Budget provides tax relief by announcing an adjustment of personal income tax brackets and rebates in line with the expected inflation rate of 4.5 per cent. The amount an individual can earn before being required to pay tax for the tax year from 1 March 2022 to 28 February 2023 is adjusted as follows:

TAX THRESHOLDS	TAX YEAR: 2021/22	TAX YEAR: 2022/23
Below age 65	R87 300	R91 250
Age 65 to 74	R135 150	R141 250
Age 75 and over	R151 100	R157 900

The new tax rebates for individual taxpayers are as follows:

TAX REBATES	TAX YEAR: 2021/22	TAX YEAR: 2022/23
Primary (all individuals)	R15 714	R16 425
Secondary (age 65 and over)	R8 613	R9 000
Tertiary (age 75 and over)	R2 871	R2 997

## SIN TAXES

### INCREASES IN ALCOHOL AND TOBACCO DUTIES

Specific excise duties on alcoholic beverages and tobacco products will increase by between 4.5 and 6.5 per cent.

	INCREASES BY:
Mal beer	11c per 340ml can
Unfortified wine	17c per 750ml bottle
Fortified wine	33c per 750ml bottle
Sparkling wine	76c per 750ml bottle
Ciders and alcoholic fruit beverages	11c per 340ml can
Spirits	R4.83 per 750ml bottle
Cigarettes	R1.03 per packet of 20
Heated tobacco product sticks	78c per packet of 20
Cigarette tobacco	R1.16 per 50g
Pipe tobacco	37c per 25g
Cigars	R6.77 per 23g

## TAX RATES

### TAX: INDIVIDUALS AND TRUSTS

Tax payable by individuals for the tax year ending between 1 March 2022 and 28 February 2023

Taxable Income (R)	Rate of tax (R)
0 to 226 000	18% of taxable income
226 001 to 353 100	40 680 + 26% of taxable income above 226 000
353 101 to 488 700	73 726 + 31% of taxable income above 353 100
488 701 to 641 400	115 762 + 36% of taxable income above 488 700
641 401 to 817 600	170 734 + 39% of taxable income above 641 400
817 601 to 1 731 600	239 452 + 41% of taxable income above 817 600
1 731 601 and above	614 192 + 45% of taxable income above 1 731 600
Trusts other than special trusts	45%

### INCOME TAX: COMPANIES

Financial years ending on any date between 1 April 2022 and 31 March 2023

Type	Rate of tax
Companies	28% of taxable income (until 30 March) 27% of taxable income (from 31 March)

### INCOME TAX: SMALL BUSINESSES CORPORATIONS

Financial years ending on any date between 1 April 2022 and 31 March 2023

Taxable Income (R)	Rate of tax (R)
0 to 91 250	0% of taxable income
91 251 to 365 000	7% of taxable income above 91 250
365 001 to 550 000	19 163 + 21% of taxable income above 365 000
550 001 and above	58 013 + 28% of the taxable income above 550 000 (until 30 March) 58 013 + 27% of the taxable income above 550 000 (from 31 March)

### TURNOVER TAX FOR MICRO BUSINESSES

Financial years ending on any date between 1 March 2022 and 28 February 2023

Taxable turnover (R)	Rate of tax (R)
0 to 335 000	0% of taxable turnover
335 001 to 500 000	1% of taxable turnover above 335 000
500 001 to 750 000	1 650 + 2% of taxable turnover above 500 000
750 001 and above	6 650 + 3% of taxable turnover above 750 000

## LEVIES AND TAX ON FUEL

There is no increase in the general fuel levy and the Road Accident Fund levy. Currently:

- The general fuel levy is R3.85 per litre of petrol and R3.70 per litre of diesel
- The Road Accident Fund levy is R2.18 per litre for both petrol and diesel.

The carbon tax on fuel will increase by 1 cent per litre with effect from 6 April 2022. This will increase the tax to 9c per litre of petrol and to 10c per litre of diesel.

Source: SARS / National Treasury

## BUDGET 2022

paid to nearly half of the country's population.

### **Low GDP growth, difficulties in broadening the tax base ... and, of course, the debt**

National Treasury expects real GDP growth of 2.1% in 2022 and for it to average 1.8% over the next three years to 2025, which is slightly higher than what it projected in the Medium-Term Budget in November last year.

However, at this rate South Africa will battle to meaningfully broaden its tax base, and herein lies the risk. When the tax windfalls subside, and economic growth slows, will South Africa be back in

a position where fiscal deficits are unavoidable and an unsustainable debt picture reasserts itself?

The reality is that if South Africa reverts to low growth rates, it will have serious issues down the road.

### **A solid Budget—but will other government departments play ball?**

While Godongwana's maiden Budget delivered few surprises and was appropriately measured and considered, it will now be up to the various arms of government to rein in unnecessary expenditure and create a business-friendly environment to encourage investment and re-

store business confidence.

None of these concepts, risks or proposed 'solutions' are new. They have been referenced *ad nauseum* in the past.

The proof will be in the execution. Will Treasury hold the line on expenditure—irrespective of political pressure—and can government start executing on the reforms that it has spoken about for many years?



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