

# Budget 2016: predictions and expectations

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Time is slowly ticking as we wait for the clock to strike 14.00 on 24 February 2016. Certainly South Africa is in a very different position to just one year ago. Then, the rand was trading at R11.65 to the US dollar, the repo rate was at 5.75%, inflation was steady at 3.9%, and South Africa's growth prospects, as indicated by the International Monetary Fund stood at 2.1% for 2015.



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Fast forward to the present day. The rand trades is trading around 40% weaker at R16.25 to the US dollar. The repo rate is at 6.75% trying to keep the inflation figure of 5.2% in check, which is set to test the upper range of government's inflation target. Consequently, the IMF is forced to revise the growth outlook to a mere 0.7%.

It is no secret that National Treasury requires money and tax coffers are low. Tertiary education, the nuclear deal, national health insurance, South African Airways and Eskom all need financing. The strong US Dollar, slowing of the Chinese economy and the commodity dip, all coupled with the devastating effects of El Nino makes economic growth problematic, to say the least.

Consequently, South Africa is holding its breath to learn what Minister Gordhan will say in the Budget Speech. How will he generate additional revenue through taxes without compromising economic growth? While most taxpayers expect Minister Gordhan to reinforce measures in order to reduce government spending and to combat corruption, their interest will mostly lie with the tax changes that directly impact their pockets.

## VAT

An increase in the VAT rate was described by Judge Davis as the least disruptive and most equitable method of obtaining additional revenue. However, the current political environment will not allow this, especially in a local government election year. The uproar that was seen when retirement reform was pushed through parliament has left COSATU and the ANC at loggerheads. Independent economist Dawie Roodt indicates that it would be much worse if an increase of the VAT rate is implemented: "We will see riots the likes of which have never been seen in this country if government increases VAT even by a modest amount."

Accordingly, the VAT rate is expected to remain at 14%. There may, however, be an appetite to implement a higher VAT

rate for luxury goods.

## **Corporates**

Corporate tax rates are not expected to change. Investor confidence is already waning and increasing corporate tax rates would worsen South Africa's status as an attractive investment destination. A possible method for raising additional revenue may be to apply a special levy to companies with turnover above a certain threshold (for example R1 billion).

Furthermore, current market volatility is causing companies to hedge themselves by retaining large amounts of cash. A tax on undistributed dividends held by private investment holding companies, will offer an incentive to distribute this cash in the form of dividends to shareholders which may attract the 15% dividends withholding tax. This was initially proposed in the draft Dividends Tax legislation and is expected to be re-considered as a means to increase tax collections.

## **Individuals**

Politically, a super tax bracket will not be a surprise. High-income earners currently pay a rate of 41% of their taxable income above R701,300. A new tax bracket may be suggested for individuals earning more than R1 million in taxable income. This bracket can easily be subject to a tax rate of 45% with minimal legislative change. Government, though, will be left needing to provide sound explanations for applying what could be seen as strangling the goose that lays the golden egg.

The usual hike in sin taxes is expected and this should be well above the current inflation figure, but the income generated from sin taxes is like a free key ring with your favourite draught beer: insignificant. So, this may be the opportunity for the minister to include e-cigarettes under this category.

## **Capital Gains Tax (CGT)**

At the time that CGT was introduced in October 2001, the inclusion rates were a modest 25% for individuals and 50% for corporates and trusts. 2013 saw these rates being increased to 33.3% and 66.6% respectively. There may be the temptation to increase these inclusion rates to 50% and 75%, reducing the margin for arbitrage in declarations.

## **Trusts**

The hype around trust tax reform has become somewhat silenced in recent times and immediate changes are not expected. Significant time and resources were spent to revamp the trust tax return, which now collects significant amounts of taxpayer information. It should, however, be borne in mind that the SARS is now armed to easily match trust distributions and attributions to personal income tax returns in order to ensure full disclosure.

## **Exchange control**

An exchange control amnesty for the regularisation of non-compliant offshore funds has been the subject of numerous rumours. This would be attractive as it would provide a significant widening of the tax base while also providing the opportunity for the fiscus to levy a once off penalty. However, the introduction of the Common Reporting Standards is a major incentive for residents to regularise their non-conforming offshore funds irrespective of whether or not an amnesty is in place.

## **Compliance**

We anticipate that the minister will pay particular attention to tax compliance. For instance, the administrative penalties, which are currently only apply to individuals, may be expanded to trusts and corporates.

Currently, SARS audits are rife and leniency has been forgotten. Taxpayers should expect proper enforcement of penalties for non-compliance and with the enactment of the Tax Administration Act 28 of 2011 during 2011, these penalties can be as high as 200% of the tax default.

At the end, this is of course mere speculation, and it's probably best to avoid speculation, but where is the fun in that? Who knows, Minister Gordhan may surprise us by throwing the proverbial spanner in the works.

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