Tips for Tito

Being an election year, there'll be a second State of the Nation Address (Sona) in June for the new government to present its plan of action for the 2020 financial year. However, there will be no second chances for the 2019 Annual Budget Review, being tabled by the Minister of Finance, Tito Mboweni, on 20 February 2019.

Madelein Grobler, project director: tax at Saica

“During the delivery of the 2018 Medium Term Budget Policy Statement (MTBPS) on 24 October 2018, the finance minister indicated an estimated gross tax revenue shortfall of about R27.4bn, says Madelein Grobler, project director: tax at the South African Institute of Chartered Accountants (Saica). “The shortfall was mainly attributable to a backlog of VAT refunds at the South African Revenue Service (Sars) and a slower corporate income tax collection due to weak economic growth.”

Predicted outcome

“Analysing historic trends, statistics and preliminary outcomes as provided by National Treasury, compared to the MTBPS revised estimates, it is predicted that the gross tax revenue deficit would increase to about R33.6bn for the 2018/19 fiscal year. Hence an increase in the MTBPS shortfall estimate with R6.2bn,” says Grobler

“However, a main budget deficit of only R197.12bn is expected, resulting in a claw back compared to the MTBPS estimates - mainly attributable to what seems to be underspent expenditure. National Treasury’s increase of R9.2bn towards actual expenditure during the 2018 MTBPS seems to have been a precautionary measure, as we estimate that actual expenditure will come in on average R15bn below the 2018 Annual Budget estimate.”

“Given the continued revenue shortfalls in the 2018/19 fiscal years, we propose the following budget tips to the minister of finance:

Budget Tip 1 – No amendments to main revenue streams

Do not cause major upsets with tax hikes in the main revenue streams, such as personal income tax, corporate income tax and value added tax (VAT). We saw in 2017 the introduction of a 45% tax bracket for high income earners (earning more than R1.5m a year), an increased inclusion rate for capital gain tax (CGT) at 80% and a 1% VAT rate hike during 2018. We are also aware of the countdown towards taxing South African tax residents’ foreign employment income exceeding R1m in 2020, though many local employees may feel that it is about time.

Budget Tip 2 – Focus on national government debt

In a minimalistic economic growth environment, estimated at 1.3% for 2019 according to the World Bank, other tips should be considered. A continued focus on national government debt is required.

During the MTBPS the gross loan debt was revised to 55.8% of gross domestic product (GDP) or an enormous amount of R2.8trn in debt. We estimate that the cost of servicing this government debt will amount to almost R1.8bn in 2018/19, representing about 14% of main budget revenue.

Debt incurred today on operating expenditure that does not add to our children's future, means merely burdening them with such debt in future when they should be growing the economy and the country. Furthermore, once you become the slave of your debt, your credit masters will dictate your policy, not your political representatives, a reality then minister of finance Trevor Manuel warned us nearly two decades ago.

The MTBPS noted that the key contributor to increase debt is the instability in exchange rates. It was stated in the MTBPS that "the weaker rand accounts for about 70% of the R47.6bn upward revision to gross loan debt in the current year". Other noted causes included fluctuation in inflation and interest. The tendency towards foreign denominated loans raise concerns, especially since the South African rand currency fluctuations is so volatile.

It is paramount that the current debt management strategy incorporates and implement a plan on how to stabilise the volatile South African rand. The South African Reserve Bank (Sarb) will play a pivotal role seeing as their primary purpose is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa and promoting financial stability.

Stabilising the high level of debt in itself would attribute to a less volatile South African rand, which in turn will create certainty for investors.

Budget Tip 3 – Keep expenditure under wraps

Government's expenditure needs to be kept under wraps. Analysing National Treasury's Statement of Revenue statistics as at December 2018 and compared to last year's figures, net revenue income increased with R72bn, while the expenditure increased with R48.1bn. This provides for an additional R23.9bn available in the government's pot should spending trends continue through quarter 4 of the 2019 fiscal year.

In comparison with last year's figures, it seems like National Treasury has tightened the belt when it comes to expenditure though final outcomes will tell the full story.

However, more has to be done. During the MTBPS it was noted that R8.3bn adjustments will be made to recapitalise South African Airways, South African Express Airways and South African Post Office. The bailouts towards state-owned enterprises (SOEs) should stop and other proposals such as public private sector partnerships should be explored. Tito

Mboweni alluded to this during the MTBPS, and hopefully the time has come for detailed practical solutions to be fleshed out.

The MTBPS noted that government's current wage bill accounts for about 35% of consolidated spending. The above-inflation public service wages and salaries increases have been kept under wraps during the MTBPS, wherein Tito Mboweni advised that government departments need to fund shortfalls by adjusting within their compensation baselines. This, however, hampers service delivery to the poor. It was proposed that efficiency should be increased while managing overtime and performance incentives. The ideal would be that these proposals are continued during the 2019 Annual Budget Review. Dealing with the elephant in the room that is the ever-growing wage bill and transitioning to a leaner, more efficient government may be a hurdle too far in the medium term but, like acid mine drainage, only gets worse the longer it is postponed.

Tito Mboweni will have gotten his hands dirty in the past four months since being sworn in on 9 October 2018, and we hope to see some flamboyant new thoughts being brought to the table," concludes Grobler.