Experts deliver their verdict

Finance Minister, Tito Mboweni's 2020 Budget Speech wasn't as dire as some commentators expected. In fact, it depicted a government that is reform-minded and ready to flex its muscles, which sparked an immediate celebration in the rand and bond markets. The experts give their opinions.

Finance Minister Tito Mboweni

“First, the numbers placed on the table, while still fairly weak, are slightly better than predicted in last year’s October Medium-Term Budget Policy Statement (MTBPS). And second, government seems ready and willing to action the crucial measures needed to halt the economy’s slide and place it back onto a path of growth,” says Maarten Ackerman, chief economist and advisory partner, Citadel.

In an attempt to slow the ballooning budget deficit and stabilise the country’s fiscal situation, government has proposed cost-cutting measures amounting to R261bn over the next three years. “This, together with the reallocation of funds, is expected to gradually narrow the budget deficit from 6.8% of GDP in 2020/21 to 5.7% in 2022/23, with a debt-to-GDP ratio increasing only slightly to 71.6% within the same period – far better than the sharp slide to 80% we had been warned of in the MTBP,” he says.

Public wage bill

“The finance minister exceeded expectations with the R160bn adjustment to the wage bill over the next three years. The bloated public-sector wage bill is widely seen as the most prominent area where expenditure curtailment is needed, so the news was welcomed. The saving could be viewed as ambitious however, and was in fact at the top end of what many had predicted. Regardless, it shows a clear intention to address public sector wages,” says Reza Hendrickse, portfolio manager at PPS Investments.

Personal tax and VAT

The announcements saw no additional increases to the vital revenue levers, such as personal income tax and value added tax (VAT), despite the many predictions in the lead up to the speech,” says Carla Rossouw, tax lead at Allan Gray.

While many expected bracket creep to continue, which is the process by which inflation pushes up wages and salaries into higher tax brackets without corresponding relief in adjusting the income tax brackets, the minister instead announced above-inflation adjustments to all tax brackets and rebates. “This translates into real income tax relief for individuals,” she says.

Specifically, the personal income tax brackets and the primary, secondary and tertiary rebates will increase by 5.2% for 2020/21, which is above the foreseen inflation rate of 4.4%. This adjustment provides R2bn in tax relief. The change in the primary rebate increases the tax-free threshold from R79,000 to R83,100.

“Lower-income individuals will therefore receive most of the income tax relief from these inflation adjustments, which is a welcome change. Other good news includes leaving the current VAT rate unchanged at 15%,” Rossouw says.

International tax

There are limited proposals on cross-border business. Although there will be a stricter cap on related-party interest-payments. Whereas the current formula-based rule sets a cap approximating 40% of the company's earnings, the new proposal is to reduce the cap to 30%.

The Budget commentary also includes a specific reference to the OECD's evolving proposals on the digitalisation of the global economy, albeit simply noting that "SA participates in these discussions". However, this may be seen as a signal that National Treasury expects to implement the OECD proposals expected to be finalised later this year, says Osman Mollagee, international tax partner, PwC.

“Several further refinements to anti-avoidance rules are proposed, including the so-called participation exemption (both on foreign share disposals and on foreign dividends), and transfer pricing rules for controlled foreign companies. Some elements of the participation exemption restrictions are directly linked to the intention to soften the exchange control rules on so-called 'loop' structures,” he says.

Corporate income tax

One major positive development is the indication that Treasury aims to lower the corporate income tax rate over the medium-term. “Government clearly recognises the importance of making South Africa a more attractive proposition to foreign investors,” says Graham Molyneux, tax partner at Mazars,

“It seems that Treasury has arrived at a view that tax incentives in their own right, are not generally used for the purposes that are intended, such as stimulating growth and employment, but end up being abused by taxpayers.

A further measure is to limit the ability for businesses to offset assessed losses from prior periods against current year taxable profits. “This move will certainly have adverse cash-flow implications for quite a few local businesses, for example in the property development sector.”

National Health Insurance

“As expected, medical tax credits were adjusted below inflation to help fund the rollout of National Health Insurance (NHI). The minister did not say anything more about how NHI will be funded in the future. Each year that passes without clarification causes more anxiety for stakeholders. It is clear from the Budget Speech, however, that the original deadlines are not feasible, given the current economic climate and government’s lack of capacity, says Yolandi Esterhuizen, registered tax practitioner & compliance manager, Sage Africa & Middle East.

Small- and medium enterprises

Jeremy Lang, regional general manager at Business Partners says: “The small business incentives, including the Innovation Fund - which will be capitalised with R1.2bn over the next three years - and industrial business incentives - worth R18.5bn – is a positive injection for the small- and medium enterprises (SMEs) sector. In addition to this, the R6.5bn allocated to small business incentive programmes - of which R2.2bn will be transferred to the Small Enterprise Development Agency (SEDA) – is very welcome. We did however hope for more detail on how business owners will benefit from these programmes.”

State Bank and Sovereign Wealth Fund

The roles of the State Bank and the Sovereign Wealth Fund respectively will require to be further interrogated to see what value they could play in promoting economic development and how they should be capitalised, says Professor Raymond Parsons, economist at NWU School of Business & Governance.

Downgrade risk

“Can SA keep its investment grade? Attention will now revert to Moody’s. A key requirement is stabilisation of the government’s debt level, including guaranteed debt of state-owned companies (mostly Eskom debt), while the agency also stressed the importance of raising the potential growth rate.

“Does Budget 2020 do enough? The government’s focus on competition policy, implementation of the Integrated Resource Plan, a willingness to leverage the private sector and to promote and incentivise small and medium enterprises, while supporting industrial parks, along with measures aimed at improving the ease of doing business (and lowering the cost of doing business), should help promote growth over time.

"But, the continued upward march in the debt ratio remains a problem. While this continues, downgrade risk remains,” says Arthur Kamp, chief economist at Sanlam Investments

State-owned enterprises

Andrew Duvenage, managing director of NFB Private Wealth Management says the struggling state-owned entities continue to be a drag on the fiscus with R112bn allocated to Eskom over the next three years while R16.4bn has been allocated to South African Airways to settle the airline’s liabilities and interest.

“The budget provided very little detail on plans around privatisation of state-owned entities or turnaround strategies to return them to profit. In particular, there was no discussion around how Eskom’s ballooning debt would be addressed.

"While the minister made no reference to Cosatu’s debt relief plan for Eskom during his Budget Speech, he did make mention of it during the media briefing preceding his speech, saying that while the Cosatu plan was not a bad one, he was more interested in a plan that included all pension plans.

"This leans alarmingly close to the prescribing of assets which would be a major concern and act as a further deterrent to personal savings.”

The full Budget Speech is available here