



Budget 2020: Could anything more have been done?

Johannesburg, 27 February 2020 – As I read the budget speech, it was with interest that I noted Finance Minister, Mr Tito Mboweni, started with reference to the Aloe Ferox, a plant that faces tough conditions and needs to find ways to survive even in the harshest of conditions, writes Coen Stokes, member of the SAICA Northern Region Tax Committee.

It set the scene for the approach to the 2020/2021 budget in that treasury need to find ways to survive in the most challenging economic times that our country has faced in many years. We have the well documented challenges in terms of state capture, wasteful expenditure at local government level and financial woes at state owned enterprises to name a few where revenue was drained from the fiscus.

During the build up to the budget speech the market speculated how the shortfall will be funded, be it VAT increase, higher tax rates, etc.

During the budget, I was surprised that National Treasury did not increase tax rates to increase revenue, but rather tried to keep the status quo and focus more to reduce expenditure. Most taxpayers and investors will welcome this in the current tough economic environment.

National Treasury have budgeted for no major tax increase and allowed some added relief for individuals. As per National Treasury's comments on the budget review the view is that "substantial tax increases may obstruct short-term recovery."

From the summary of the budget below, it is noted that National Treasury is trying to keep revenue at 29.2% of Gross Domestic Products (GDP) (close to the highest of 29.4% in 2008) and rather reduce the expenditure from 36% to 34.9% whilst the economy is growing at approx. 1.6% in three years:

CONSOLIDATED GOVERNMENT FISCAL FRAMEWORK

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23
	Revised estimate	Medium-term estimates		
Revenue	1 517.0	1 583.9	1 682.8	1 791.3
	29.4%	29.2%	29.2%	29.2%
Expenditure	1 843.5	1 954.4	2 040.3	2 141.0
	35.7%	36.0%	35.4%	34.9%
Budget balance	-326.6	-370.5	-357.5	-349.7
	-6.3%	-6.8%	-6.2%	-5.7%
Gross domestic product	5 157.3	5 428.2	5 759.0	6 126.3

Credit: National treasury

Taxpayers, both individuals and corporates, are under pressure and the consensus is that if the tax rates were increased, the recovery by the South African Revenue Services (SARS) could reduce, as current tax buoyancy is approximately 0.93. Tax buoyancy is the ratio of tax revenue growth to economic growth, which measures whether revenue collections are performing as expected.

Some observers have indicated that tax incentives should be increased, but National Treasury indicated rather that the tax incentives will be revisited, to ensure fair and equitable use in line with the intentions.

What came as a surprise, even to me, is that National Treasury have decided to limit the deduction in the future of assessed losses to 80% for year ending after 1 January 2021. This could be a strategy by National Treasury to jump start the economy by forcing the entrepreneurs' hands or lose tax benefits.

So back to the question, could treasury have done more?

In the times where government have to deal with slow economic growth (predicted at 0.3%), the public and government under substantial economic pressure and investors' confidence very low, this was as per the Aloe Ferox reference in the introduction during the presentation of a budget that allow South Africa to survive and fight for another year without alienating any stakeholders.

Government will need to be very strict with budget controls, especially on employment cost in government.

In the current economic conditions and all the eyes on National Treasury and Finance Minister Mboweni, this was the best that could be done, but one has to be cautious and expect if the control over expenditure is not achieved, more drastic decisions will be taken in the medium term budget and the 2021/2022 budget.

About SAICA

The South African Institute of Chartered Accountants (SAICA), South Africa's pre-eminent accountancy body, is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 46 000 members and associates who are chartered accountants [CAs(SA)], as well as AGAs(SA) and ATs(SA), who hold positions as CEOs, MDs, board directors, business owners, chief financial officers, auditors and leaders in every sphere of commerce and industry, and who play a significant role in the nation's highly dynamic business sector and economic development.

SAICA Media Contact

Kulani Chauke

Communication Coordinator: Corporate

SAICA Brand Division

011 479 0698

kulanic@saica.co.za