

**BUDGET**

**2019**

# A NEW DAWN

BRINGING NEW POSSIBILITIES ...

## BUDGET REVIEW 2019 SCoF ORAL HEARINGS

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# BUDGET ORAL HEARINGS

## MATTERS FOR DISCUSSION

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- A: Technical matters
  - Retrospective amendments without clarity
  - ETI Thresholds
  - CFC high tax threshold reduction
- B: Tempting fate on debt and expenditure
- C: Tightening up estimations
- D: Sowing the seeds of change

# TECHNICAL MATTERS

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# BUDGET OVERVIEW

## RETROSPECTIVE POLICY

- Certainty underpins an economy
- Budget 2019 proposal on “dividend stripping” unhelpful as no clarity on specific abuse
- Similar to section 45 in 2011 and “bucket system used”
- Prevents and defers legitimate commercial transactions for months

## SUBMISSION

National Treasury should better clarify what the offending practices are in the Budget and what are clearly the ones that they don't intend to address

# BUDGET OVERVIEW

## EMPLOYMENT TAX INCENTIVE

- We welcome the feedback on the performance of the incentive and Treasury's initial optimism of its success
- This policy can support other initiatives and if it is working should be expanded and not stagnated

## SUBMISSION

- The upper remuneration threshold increase needs further upward movement
- We would recommend National Treasury conduct research to verify that the ETI is creating **new jobs** and not just filling of current jobs, providing them an opportunity to refine the incentive over the next 10 years

# BUDGET OVERVIEW

## S9D HIGH TAX EXEMPTION

- Corporate tax rates globally continue to decline with world wide average now 23% (46% in 1980) & EU 21,6%
- S9D is an anti avoidance provision requiring imputation of foreign income but is penalising SA companies for the falling global CIT rate
- The “high tax” exemption is onerous. Requires a total recalculation of foreign companies taxable income to SA legislation.

## SUBMISSION

- The 75% threshold should be reconsidered given the declining global rates.
- NT should investigate an alternative to the current high tax mechanism that is less burdensome to comply with.



# TEMPTING FATE

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# BUDGET ORAL HEARINGS

## TEMPTING FATE

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*‘It will not be easy. There are no quick fixes. But our nation is ready for renewal. It is time for us to sow the seed of renewal and growth’*

*Minister of Finance, Hon. Tito Mboweni 20 February 2019*



# BUDGET ORAL HEARINGS

## TEMPTING FATE

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**QUESTION:**

*Have we done things differently in  
**BUDGET 2019?***

**SHORT ANSWER:**

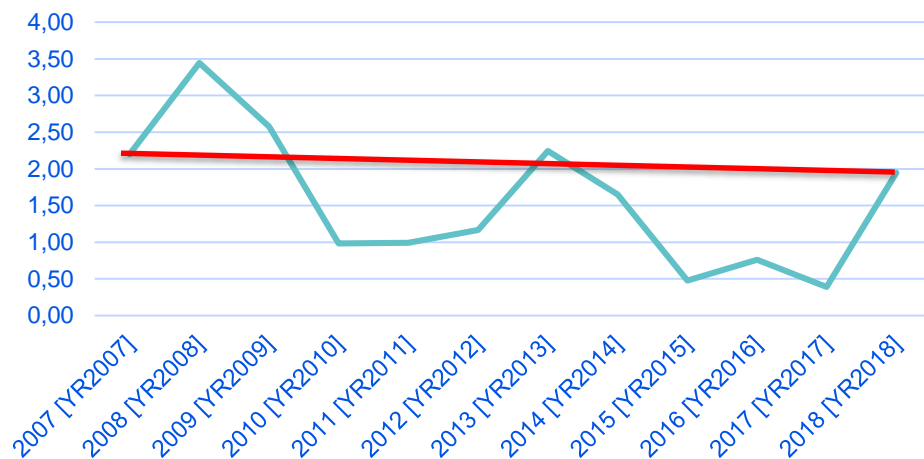
**NO**

# BUDGET ORAL HEARINGS

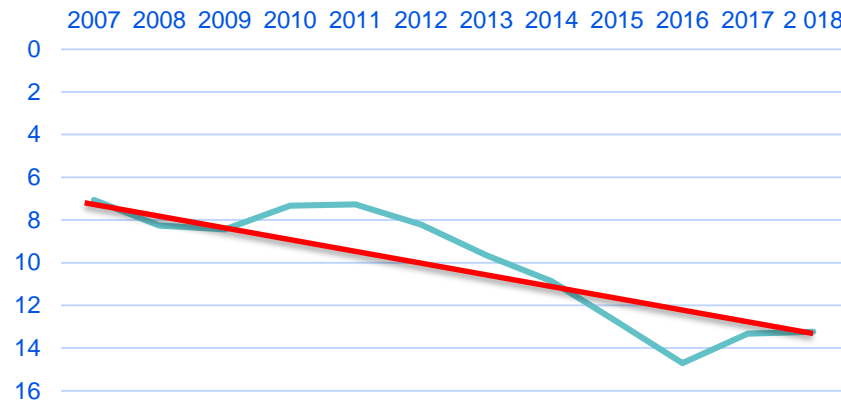
## TEMPTING FATE

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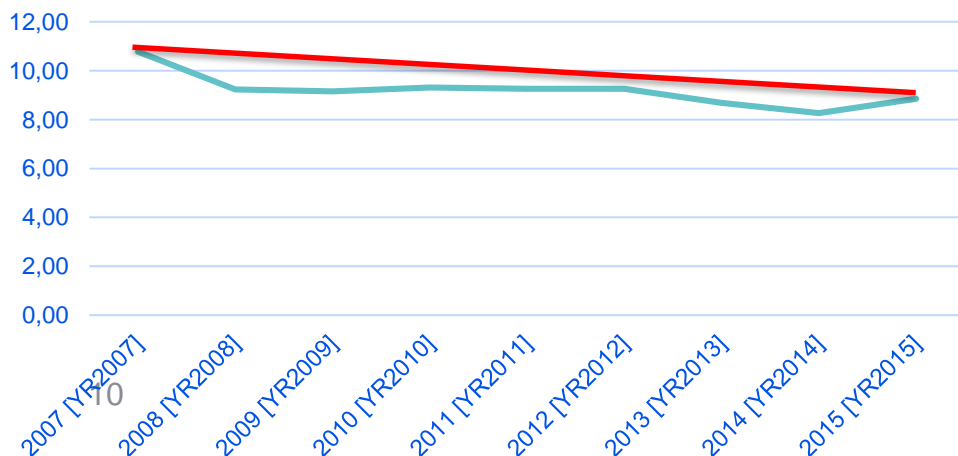
FDI inflows % of GDP



ZAR to USD



% of own account workers



GDP Growth



# BUDGET ORAL HEARINGS

## TEMPTING FATE

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***Choice between the lesser of two evils***

**The reduction of debt from 1994-2007 to a targeted 10% of GDP was not without cost and tough choices were made. Many of our people had their dreams deferred on a promise that their children and grandchildren would benefit from a low debt fiscal environment.**

**Have we failed them?**

# BUDGET ORAL HEARINGS

## TEMPTING FATE

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### REALITY

*Baa2 (SA 2009) rated investment grade creditor **4 times** less likely to default than a Ba2 (SA 1994 and 2019?) sub investment grade rated creditor\**

*\*Moody's study on actual default rates over 5 years*

## THREE STRIKES TO JUNK

- Strike ONE – Fitch downgrades SA to BB+ on 7 April 2017
- Strike TWO – S&P downgrades SA to BB+ on 17 April 2017
- **Strike THREE – Moody's downgrades SA to Ba1 on 29 March 2019?**

**Why is Minister tempting fate and has NT quantified the impact of junk status?**

**Would this not be worse than cutting spending?**



# TIGHTENING UP ESTIMATES

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## TIGHTENING UP ESTIMATES

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### GDP

ACTUAL		2014	2015	2016	2017	2018 Q3		
		1,8	1,3	0,6	1,3	1,1		
Budget								
Year	Calendar Year	2014	2015	2016	2017	2018	2019	2020
2019						0,7	1,5	1,7
2018					1	1,5	1,8	2,1
2017				0,5	1,3	2	2,2	
2016			0,5	0,9	1,7	2,4		
2015		1,4	2	2,4	3			
2014		2,7	3,2	3,5				
2013		3,5	3,8					
2012		4,2						
OVERESTIMATION %		133%	192%	483%	131%	118%		

# BUDGET ORAL HEARINGS

## TIGHTENING UP ESTIMATES

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REVENUE SHORTFALLS



# SEEDS OF CHANGE

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# BUDGET ORAL HEARINGS

## SOWING THE SEEDS OF CHANGE

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### *Promise made MTBPS 2018:*

2019/20	2020/21	2021/22
Medium-term estimates		
<b>1 582.0</b>	<b>1 705.1</b>	<b>1 840.0</b>
29.2%	29.2%	29.3%
<b>1 808.4</b>	<b>1 950.9</b>	<b>2 091.1</b>
33.4%	33.4%	33.2%
<b>-226.4</b>	<b>-245.8</b>	<b>-251.1</b>
-4.2%	-4.2%	-4.0%
<b>3 038.4</b>	<b>3 349.6</b>	<b>3 679.9</b>
56.1%	57.4%	58.5%

# BUDGET ORAL HEARINGS

## SOWING THE SEEDS OF CHANGE

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### *Promise broken again 2019:*

2019/20	2020/21	2021/22
Medium-term estimates		
1 583.8	1 696.4	1 836.6
29.3%	29.2%	29.4%
1 826.6	1 948.9	2 089.0
33.7%	33.5%	33.4%
1 617.2	1 716.2	1 833.1
29.9%	29.5%	29.3%
-242.7	-252.6	-252.4
-4.5%	-4.3%	-4.0%



# BUDGET ORAL HEARINGS

SOWING THE SEEDS OF CHANGE

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*Maintaining credibility*

## ***SUBMISSION***

- ***SCoF to reject R25bn medium term increase***

## ***ALTERNATIVELY***

- ***SCoF to reject R18,2bn increase for 2019/2020***



**THANK YOU**

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