The 2018 Budget may rise a phoenix from the ashes to decrease Net Deficits

Johannesburg, 20 February 2018 - Given the thrilling times in politics with the State of the Nation (SONA) address delivered by the newly elected President of the Republic, Cyril Ramaphosa, the spotlight will fall on the Minister of Finance, when he delivers the 2018 Annual Budget Speech on 21 February 2018.

"The Finance Minister, Malusi Gigaba, indicated an estimated gross tax revenue shortfall of about R50.8 billion and main budget deficit of R219.64 billion during the delivery of the 2017 Medium Term Budget Policy Statement (MTBPS) on 25 October 2017," says Madelein Grobler, SAICA Project Manager: Tax & Legislation and Jolandie Crauwcamp CA(SA), a member of SAICA.

Predicted outcome

"Analysing historic trends, statistics and preliminary outcomes as provided by National Treasury, compared to the 2017 MTBPS revised estimates, a main budget deficit of about R214.11 billion is expected, which means a clawback of about R5 billion. Effectively, it is predicted that the net revenue deficit would amount to about R47.3 billion. It is estimated that the actual revenue collections for the 2017/18 fiscal year will increase by R293 million, while actual expenditure will decline by almost R5.2 billion (which is aligned to National Treasury's estimation of underspending of R4.5 billion). The World Bank adjusted South Africa's forecast growth downwards to 0.6% during June 2017, while the average growth for 2017 ended up at 0.8%. The small wins, such as the 0.2% increased growth rate and 1% decrease in the STATS SA unemployment rate (i.e. from 27.7% to 26.7%) support the proposed estimation that it may look a little better than anticipated during the MTBPS.

Impact of section 7C

The net revenue deficit would exist despite taking into account the additional revenue stream flowing from the section 7C anti-avoidance provision, which will

become a reality when donations tax is due on 31 March 2018. The impact of section 7C will therefore only be known in 2019, given that the collection occurs after the 2018 Annual Budget Speech.

National Treasury estimated in the 2017 Annual Budget Review that donations tax would increase by 52.7% (i.e. R100 million), which arguably mostly consists of the additional revenue stream due to the implementation of section 7C.

The estimated impact of section 7C may therefore be negligible, but recurring. Similarly, a change in the rate of donations tax from 20% to 25% would also result in a small impact.

Potential proposals to increase net tax revenues

Given that there is not much space to manoeuvre within Personal Income Tax rates space, the next best thing may be to utilise fiscal drag, similar to that of the 2017/18 fiscal year. Effectively, the tax brackets will not take into account the effect of inflation, which would increase tax revenue. Should a full inflationary bracket creep be utilised, it is estimated that net revenue will be increased by just under R16 billion. A token amount of R2 billion may still be provided to lower tax brackets, as has been done during the course of last year.

The biggest impact adjustment would probably be an increase in the Value-Added Tax (VAT) rate, which would break the silver jubilee anniversary of the VAT rate being constant at 14%. It is estimated that an additional 1% can boost tax revenue with R21.17 billion. Given the systematic and practical changes that would need to be implemented by business, some lead time would be necessary prior to implementing such increase in the VAT rate. Alternatively, the prospect of expanding the VAT base by removing the zero-rating on fuel has also been on the table, since the 2017 Annual Budget Speech. It is estimated that levying VAT on the actual cost of fuel (excluding the Road Accident Fund and current fuel levy) would increase net revenue with R28.7 billion, provided that the current fuel levy is not scrapped.

The implementation of the above predictions to increase revenue and the injurious impact thereof would only be tolerable, if such increased revenue is used wisely in actioning the plans pronounced by the President in the SONA. This would include reducing inefficient expenditure, eradicating corruption and stabilising the current debt to GDP ratio," concluded Grobler and Crauwcamp.

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