

Ahead of Budget speech, Deloitte says Mboweni faces

‘mammoth task’ – Engineering News 18 February 2020

Taking South Africa’s weak fiscal position and the scrutiny of ratings agencies into account, along with the country’s deteriorating economic outlook and the negative impact thereof on revenue collections, multinational auditing firm Deloitte says that Finance Minister **Tito Mboweni** “has a mammoth task” ahead of him as he prepares to present the National Budget next week.

To put the country’s dire situation into perspective, Deloitte refers to the South African economic growth forecast, which remains low when compared with other sub-Saharan African countries.

In a statement, Deloitte laments that South Africa will only reach a sluggish 1% growth by 2021, despite the Medium-Term Budget Policy Statement (MTBPS) in October last year having anticipated that South Africa’s economy would grow by 1.7% by 2022.

Tax revenue projections were also revised down over the medium-term, reflecting weak in-year collections, and the lower tax base outlook.

In the MTBPS, Mboweni said the South African Revenue Service (Sars) would collect about R1.37-trillion this year.

This is R53-billion, or 4%, less than previously expected, Deloitte points out.

Additionally, according to Tax Statistics 2019, the total corporate income tax contribution as a percentage of total tax revenue has been declining steadily over the past decade, from 26.7% in 2008/9 to 16.6% in 2018/19.

The MTBPS indicated that the gross debt-to-GDP ratio outlook also paints a bleak picture, with a projected increase to 75.8% of GDP in 2027/28.

In the upcoming Budget speech, to be delivered on February 26, Deloitte says it expects Mboweni to outline plans to stabilise the debt-to-GDP ratio, and confirm whether the plans he set out in last year’s National Budget speech had made an impact.

Deloitte also notes that it expects mention of State-owned enterprises (SOEs) and financial discipline, as well as measures to manage the public sector wage bill, details on the proposed funding mechanisms for the National Health Insurance (NHI) Bill, and free university education, to be included in the Budget, alongside various cost saving measures.

The firm also makes mention of the increase in revenue collections, with Sars having already embarked on increasing its capacity by both hiring more skilled people, as well as embracing digitisation.

The R1-billion allocated to Sars in the MTBPS over the next few years will assist the revenue authority in implementing these plans, Deloitte says.

However, the firm says that, in the last MTBPS, Mboweni indicated that there would be further cooperation between Sars and the Financial Intelligence Centre at the South African Reserve Bank (SARB) to assist in fighting illegitimate cross-border flows and tax evasion.

“It will be interesting to see what tax reforms the Minister implements to achieve this objective,” Deloitte says.

The firm mentions that “the conundrum” facing the Minister though is whether or not to increase taxes.

South Africa’s corporate income tax rate is high compared with many other developed countries, such as the US and the UK.

Further, Deloitte points out that increasing personal income tax will put further strain on consumers, who are already feeling the pressure of a depressed economy.

Further, increasing the value added tax rate could face some political backlash. Therefore, Deloitte believes Mboweni’s options to increase tax, are limited.

Meanwhile, the possibility of more load-shedding continues to pose a serious threat to South Africa's economic performance, competitiveness and business confidence.

Deloitte states that this issue needs to be tackled in the Budget speech, including updates on the diversification of South Africa’s power generation.

The emerging digital economy, meanwhile, should also be top of mind as the world moves towards fifth-generation connectivity. To reduce the cost to communicate and boost South Africa’s competitiveness, businesses will be looking for interventions to accelerate the licensing of high-demand spectrum.

According to the firm, support for small businesses, which are considered to be an important engine for economic growth and job creation, will also be sought.

“The cost of tax compliance remains a significant challenge for small businesses. Addressing this issue, in conjunction with other measures such as tax incentives or tax breaks for small and medium-sized enterprises, will reduce the cost of doing business and aid this important segment of the economy,” Deloitte says, adding that consideration should be given to reducing the cost of travel to South Africa in order to support the tourism industry.

“Businesses and investors will be hoping for evidence of a move towards greater policy coherence and consistency, along with better regulatory certainty. Wider reforms to improve the ease of doing business in South Africa for all corporates would also be a welcome development,” the firm adds. 