BUDGET WRAP | Treasury proposes major wage cut to rein in deficit – Fin24 26 February 2020

Carin Smith

Finance Minister Tito Mboweni presented the 2020 Budget in an environment of low economic growth, a rising budget deficit, record-high unemployment and depressed business confidence.

"We won't get everything that we need," he told reporters, saying SA was in a difficult fiscal position. But he denied he was tabling an "austerity" budget, saying he was rather 'cleaning house'.

The Budget proposes a R160 billion cut to the state's wage bill over three years to rein in SA's rising deficit, which has angered labour unions, including ANC ally Cosatu.

There will be no significant tax increases in 2020/21 apart from expected hikes in fuel and Road Accident Fund levies. And despite speculation by some pundits, VAT will not increase.

"In this difficult economic situation, it would be foolhardy to introduce a [VAT] hike," said Mboweni.

Budget 2020 in a nutshell | No major tax changes and ambitious proposal to cut state wage bill

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The Automobile Association (AA):

While we welcomee the decision not to increase the Value Added Tax rate, we are dismayed at the increases to the General Fuel and Road Accident Fund levies.

Minister Mboweni announced a combined 25 cents increase to the two main fuel levies: 16 cents will be added to the General Fuel Levy bringing it to R3.63 on every litre of fuel, and nine cents will be added to the Road Accident Fund levy bringing it to R2.07 on every litre of fuel.

This means citizens will pay R5.70 towards these two taxes alone, or around 35% to 40% on every litre of fuel.

We acknowledge that revenue must be collected towards the fiscus, and the difficult decisions the Minister had to make in preparing this Budget.

However, as we pointed earlier, the increases to the fuel levies will hurt the poorest of the poor hardest, and will make transport costs that much more expensive for many who rely on transport daily to earn a living.

Another area of concern for the AA is the reduction in spending on transport, particularly public transport spending which will decrease by R13.2 billion over the next three years.

David Seinker, founder and CEO of The Business Exchange:

Following the recent announcement of funding and business support to 1000 young entrepreneurs in the next 100 days, through the National Youth Development Agency and the Department of Small Business Development by the President at the State of the Nation Address, it is encouraging to see that Minister Mboweni's latest budget plans and allocations will further assist SMEs.

The desire by government to want to improve the preferential small business tax regime, the VAT registration threshold, and the turnover tax shows the SME sector that Government is noticing the importance of the secor and that it is is serious about its prediction of having the SME sector create 90% of new jobs by 2030.

When it comes to the case of doing business in South Africa, it is encouraging to see that the government is looking to reduce the amount of time spent on red tape by creating the BIZPortal, which aims to provide a streamlined way to register a new business with the CIPC, SARS, the UIF and the Compensation Fund, all in a single day.

Andrew Wellsted, director at CMS RM Partners:

You can knock me over with a feather. I wasn't sure I would be amazed in my life again, but no tax increase, the effective end to exchange controls?

A budget speech that actually dealt with the harsh realities facing us without resorting to fanciful schemes and pie in the sky proposals.

Well done Minister Mboweni, you have given us realistic hope that government is getting down to the nitty gritty.

National Budget Flashpoints...

Siphamandla Mkhwanazi, senior FNB economist:

The budget highlighted that chronically poor economic growth continues to put pressure on tax revenue collection.

While significant cuts were made to government's non-interest expenditure, the decision to not raise additional revenue from tax proposals over fiscal year 2020/21 left the budget deficit largely unchanged.

Andre Kriel, general secretary of the COSATU-affiliated Southern African Clothing and Textile Workers' Union (SACTWU):

The Minister has indicated that procurement reforms will be undertaken to achieve value for money and maximise the quality and quantity of services, and that Cabinet has approved the publication of the Public Procurement Bill.

SACTWU has been waiting for this Bill for several years and has been frustrated by its delay. Public procurement, particularly the procurement of locally made goods, is one of the State's key tools to promote local industrialisation and job creation.

Yet at this point we still see too much leakage where imported products flow into State supply chains despite these products being designated for localisation and local content. SACTWU wants to see much stricter mechanisms in place to ensure that procuring authorities fulfil their obligations towards localisation and grow upstream industries and jobs.

We also note the R18.5bn allocated for the re-imagined industrial strategy. Given the importance of industrialisation for jobs and a future sustainable economy, we would have hoped for a greater a much larger allocation.