What the budget didn’t say – Moneyweb 26 June 2020

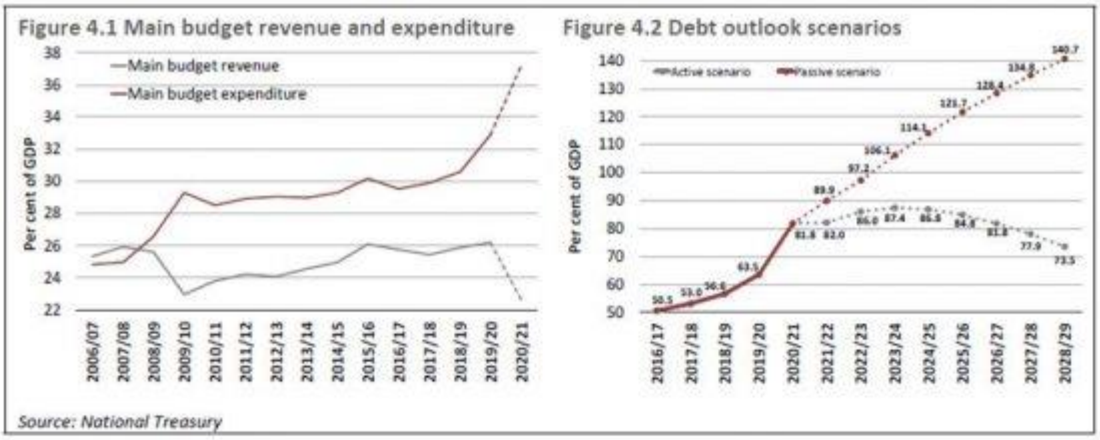
For one thing, how will taxes be increased?

Tertius Troost 26 Jun 2020 00:06

The emergency or ‘special adjustment’ budget tabled by Finance Minister Tito Mboweni on June 24 centred on the potentially disastrous trajectory of South Africa’s fiscal affairs.

It can easily be summarised in two charts and an extract from the foreword of the Supplementary Budget Review Document:

“For several years, the National Treasury has been warning that an absence of fiscal space would leave South Africa vulnerable to external shocks. That risk is now a reality … South Africa has begun heading into a debt spiral.”



Source: National Treasury

The above reflect how South Africa will be caught in a debt trap if government does not actively put measures in place to decrease government expenditure and increase economic activity.

If government is to continue on the current trajectory, debt-to-GDP could reach 140%. With spiralling debt, the debt service cost will increase exponentially, eventually resulting in South Africa defaulting on its debt.

The focus should however not be on what was said in the budget speech, but rather on what was left unsaid.

Increase taxes

Mboweni alluded to tax increases of R5 billion in 2021/22, R10 billion in 2022/23, R10 billion in 2023/24 and R15 billion in 2024/25, but with no mention of how this will be achieved.

The fact that no tax policy announcements were made indicates that Treasury requires more time to contemplate these changes. Interestingly, the R5 billion figure could easily be achieved by bracket creep alone. Taxpayers have to wait until next year to see exactly how Treasury expects to collect additional tax revenue.

There has been a great deal of speculation in the media on the introduction of a so-called wealth tax, but the feasibility of a wealth tax in South Africa would need to be investigated.

Read:
Raising revenue through a wealth tax is clutching at straws
Coronavirus: Why South Africa needs a wealth tax now

The viability of a wealth tax depends on the amount of tax that would be collected versus the cost of its administration. Critics of a wealth tax argue that it would be too costly and complex to implement. It seems Treasury agrees.

NHI

No mention was made of the National Health Insurance (NHI) and its introduction. The cost of putting this in place in the current economic environment makes it untenable.

Read: NHI benefits and implementation remain undiagnosed

Treasury seems to have placed NHI on the back-burner until South Africa has weathered the Covid-19 storm and is able to demonstrate consistent and reliable growth.

Illicit economy

The loss of tax revenue due to the tobacco and alcohol ban has been immense.

Many commentators are calculating R1.5 billion per month lost in sin tax collection alone.

On the other hand, the illicit economy has flourished. In the February Budget Speech, Mboweni stated that the South African Revenue Service (Sars) would "renew its focus on illicit and criminal activity". However, it could be argued that the lockdown has strengthened the illicit economy, with Sars powerless to intervene.

Treasury needs to focus on the tax revenue already lost as well as the revenue that will keep being lost if the illicit economy continues to grow.

The upside

Fortunately, this latest budget was not all doom and gloom. Treasury acknowledged economic reform focused on the underlying structure of the economy.

Primarily, it aims to reduce the cost of doing business, taking steps to improve the competitiveness of the economy by reducing the dominance of state-owned companies in network industries, and supporting new and existing sectors with large-scale job creation potential.

Tertius Troost is tax manager at Mazars.