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TOUGH TIMES. It will be encouraging if the words 'efficiency' and 'productivity' feature in Finance Minister Enoch Godongwana's budget speech. Picture: GCIS

Budget calls for proper trade-offs

POOR GROWTH: 'SA NEEDS STRUCTURAL CHANGES'

➳ No radical tax changes anticipated for February.

Amanda Visser

Moneyweb

Tax experts and economists have been polishing their crystal balls in anticipation of this year's budget, to be tabled on Wednesday, 23 February. Most are hoping for a boring budget.

Finance Minister Enoch Godongwana will be delivering his first budget speech at a time when taxpayers are feeling the crush of rising inflation, huge fuel price increases and the start of a series of interest rate hikes.

Mediocre economic growth – nowhere close to the 5.5% of 2007, despite several tailwinds in the recent past – begs for the much talked-about structural reforms.

Promises vs possible

Given resource constraints, the minister can hardly deliver on the promises he has made, says Gaba Tabane, director of government and public service at Deloitte.

Social grants amount to 14% of the national budget and the public sector wage bill takes up 35%.

The minister will have to make proper trade-offs to ensure the country functions effectively.

Investments must flow

Structural reform (to ensure economic growth) is free, points out Martyn Davies, managing director of emerging markets and Africa at Deloitte, speaking at the firm's recent budget round table.

He says successful economies in Europe, Asia and in our own region invest roughly 30% of gross domestic product annually into their economies.

According to the most recent Statistics SA figures (second quarter of 2021) SA's investment in infrastructure was at a "staggeringly low level" of 12.5%, which "is problematic," says Davies.

If private capital is allowed to play, investments will flow.

"Private enterprise is not asking government for a cheque. It is asking for a space to play in the liberalisation of the economy."

Davies says despite strong tailwinds, such as a declining currency that should have boosted exports, a relatively low (until recently) oil price and a positive global outlook, the local economy has not grown.

Two words not often used in government talk are "efficiency" and "productivity".

"If we do not have that we will always be in a structurally declining state.

"We need to aspire to be more competitive."

Tax collections

David French, tax consultant and member of the corporate tax work group of the South African Institute of Taxation, is not expecting any radical tax changes.

"We are in a period of consolidation," he says. "Treasury has acknowledged that the direct tax rates in SA are on the high side."

The corporate income tax rate of 28% will be lowered to 27%, and French writes in an article there may even be signs individual tax rates might come down.

However, he does not see it happening in the short to medium term, since there is "so much politics" in doing it.

National Treasury recently published SA's latest revenue and expenditure figures, which show a potential overrun of nearly R200 billion compared to the adjusted R120 billion presented during the medium-term budget policy statement.

Collections last November were at 68% of the revenue target. Historically, by November collections are 58% to 60% of the annual target, "so this is looking good".

Angelique Worms, Deloitte director of global employer services, says this may leave room for inflationary adjustments in the tax brackets.

Increasing tax rates is not a solution, she adds. The solution is economic growth, a bigger tax base and funding the right development.