Talk it and then walk it

How does this budget actually compare with the budget framework the minister tabled 4 months ago in October 2014? Did the minister now walk what he talked then?

Credibility

- In October he envisaged **growth** of 2.5% for 2015; he now downgraded that to 2%, and for 2016 he downgraded growth from 2.8% to 2.4%. This is all due to Eskom energy constraints. He still assumes the same growth rate for 2017 as he did in October, suggesting that he thinks the worst of the electricity crisis will be over by then. (That would concur with comments at the Energy Indaba in Sandton last week.)
- In October he announced R12 billion in **tax increases** for this year; today he tabled tax proposals that net out to R8.3 billion. Within that number, however, there is a shift to a more progressive tax system, also clearly stated in October. (See the detail below).
- In October he committed the government to a **deficit** of 3.6% of GDP; today he came in with a deficit of 3.9% of GDP.
- In October he committed that the **debt to GDP ratio** will peak at 45.9% in 2017/18; today he budgeted for less than 45% by that time.
- In October he committed to **expenditure cuts** of R25 billion from what was laid down in the 2014 budget; today he submitted numbers accordingly. It is also noticeable that expenditure for this year comes in at R7 billion less than what the budget envisaged last February.
- In October he committed to **"deficit-neutral" financing of state owned enterprises.** The money was earmarked to come from the sale of "non-strategic" public assets. Today he reaffirmed that principle and also confirmed that R23 bil will go to Eskom in 3 tranches, the first of which will be paid in June 2015 as soon as legislation has been passed "when the money has been raised". This is one area where his October talk has not been walked yet. Pity, it would have bolstered certainty and confidence if this issue was put to bed with a clear indication of what is happening.
- The **primary balance** – the difference between income and expenditure BEFORE interest payments – improves substantially from a R65.8 billion deficit last year and a R41.6 billion deficit this year to a R3 billion deficit next year and a R2 billion deficit the year thereafter. It is a decisive improvement.

So What?

From the above it is clear that in spite of lower growth government has "restored the nation's finances" as pledged in October. It was done through a combination of tax increases and expenditure control. Hysterical comments about "fiscal cliff" can be tuned out.

Higher taxes

The higher taxes consist of an increase of 1% on all incomes above R181 900, with the top marginal rate climbing from 40% to 41% at an income of R701 000. This will raise about R9.5 billion. Then the minister gives back R9.4 billion with higher medical aid credits, higher rebates and adjustments in the tax brackets to compensate for inflation. Together, the net result is that everybody earning less than R450 000 a year will pay less tax, people earning more will pay more. The tax system has thus been made more progressive.

In November last year I referred readers to the Kakwani Index which indicated that SA's tax system was not as progressive as comparable developing countries like Mexico's and Brazil's. Well, that gap would now have been closed.

The same tilt to a more progressive system is seen on transfer duties which is abolished for homes costing less than R750 000, decreased for homes up to R2.23 mil and increased for homes more expensive than that. Expect high earners and luxury home buyers to get worked up.

Indirect taxes increase by R8.33 billion, the bulk of which comes from a higher fuel levy (R6.5 billion or 78% of the total). Another 50c a litre has also been levied to fund the Road Accident Fund. Taxes will now form 40% of the pump price as opposed to about 26% in the past. Expect Cosatu, the EFF and motorists to get worked up.

Some temporary relief

There is a huge surplus in the Unemployment Insurance Fund (UIF) and part of it will be given back to the contributing employers and employees through a once-off R15 billion cut in contributions in 2015/16. (Readers who pay UIF for their domestic help should remember to cash in on this once-off). This should help compensate for some of the R16.5 billion tax increases. It should also bring some cash flow relief to small employers. Obviously it means next year there will be an effective tax increase when UIF contributions return to normal.

Base erosion and profit shifting - BEPS

This refers to shifting profits off shore so as not to pay tax in SA. The Davis Commission has recommended that any action that SA takes on BEPS should be co-ordinated with the OECD countries and such action is not expected before Sept 2015. But in the meantime the minister will propose amendments on transfer-pricing, controlled foreign companies and the digital economy to make a start with curbing BEPS.

What was left alone

Noticeable are the taxes that the minister has **not** increased: dividend tax, the difference in capital gains tax inclusion rates between juristic and natural persons and, contrary to what the Health minister has argued for, a tax on sugary drinks. Company taxes have also been left alone. Savings, savers and business was left alone.

Small business

A small business with a turnover of less than R1 million a year scores a decrease in the tax payable. On the expenditure side the Small Business Ministry gets R3.5 billion to promote small business. Over to you now, Madame Minister.

Capital expenditure

Perhaps the single most important contribution the budget can make to growth and progress is to provide infrastructure.

Over the five years to 2013 R1.02 trillion has been spent on infrastructure. Over the four years to 2017 another R1.075 trillion will be spent. There is clearly a substantial, increased and sustained spending on infrastructure.

Counter-intuitively the biggest infrastructure spending is not energy (Eskom & electricity) but transport and logistics, then energy followed by water and sanitation. Many people predict a water crisis in SA, maybe they are right, but certainly a lot of money being thrown at the problem.

Spending on **economic** infrastructure (i.e. roads, bridges, dams, electricity, water supply) is at its highest level in 25 years. In contrast, spending on **social** infrastructure (i.e. schools, hospitals and sanitation) has lagged behind economic growth. If Cosatu and the EFF read the budget documents they could go off on this as well.

E-toll

The minister had made it clear that e-tolls are here to stay, but concessions will be made on the monthly maximum that motorists can pay. The principle that user charges should be used to pay for infrastructure will remain. "But cost recovery from road-users will continue to be the principal financing mechanism for this major road system." Sorry, Outa.

Administrative reform

Several administrative changes are implemented. They may strike the reader as boring but indicate the building of a more efficient state.

- From 2016 all school books will be procured and delivered through a centrally negotiated contract. Corrupt provincial intermediaries who fed well at the trough will be cut out.
- From 1 April a central supplier database will be established linked to SARS, the government payroll system and CIPC to check tax compliance of people dealing with government; identify state employees doing business with the state; and reduce the admin burden for small business.
- A central tender portal will be put up and all tenders must be advertised on that portal. Tender advertisements in newspapers will be phased out – another loss for print media.
- From April 2015 the Courts, under the Chief Justice, will become a standalone government department with its own budget – R5.2 billion is provided over three years. A change that can only be good for the independence of the Judiciary. Chief Justice Moegeng Moegeng has pushed hard for this arrangement.

Nkandla and the Public Protector

Talking about the Judiciary, the Public Protector is getting more money – an increase of 7.4% a year for a total of nearly R800 million over the next 3 years. Not bad in a time of austerity. Clearly her reports on Nkandla are not hurting the Public Protector's cash flow.

So what?

- Even with low growth assumptions the long term sustainability of government finances and debt has been restored.
- The ratings agencies certainly cannot fault Treasury on consistency and credibility and the budget should help to keep them at bay.

- The budget confirms the strength of the Treasury in government spending decisions and repudiates the perennial rumours that there is no political backing for what they do. Not that the rumours will stop, but after this budget one can tune out that noise as well.
- The growth assumptions are below what private sector economists' forecast and are very realistic, making future budget numbers easier to achieve.