



Budget Review 2010 Highlights

News Update: 2010 A Year of Action

17 February 2010

- **Budget signals new approach with focus on employment creation**
- **Economic growth rate raised to 2.3% this year from 1.5% forecast in October**
- **There will be no increase in the tax burden and no change to inflation targeting.**
- **Facilitate investing in Shari'ah compliant products**
- **R846bn to be spent on infrastructure over next three years**

Overview

Finance Minister Pravin Gordhan delivered his first Budget on 17 February. He projected that government spending will increase by 9.3% to R818bn in the 2009/10 fiscal year considerably below the 17.7% increase seen in the 2009/10 fiscal year. Revenue growth was expected to rebound to a 12.6% increase to R643bn after falling by 6.1% to R571bn compared with the February 2009 projection of a 5.2% rise to R643bn. The fiscal deficit to gross domestic product (GDP) ratio is therefore expected to ease to 6.5% in 2010/11 from 7.2% in 2009/10. The rebound in global economic growth means that the Treasury has increased the expected economic growth rates for this calendar year to 2.3% from the 1.5% forecast in October last year. Part of the reason for the higher growth is an increase in fixed investment after the Soccer World Cup with the Treasury forecasting a 5.8% rise this year after a 4.0% gain last year. This increase is supported by the government and public enterprises' (such as Eskom) infrastructure spending of R846bn over the next three fiscal years. To ease the burden on local financial markets, some 40% of the public enterprises' borrowing requirement will be funded offshore from multilateral institutions such as the World Bank and export credit agencies. The Budget provided more relief for the poor in terms of the social security net and food programmes such as school feeding with the child grant rising by R10 to R250 per month and the pension grant by R70 to R1 080 per month. Social grants now cover 14 million people of which 9.4 million are children. A further 2 million will be added over the next three years. There was also R6.5bn in tax relief, which is half of last year's R13bn.

Investing in Shari'ah compliant products

Finance Minister Pravin Gordhan said regulation 28 of the Pension Fund Act, which sets prudential guidelines for pension funds so that they are well balanced, will be amended to facilitate investing in Shari'ah compliant products. Oasis has been actively involved in discussions with Treasury over several years in this regard and all our investment products are regulation 28 compliant. The definitions of investment products will be aligned to ensure consistency with other financial services legislation and will cover sukuks and Shari'ah compliant income instruments.

Spending Proposals

Education remains the main priority of the government and receives R165.1bn. This will allow the department to expand the coverage of no fee schools from 40% to 60%. The Further Education and Training (FET) colleges' budget will shift from the provinces to the national department. A further R1.3bn will be allocated to improve the salaries of FET college educators. To address poor delivery at local government level, community development receives 20.4% more with the allocation for this department now R44.1bn, while water supply gets a 7.7% increase to R28.7bn and housing development a 11.2% rise to R20.4bn. Youth unemployment will be tackled via a wage subsidy through a cash reimbursement using the SARS payroll tax platform. Treasury estimates that 800 000 youth will qualify for this subsidy. The Budget provides for an additional R5.4bn for HIV prevention and cure with the number of people receiving anti-retroviral therapy increasing to 2.1 million in 2012/13 from 920 000 currently and only 15 311 in 2004. Various monitoring units will be set up to ensure efficiency of increased government spending, while the Treasury has identified R25.6bn that can be saved in government spending.

The impact on you

The tax threshold for individuals younger than 65 will be raised to R57 000 from R54 200, while for individuals 65 or older it will be increased to R88 528 from R84 200. The annual exemption on interest earned for individuals younger than 65 years is raised to R22 300 from R21 000. The exemption for individuals older than 65 years increases to R32 000 from R30 000. Excise taxes on cigarettes increase by 16.1%. On 7 April the fuel levy on petrol increases by 10c/l, which is less than half last year's 23 c/l rise. The Road Accident Fund levy increases by 8c/l compared with last year's 17.5 c/l rise, while the new pipeline between Durban and Gauteng will be funded by a 7.5c/l levy. The combined increase is therefore 20.5c/l compared with last year's 40.5 c/l rise.

Annual Taxable Income	Tax Saving 2010	% Saving for 2010 vs. Tax paid in 2009
R60 000	R504	48.3%
R200 000	R1 6 04	3.4%
R750 000	R3 5 34	1.5%

Conclusion

Finance Minister Pravin Gordhan said the storm has passed, but that the recovery remains fragile. He highlighted that we have been able to meet the delivery schedule of hosting the Soccer World Cup with the stadiums, the airports and the new roads a lasting legacy. The ability to meet the Soccer World Cup challenges must now be extended to make the economy internationally competitive, while at the same time enhancing its ability to create jobs so that all South Africans can take pride in our achievements over the next 20 years and share in the benefits.