OASIS

2017 Budget Review

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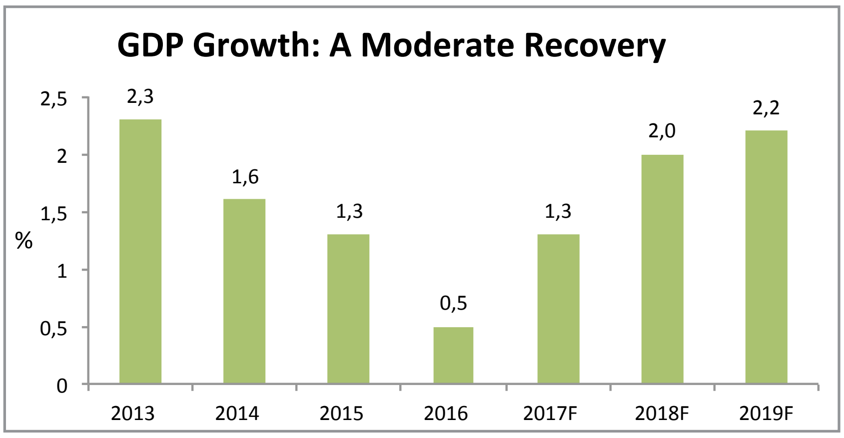
Backdrop

In the context of a broad range of social, political, and economic uncertainties, this year's budget statement was always going to present the National Treasury with a formidable challenge. On the one hand, South Africa's economic growth rate is expected to accelerate for the first time since 2013 this year, providing some cushion to policymakers who need to fund various new expenditure priorities. However, at an expected GDP growth rate of just 1.3%, government will also need to carefully balance the impact of higher taxes against the long term growth goals as envisaged in the National Development Plan.

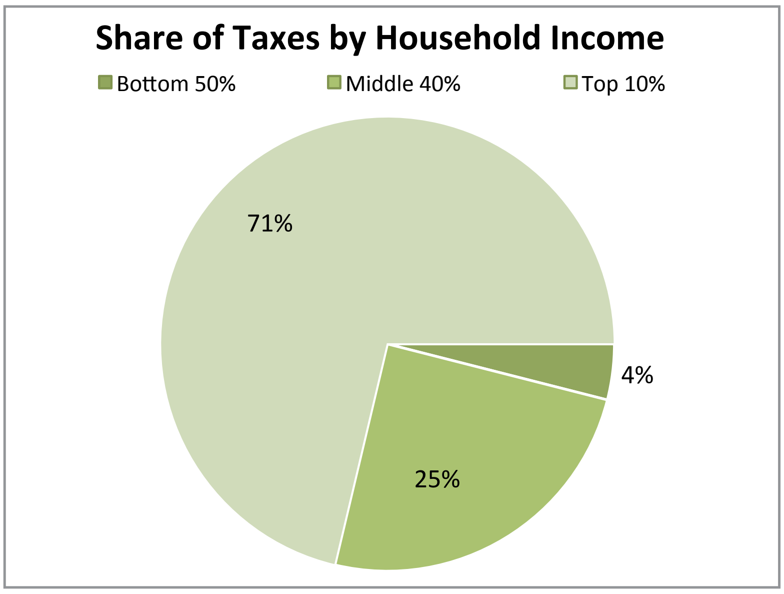


Sources: National Treasury, Oasis Research, February 2017

In the latest medium term budget policy statement the Finance Minister made a promise to raise an additional R28 billion in revenues through either new or higher taxes this year. This commitment was seen by many as a necessary measure for budget sustainability, so that government's obligations to its grant recipients, employees, and creditors could ultimately be fulfilled over the long term.

Tax Proposals

Given this backdrop, it is unsurprising that South Africans will indeed be paying more tax during the 2017/18 fiscal year. As part of the revenue raising effort, personal income tax brackets will adjust upwards by only 1% during 2017/18, significantly lower than the expected inflation rate of 6.4%. This means that those who receive inflation-linked wage increases will be paying more tax as a proportion of total income, raising an additional R12 billion in revenues. Furthermore, a new personal income tax bracket has been created for those earning an annual income of R1.5 million or more. This bracket will then pay a marginal tax rate of 45% during the upcoming fiscal year, compared to 41% during 2016/17.

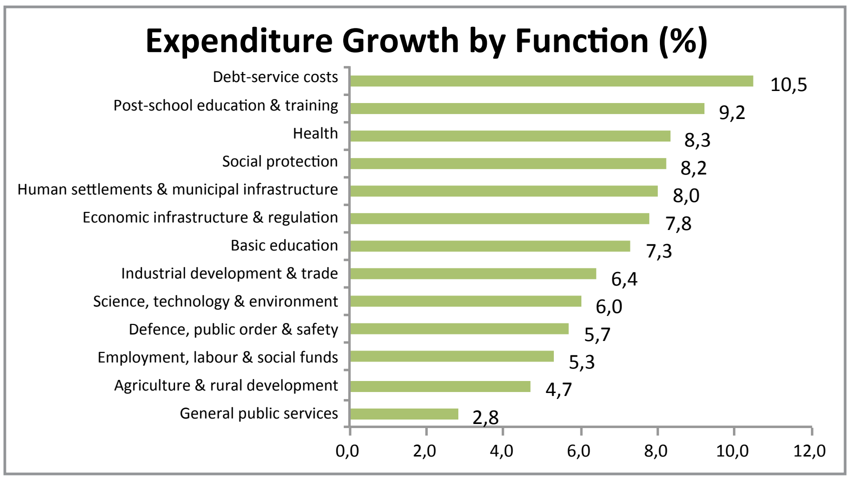


Sources: National Treasury, Oasis Research, February 2017

Another large source of new government revenues will come from a higher dividend withholding tax. This tax, which applies to dividend receipts, will increase from 15% to 20%, effective immediately, and is expected to raise an additional R6.8 billion during the fiscal year. In addition to another 30c general fuel levy increase, these tax measures have allowed Treasury to provide some relief in the form of lower transfer duties, while still broadly hitting revenue targets.

Expenditure Priorities

The prior two years have seen mass protests in the higher education sector, with the #FeesMustFall movement garnering significant local and global media coverage. As such, the largest reallocation of expenditure falls in favour of higher education this year, receiving an additional R21 billion over the next three years over and above previous projections. In light of this reallocation, post school education and training expenditure will grow at an average rate of 9.2% per year, second only to debt service costs, which are now increasing at 10.5% due recent debt increases.



Sources: National Treasury, Oasis Research, February 2017

During the following three years, government also targets procurement savings of R25 billion by renegotiating contracts with their top 100 suppliers, through consolidating expenditure and reducing duplication. If executed well, this could provide some leeway to fund other expenditure priorities, including social grant and healthcare, as expenditure on these items rises by 8.2% and 8.3% per year respectively.

Personal Finance

Tax-free savings accounts were introduced on 1 March 2015 with an annual allowance of R30 000. Prior to that, the 2014 Budget stated that the allowance would be increased in line with inflation and this year, government proposes increasing the annual allowance by 10% to R33 000. Oasis offers our clients a range of Shari'ah compliant tax-free savings products and we encourage our readers to consult with their financial advisor in order to maximise the potential benefit from these tax-advantageous products.

Conclusion

Faced with a number of difficult trade-offs, this year's Budget signals a determination by National Treasury to stabilise South Africa's government debt trajectory despite having come through an extended period of GDP growth weakness. While this may appease creditors and ratings agencies over the short term, a sustained increase in tax rates runs the risk of crowding out business people, savers, entrepreneurs and professionals, undermining conditions for a more sustainable long term growth and debt profile.

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