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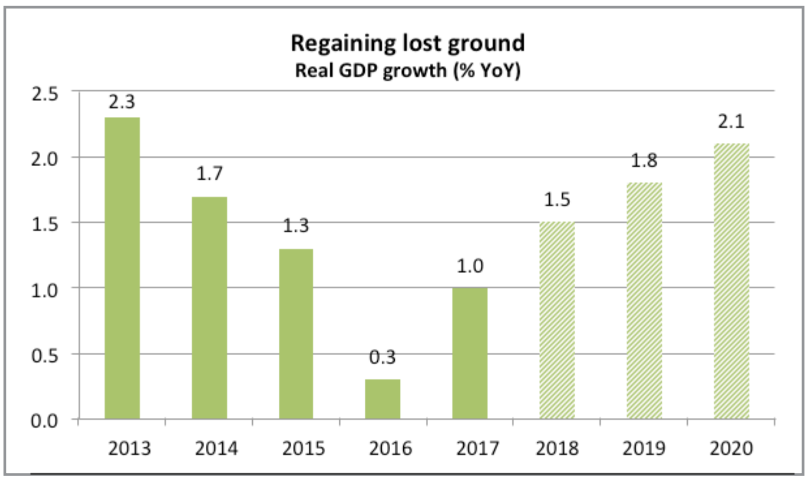
BACKDROP

The election of Cyril Ramaphosa as President of the Republic on 15th February 2018 marks a critical inflection point for South Africa whose economic growth has been weighed down by political and economic policy uncertainty. A focus on growth-enhancing economic strategies, as envisaged by the National Development Plan (NDP), combined with stabilisation of the State-Owned Enterprises has the potential to improve the economy's growth potential, raise revenue and allow for sustainable funding of South Africa's numerous and pressing social priorities. Against this backdrop of change and hope, the Finance Minister still had his work cut out for him in the February 2018 Budget in order to stabilise the books in the near-term, which required both tax hikes and spending cuts.

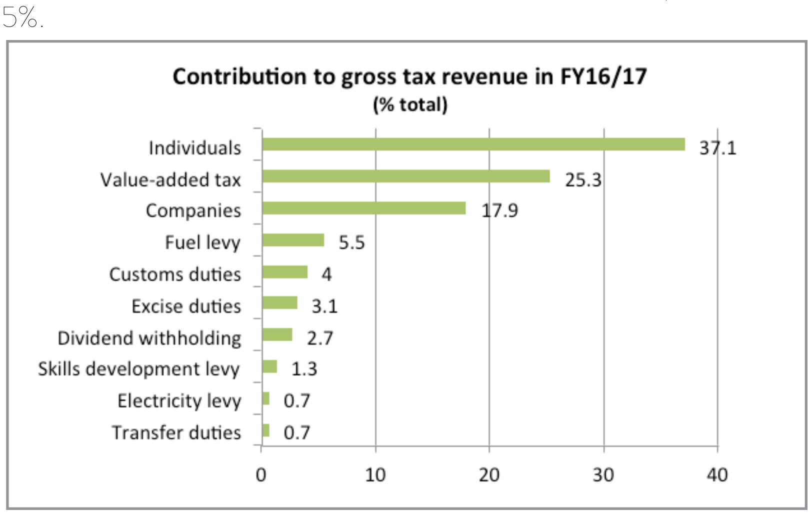


Sources: National Treasury, Oasis Research, February 2018

TAX PROPOSALS

Given the current challenging backdrop, it is unsurprising that South Africans will need to pay more tax during the 2018/19 fiscal year. The main revenue raising measure was a 1% point increase in the VAT rate to 15% which is expected to raise around R23bn. As part of the revenue raising effort, the Treasury is only adjusting the lowest three income tax brackets (to annual income of R423,000) by 3.1% in the 2018/19 fiscal year, significantly lower than the expected inflation rate of 5.3%. The top four income brackets, above R423,000 per annum, get no inflation adjustment at all. All told, the Treasury expects to raise R6.8bn from this only partial adjustment for inflation.

Other sources of revenue for the Treasury which will hit consumers in the pocket are a 52c/l increase in the fuel levy. The increase in the fuel levy will become effective from 1st April, raising petrol prices by 3.5%, with Treasury estimating it will raise R1.2bn in annual revenue. In line with the recent emphasis on 'wealth' taxes, the Treasury also announced that personal estates valued above R30 million will attract a 25% estate duty, an increase of 5%.

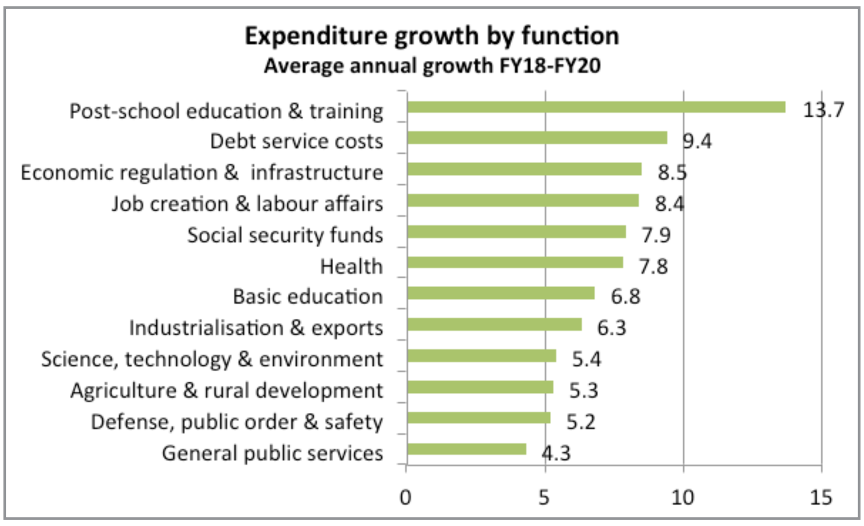


Sources: National Treasury, Oasis Research, February 2018

EXPENDITURE PRIORITIES

In line with the ANC's policy resolution at its December 2017 conference to provide free fees to low income university students, the Treasury made an allocation of R57bn over three years to fund tuition for students from households earning less than R350,000 per annum. This boost for education funding was made possible by a reduction in Departmental Spending allocations of R85bn over the coming three years.

In light of this reallocation, post-school education & training becomes the fastest growing expenditure item over the medium term, at an average growth rate of 13.7%. Debt servicing costs meanwhile are estimated to grow at 9.4% per annum over the medium-term and represent a significant drain on productive public spending. This underscores the need for the Treasury to urgently stabilise the country's debt trajectory as, in monetary terms, debt servicing costs will absorb around R180bn in the 2018/19 fiscal year or 10% of all government spending. It is also worth noting that social grants will rise well above inflation over the medium-term by close to 8% to help compensate low-income households for the increase in the VAT rate.



Sources: National Treasury, Oasis Research, February 2018

PERSONAL FINANCE

In order to manage capital flows and encourage investment, the Treasury increased offshore investment limits by 5 %. This would allow all institutional investors to invest 40% offshore. An additional allowance of 10% is available for investment into Africa. Raising the offshore limits allows more flexibility for investment managers to give access to best-of-breed overseas companies which are market leaders in their sectors.

Tax-free savings accounts were introduced on 1 March 2015 with an annual allowance of R30,000. This was increased to R33,000 last year and remains unchanged in the 2018 Budget. 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

This year's Budget was a positive step which signals the determination by National Treasury to stabilise South Africa's government debt trajectory after an extended period of GDP growth weakness. The fiscal belt tightening will be a headwind to economic growth in the near-term but is still likely to be welcomed by the Rating Agencies and avoid further downgrades. The challenge ahead is to raise economic growth potential through growth-enhancing policies which boost investment and employment outcomes.