Budget 2019: Focus shifts to restoring credibility
By Carla Rossouw, tax manager at Allan Gray

20 February 2018: Finance Minister Tito Mboweni's maiden Budget Speech didn't deliver any major punches such as 2018's surprise 1% VAT hike, but instead sought to acknowledge the tough economic situation facing taxpayers and restore confidence in the credibility of the South African Revenue Service (SARS).

This is the view of Carla Rossouw, tax manager at Allan Gray, who says there is little room to make significant tax adjustments when the tax burden is already a heavy load and the economy is not growing. This sentiment was echoed during the October 2018 Medium Term Budget Policy Statement when the Minister indicated that he was looking to give taxpayers a reprieve in 2019.

"Times are tough. The economic landscape in South Africa has been plagued by misfortune in the form of slow growth, wasteful expenditure and corruption, and the woes at SARS to name a few," says Rossouw, adding that policy uncertainty does not instil the required confidence to attract foreign investment.

The Minister of Finance revised the tax revenue for 2019 down by R15.4 billion compared to the October 2018 estimate, due to higher-than-expected VAT refunds. While this lowers revenue collection, it puts money back into the economy.

"We have seen a shift in this Budget from revenue collection to restoring the public's confidence in the credibility of the revenue collector by prioritising the appointment of a permanent Commissioner in the coming weeks, reinstating the SARS Large Business Unit and increasing the efficiency of tax collections by focusing on enforcement and embracing new technology," says Rossouw.

Other factors that contributed to the more measured Budget this year include three major tax increases experienced over the previous three years: Personal income taxes were increased by 1% in 2016; a new tax bracket of 45% for people earning over R1.5 million per annum was introduced in 2017 and the 2018 VAT hike of 1% to 15%. Also, says Rossouw, South Africa's corporate income tax rate at 28% is high compared to the global average, so to increase this further would push investments to countries with more attractive rates.

But more revenue is needed.

"While the big tax levers haven't been pulled during an election year, additional revenue still needs to come from somewhere. This gap is being addressed with increases in indirect taxes, such as the fuel levy, and increases in excise duties on alcohol and tobacco. Meanwhile, a carbon tax will be implemented on 1 June 2019."

No changes will be made to personal income tax brackets, and the tax-free threshold increases from R78 150 to R79 000.

"By not adjusting the income tax brackets for inflation, government will raise R12.8 billion. 'Bracket creep', as it is commonly referred to, is an effective way to raise revenue as the impact on household income is not immediately evident to the public," says Rossouw.

The Minister concluded by stating that this Budget plants a seed for renewal and growth. It is a Budget for the future.

"What this country needs most is sustainable economic growth. It appears that the President is committed to changing the tide and ensuring our international competitiveness by making tough policy decisions and focusing on improving investor confidence in South Africa. This commitment is echoed in this year’s Budget,” concludes Rossouw.

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