

Budget sees some tax relief

Allan Gray media release

26 February 2020: This year's highly anticipated Budget Speech, delivered by Finance Minister Tito Mboweni, signalled relief mostly for cash-strapped consumers and taxpayers.

"The announcements saw no additional increases to the vital revenue levers, such as Personal Income Tax and Value Added Tax (VAT), despite the many predictions in the lead up to the speech. Instead of raising additional revenue from tax proposals, the focus moves to reducing spending, which includes a reduction to the wage bill of roughly R160 billion," says Carla Rossouw, tax lead at Allan Gray.

Allan Gray Portfolio Manager Sandy McGregor adds: "The Budget reflects the realities of the situation South Africa finds itself in. The scope to increase taxes is limited."

Rossouw notes that while many expected bracket creep to continue, which is the process by which inflation pushes up wages and salaries into higher tax brackets without corresponding relief in adjusting the income tax brackets, the Minister of Finance instead announced above-inflation adjustments to all tax brackets and rebates.

"This translates into real income tax relief for individuals," says Rossouw.

Specifically, the personal income tax brackets and the primary, secondary and tertiary rebates will increase by 5.2% for 2020/21, which is above the foreseen inflation rate of 4.4%. This adjustment provides R2 billion in tax relief. The change in the primary rebate increases the tax-free threshold from R79 000 to R83 100.

"Lower-income individuals will therefore receive most of the income tax relief from these inflation adjustments, which is a welcome change."

Other good news includes leaving the current VAT rate unchanged at 15%, and leaving the corporate tax rate of 28% as is.

Says Rossouw: "The South African corporate tax rate has remained unchanged for several years, yet it is still high when compared to the global average. In the current climate where global average corporate tax rates continue to decline, South Africa is desperate to remain competitive and attract foreign investments, so not raising it was a positive move by the Finance Minister."

She adds that positively, the Minister raised the threshold for transfer duties to R1 million, meaning that properties costing this amount or less will no longer be subject to transfer duty. In addition, allowable contributions to tax free savings (TFI) accounts will increase from R33 000 to R36 000 per annum.

"Overall, there was little room to make significant tax adjustments when the country has an overburdened and shrinking tax base and the economy is not growing," says Rossouw. "We are pleased that more effort and focus is being directed to reducing spending."

She says that now more than ever government should focus on: tackling the mounting public wage bill, structural reforms for the cash-strapped public enterprises that require ongoing bailouts, and rebuilding the capacity of the South African Revenue Service (SARS) to bolster revenue collections. Meanwhile, ensuring businesses and households have a sufficient and reliable electricity supply is also crucial.

"The government's intention is to resolve the fiscal crisis by reducing its spending relative to the GDP. Whether it succeeds in achieving this goal will depend on its political commitment," concludes McGregor.

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