South Africa to reach the fiscal cliff by 2042

If South Africa doesn't change its ways and back up the Budget Speech with concrete actions the country will reach the fiscal cliff by 2042, says Professor Jannie Rossouw, the head of School of Economics and Business Sciences at Wits Business School.

Professor Jannie Rossouw

He warned that if the actions of the government in managing the fiscus are not prudent, taxpayers were going to stop paying taxes.

“If we use the analogy of fishing, the taxpayers are the ones fishing, the government takes the fish and eventually people will stop fishing because they don’t see their fish being put to good use,” he says.

Budget takeaways

- ### GDP

  GDP was forecast at 1.5% against an IMF global projection of 3.5%, with improved growth predicted over the next three years. “The Treasury has been overly optimistic in its GDP forecasts for many, many years,” says Rossouw. “They overestimate their revenue, then spend according to this estimated revenue. Then they don’t make the revenue because GDP growth is lower, and they end up in a fiscal hole.” He recommends that Treasury use more conservative forecasts to regain the public’s confidence.

- ### Wage bill reduction

  The government promised to reduce its wage bill by R23bn over the medium term and offer voluntary retirement to older public servants. This is a good start but needs to be followed by reviewing the public sector workforce and reducing it dramatically.

- Revised visa requirements and e-visa pilot
  To attract needed skills to South Africa from foreign countries, the government will review its business visa and child immigration requirements as well as pilot an e-visa system. This is great news as it will help South Africa more readily attract the talent needed to bolster the economy.

- ### Revision of support for SOEs

SOEs will need to meet certain business transformation requirements to receive future support from the government and Eskom will be broken into three independent divisions. While this is a positive step forward, any support is still like throwing money down the drain. A more concrete plan of action is needed and the process should be communicated transparently to the public.

- ## Annual budget deficit

Rossouw also notes that the annual budget deficit would be around 4.3% over the next three years, up from 3.5% just last year. “This is too high,” he says. “Our growth ceiling is only 2.5% per annum.”

- ## Tax collections and revenue shortfall

Total tax collections for 2018/2019 was around R1.3trn with a shortfall of R42.8bn and the government expects to collect R1.422trn next year. Mboweni announced there would be no changes in personal and company tax but additional revenue of R15bn would come from indirect taxes. Although tax remains unchanged, indirect increases will reduce overall disposable income, meaning South Africans will have to adjust their lifestyles accordingly.

- ## Revenue from tax bracket creep

Income tax brackets will also not be changed. This means that although South Africans will not gain greater purchasing power from inflation-based pay increases, they will be earning more in Sars’ eyes and will be taxed accordingly. Further, those who move into a higher bracket will be obliged to pay substantially higher taxes, reducing their effective monthly income to below their previous level.

- ## No increases in medical tax credits

Medical tax credits will not be increased to allow for a rise in cost of living so South Africans will effectively be paying more for medical treatment.

- ## Income from fuel increases

Fuel will go up by 29c/litre, which includes a 15c/litre increase in the general fuel levy and a 5c/litre increase in the Road Accident Fund levy. A carbon tax of 9c/litre on fuel will be effective from 1st June 2019. All of this was expected.

- ## Excise duties

Excise duties on alcohol and tobacco will be increased. Further increasing the price of tobacco is a bad idea. We are already witnessing the sale of illegal cigarettes overtake legally marketed ones. Another increase will further motivate cash-strapped smokers to buy on the black market.

- ## Restoring Sars effectiveness

Mboweni also promised to repair Sars to ensure it is able to collect revenues effectively. And with the VAT refunds backlog being cleared, the normalised flow of future refunds will provide businesses with greater cash flow confidence. Much revenue is lost to tax collection inefficiencies, so it makes more sense to focus on Sars’ operations rather than increasing direct or indirect taxes further.