2016 – 2017 Budget Overview – 24th February 2016

Finance Minister Pravin Gordhan delivered his budget speech in Parliament this afternoon. It didn't contain any major shocks with looming ratings downgrade prospects, weak economic growth and the worst drought on record, it was a very tough budget to deliver. Because of this, the total revenue collected, is expected to fall by 3.2% (to R1.223trillion). Gordhan stressed that the budget is about prioritisation and did find some balance between government needs to increase revenue, and not damping the potential for economic growth. Time will tell whether this is sufficient to avoid a ratings downgrade. Probably not.

How it affect you personally

- The net increase in tax collected is R18.1billion mainly funded from capital gains tax, transfer duty, excise duty, the fuel levy, reduced allocations to provinces and municipalties of almost R15billion and from individuals - by only applying small increases in thresholds that tax rates step up (brackets are only increasing by 1 to 2%, but salary increases are typically 6 to 7%).
- Contrary to popular expectation, absolute tax rates have NOT been increased! VAT remains at 14%, corporate tax remains at 28% and personal tax rates remain unchanged.
- Capital gains tax is increasing for individuals to a maximum rate of 16.4% (from 13.7%). This means that the inclusion rate for capital gains has been increased from 33.3% to 40% for individuals. This makes tax-free savings accounts even more attractive. So far 150 000 accounts have been opened, totalling about R1billion.
- Transfer duty on properties valued at more than R10million has been increased from 11% to 13%.
- Somewhat worryingly, there was mention of strengthening of estate duty and donations tax. Sounds to me like both taxes are next in the sights to be increased.
- There are the usual big increases in sin taxes – a bottle of spirits will go up by R3.94 and a pack of 20 smokes will cost 81c more.
- The fuel levy is going up by another 30c per litre
- A new tyre levy is proposed for introduction on 1st October 2016 at a rate of R2.30/kg of tyre.
- There is also a sugar-tax proposed for next year on sugar sweetened beverages. Sorry Coca-Cola lovers.
- The visa debacle was touched on, and the promise that it is being addressed. We hope.
- It is proposed that the goverments 4 airlines be merged to improve efficiencies with some small privatisation. He stressed that bailing out State Owned Enterprises will come to an end. Again, we hope.
- There was no mention of exchange controls (assumed unchanged for individuals with a R10million annual allowance + R1million travel allowance), or dividend withholding tax (assumed unchanged at 15%).
- Tax deductions to retirememt funds will go ahead with pension, provident and retirement annuity funds being aligned, with a total tax deduction of 27.5% of taxable income being allowed, with a total annual cap of R350 000. Forced annuitisation of provident fund money has been delayed for at least 2 years (as announced last week).
- Gordon did fire a warning shot to people who have undeclared funds, both locally and offshore. Through information sharing arrangements, its only a matter of time before funds are located by government (the warning), so a new amnesty is to be launched to collect additional revenue and legitimise the funds (with low penalties).

The broader picture:

- The broad trend of "wealth" taxes being increased has continued with the higher capital gains tax rates. Tax increases are inevitable, but the inefficiencies and corruption in government really frustrate all honest tax payers, as there are few signs of money being spent frugally and sensibly.
- The reality is, times are tight and excuse the cliché, but we all need to tighten our belts over the next few years. Revenues are down and expenses are up. Its far from a major crisis though, and this is very normal in the expansions and contractions of how economies operate.

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