

Outline

- Introduction
- Integrated planning and budgeting
- Economic background to the budget
- Fiscal framework
- Revenue collection and tax developments
- Digitalised Economy and Taxation
- Expenditure trends
- Summary
- Appendices

Introduction

- The PBO was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of the Money Bills and Related Matters Act
- The purpose of the presentation is to assist members in preparing for the legislative stage in the budget process (see appendix) which started off with:
 - Planning for the 2020 medium term expenditure framework (MTEF), which also marks the beginning of a new 5-year planning and budgeting cycle
 - A critical factor in the planning cycle is the alignment of resources with policy intent
 - It is also regarded as critical to enable the implementation of the NDP through departmental strategic and annual performance plans
 - The Medium Term Budget Policy Statement (approved in 2019) provided the funding priorities for the formulation of the 2020 budget
- On Budget day the Minister of Finance will introduce the National Budget, the Division of Revenue Bill, Appropriation Bill and some revenue proposals which require:
 - Approval or recommendations for amendment
 - Monitoring and evaluation processes during the implementation stage

Integrated planning and budgeting

Roles and responsibilities in integrated planning and budgeting

SONA: strategic direction for planning and budgeting

Initiatives already introduced

Roles and responsibilities in integrated planning and budgeting

- DPME, Office of the Premier in provinces and StatsSA
 - Guidance
 - Assessment
 - M&E
- National and Provincial Treasuries
 - Formats
 - Alignment of budget with priorities
 - Programme structures
- DPSA
 - Monitor service delivery improvement
- National and Provincial Departments of Cooperative Governance
 - Alignment of IDPs with national and provincial priorities
 - Monitor performance
- National Departments responsible for concurrent functions
 - Sector plans
 - Coordinate the collection of performance information
 - Standardised programme structures and performance indicators
- Institutions/departments with oversight responsibilities of Public Entities
 - Provide policy direction and support
 - Assess alignment to government priorities and mandate of the department

SONA: strategic direction for planning and budgeting

- Government is responding to challenges in:
 - Transport by fixing the commuter rail system
 - Skills shortage by building TVET colleges and a University of Science and Innovation in Ekurhuleni
 - Job creation and security through the development of master plans for the automotive industry, clothing and textiles, poultry, sugar and steel
 - Youth unemployment
 - Crime by establishing a Crime Detection University in Hammanskraal
 - Electricity supply by enabling municipalities to procure their own power from independent power producers
- Other initiatives are to establish a:
 - Sovereign wealth fund
 - State bank

Initiatives already introduced

- The economic transformation strategy for SA promotes:
 - Inclusive and sustainable growth
 - A competitive economy that participates effectively in global and regional value chains
- NHI: The NHI is intended to address inequity, high cost, poor outcomes and inefficiency of the current two-tier healthcare system:
 - Public sector provides health care for 80% of the population and accounts for approximately 48% of total health care spending
 - The private sector provides health care for 20% of the population and accounts for approximately 50% of total health care spending
- Water and Sanitation Master plan/White Paper addressing
 - Over 3 million people still do not have access to a basic water supply service
 - 14.1 million people do not have access to safe sanitation.
 - 41% of municipal water does not generate revenue
 - 35% of municipal water is lost through leakage, at a cost of R9.9 billion/year

Economic background to the budget

The global economy

The SA macroeconomic situation

Household consumption and debt

Trends in SA unemployment rate

Investment in the economy

Investment in services subsectors

GDP growth outlook

The global economy in 2020

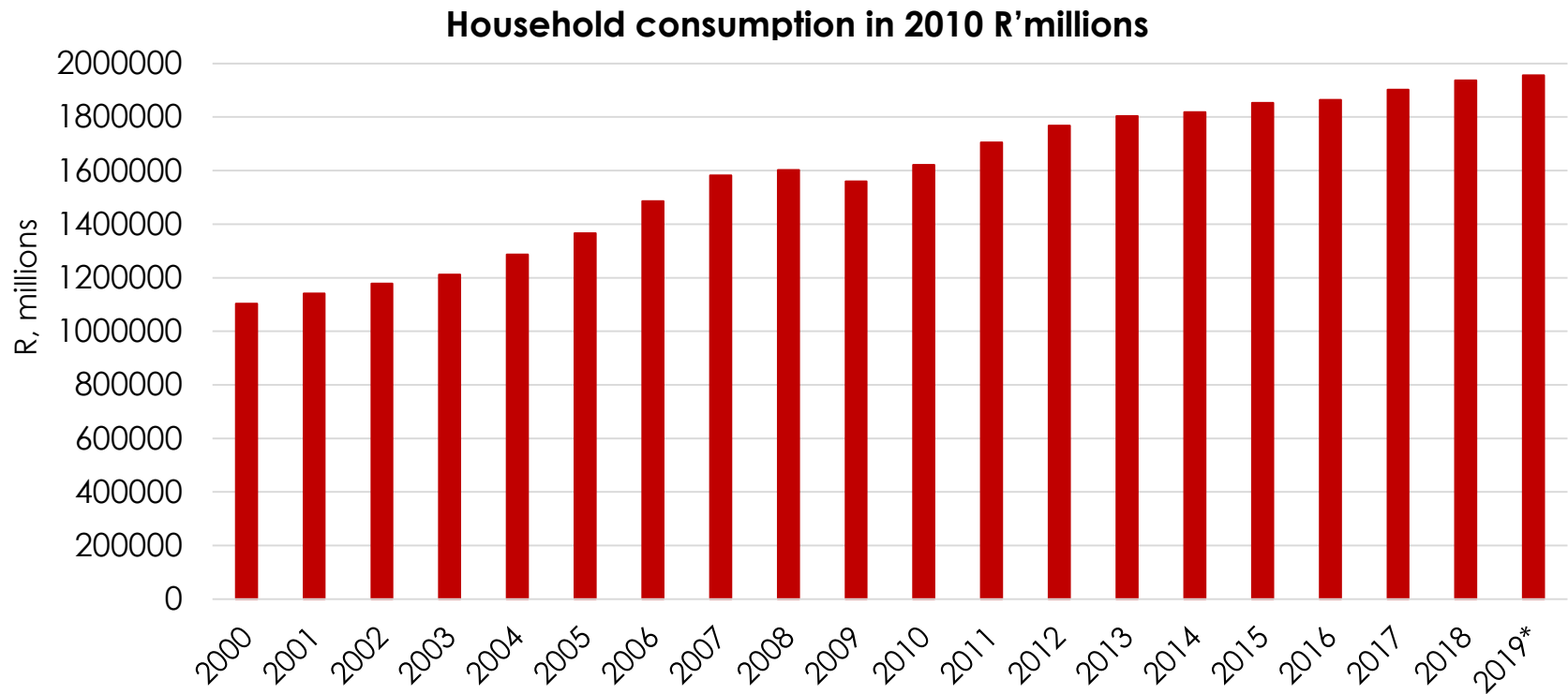
- The most recent estimates for global growth in 2020 from international organisations suggest small improvements:
 - World Bank: 2.5% in 2020 up from 2.4% in 2019
 - IMF: 3.3% in 2020 up 2.9% in 2019
 - UNCTAD: 2.5% in 2020 and 2.3% in 2019
- Global risks to growth are high in an increasingly integrated global economy:
 - Global debt accumulation and growing risks of financial instability and crises
 - Increasing climate change events, e.g. flooding and fires
 - Global Epidemics, such as the Covid-19 coronavirus
 - Poor performance of key economies – China, India, Europe etc.
 - High & rising levels of unemployment, inequality & instability
 - War and conflict events increasing

The SA Macroeconomic situation

- Serious problems in the South African economy:
 - Poor levels of aggregate demand
 - Structural, cross-cutting industrial and sectoral economic constraints
 - Mass unemployment, extraordinary levels of inequality, widespread poverty and poor levels of investment remain problems
- South Africa requires more than supply-side, sectoral interventions but also demand-side macroeconomic solutions
- Macroeconomic policies that boost demand to support investment and employment could improve effectiveness of structural interventions
- Continued poor economic performance and serious external risks require countercyclical stimulus rather than continued fiscal consolidation

Household consumption and debt

- Household consumption is an important contributor to overall levels of domestic demand for goods and services in the economy.
- Observing changes in household consumption and household debt over time gives one a sense of how they might progress in the medium term, and the possibilities for economic growth.



* 2019 figure is up to the third quarter of the year

Source: SARB

Household consumption and debt (cont.)

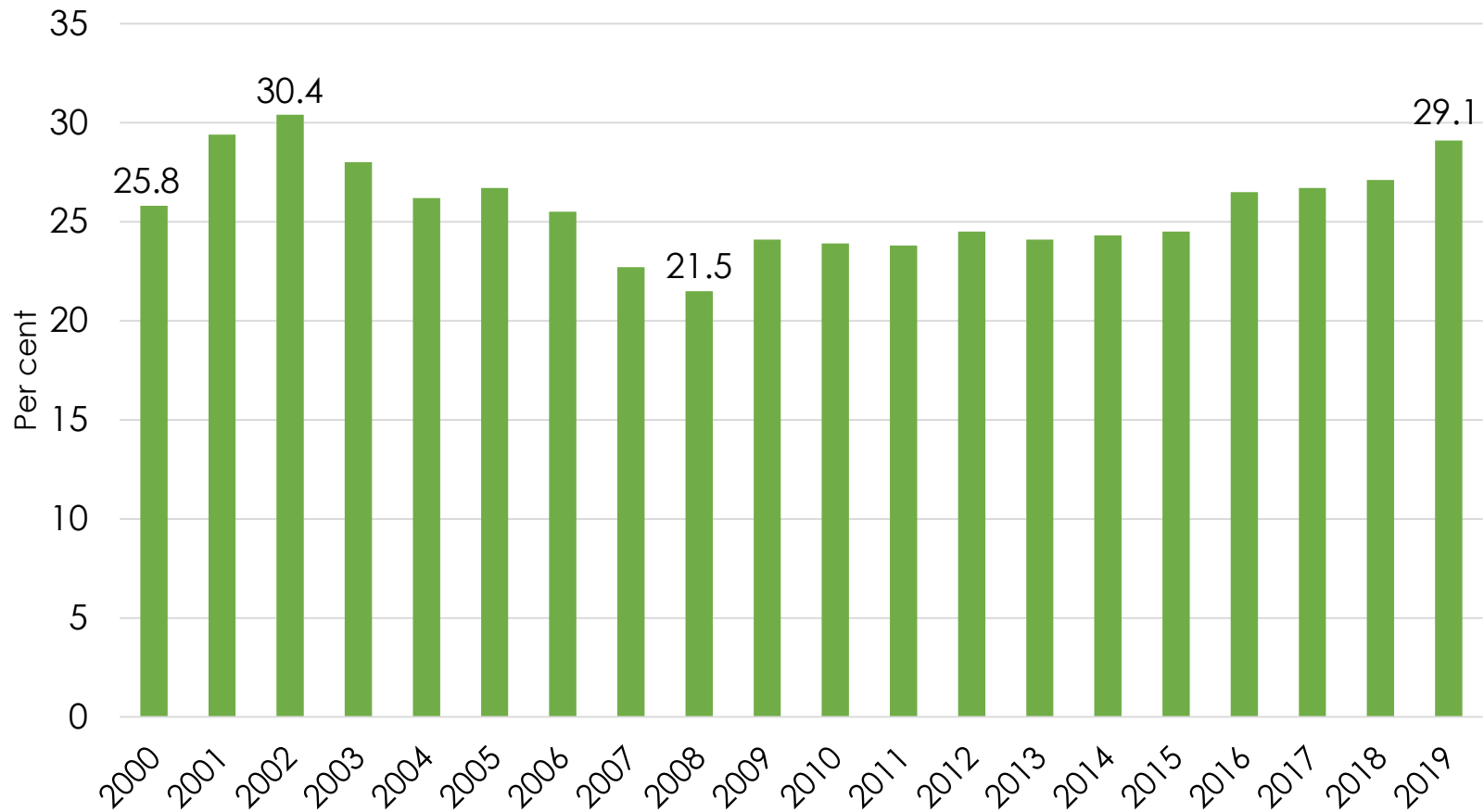
Household debt, debt service and savings as percentages of household disposable income



Source: SARB

Trends in South Africa's unemployment rate

Official unemployment rate (percentages)

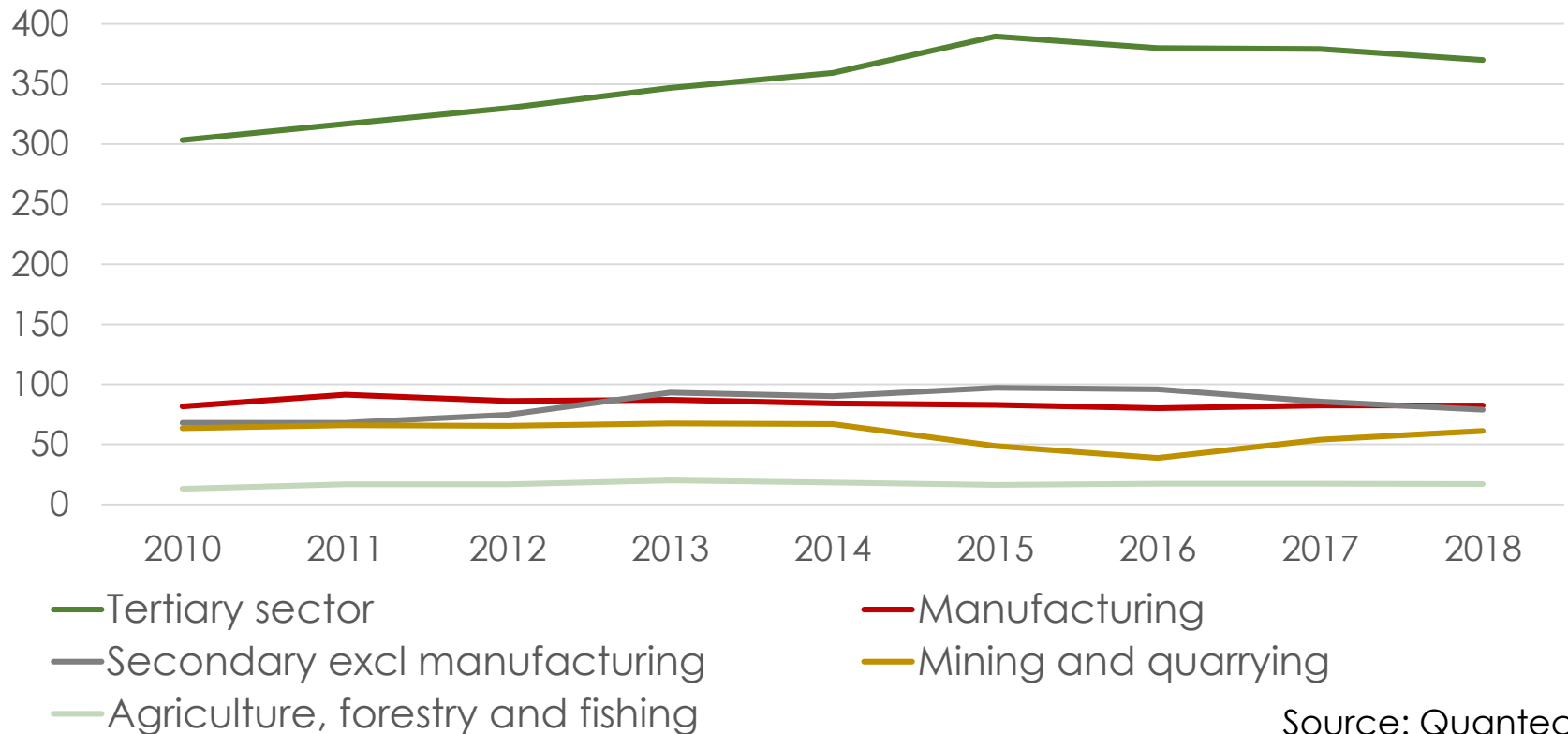


Source: SARB

Investment in the economy

- Total Investment growth from 2010 to 2015 was driven by services
- Services investment declined from 2015 to 2018
- As a result, total investment declined from 2015 to 2018

Gross fixed capital formation in 2010 R'billions

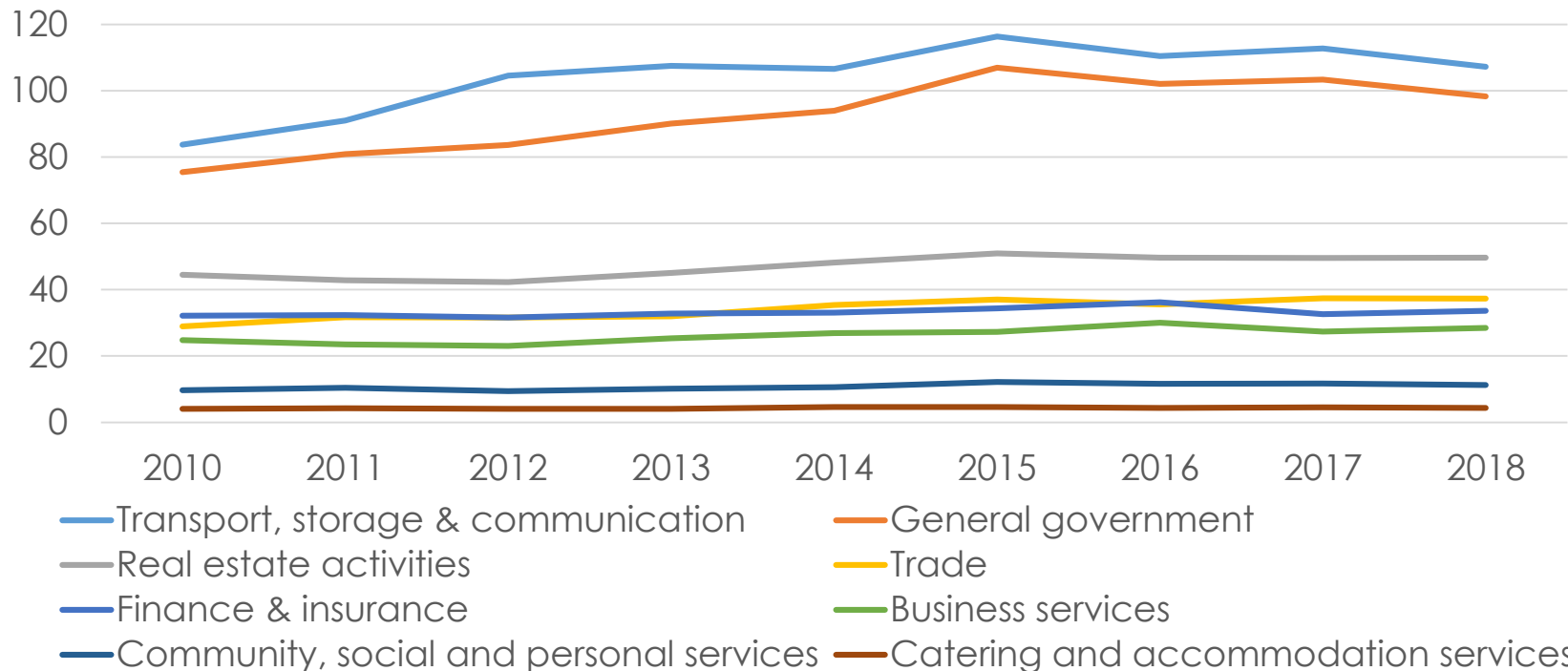


Source: Quantec

Investment in services subsectors



















- The growth in services investment from 2010 to 2015 was limited to 2 subsectors: Transport, storage & Communication and General Government services
- Investment in both these sectors has declined since 2015 as a result, total services investment declined from 2015 to 2018
- Investment in general government services is an important contributor to total investment and GDP

Services gross fixed capital formation in 2010 Rbillions



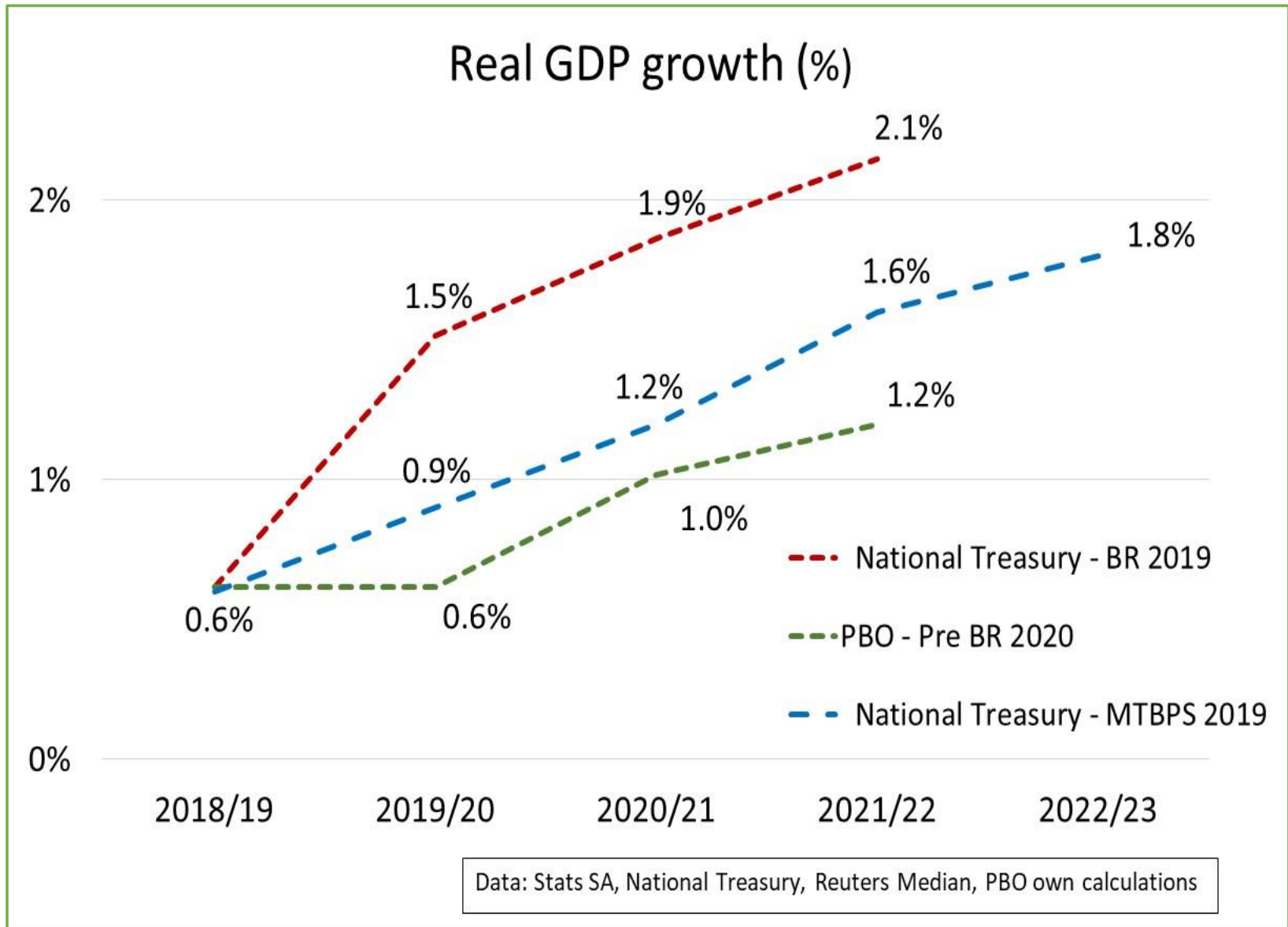
Source: Quantec

GDP growth outlook

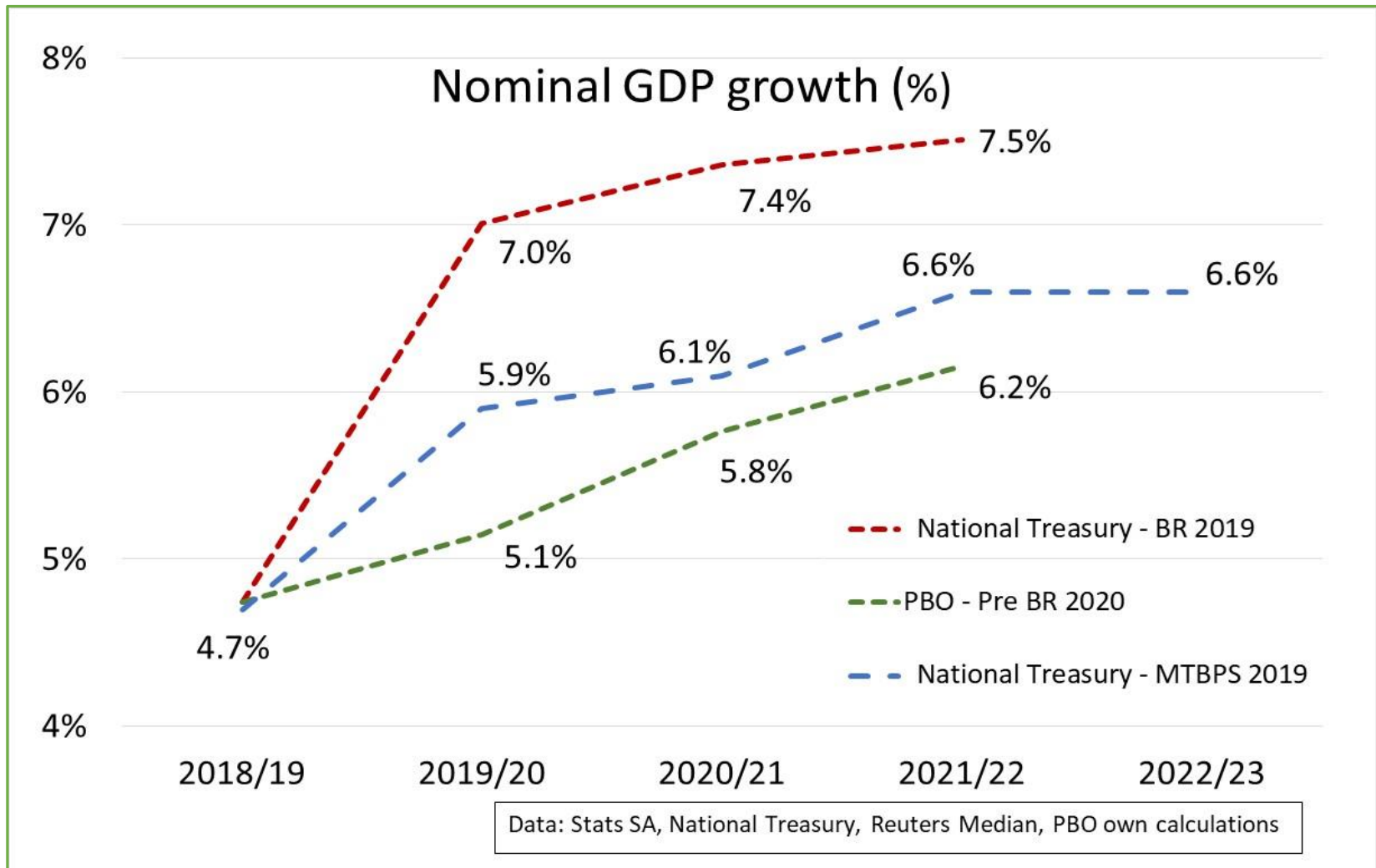
GDP growth outlook - calendar year*	2019	2020	2021	2022
National Treasury - Budget 2019	1.5%	1.7%	2.1%	-
National Treasury - MTBPS 2019	0.5% 	1.2% 	1.6% 	1.7%
South African Reserve Bank - January 2019	1.7% 	2.0% 	2.2% 	-
South African Reserve Bank - September 2019	0.6% 	1.5%	1.8%	-
South African Reserve Bank - January 2020	0.4% 	1.2% 	1.6% 	1.9%
Bureau for Economic Research - 1Q2019	1.5%	2.0%	2.4%	-
Bureau for Economic Research - 3Q2019	0.2% 	1.1%	-	-
Bureau for Economic Research - 1Q2020	- 	0.7%	1.6%	1.6%
IMF - World Economic Outlook - January 2019	1.4%	1.7%	-	-
IMF - World Economic Outlook - October 2019	0.7% 	1.1%	1.4%	1.8%
IMF - World Economic Outlook - January 2020	0.4% 	0.8%	1.0%	
Reuters Polls (median) - January 2019	1.5%	1.9%	2.0%	-
Reuters Polls (median) - August 2019	0.6% 	1.3%	1.7%	-
Reuters Polls (median) - January 2020	0.3% 	0.9%	1.4%	

*Growth projections correspond to publication date and not forecast date

Downwardly revised growth outlook



Outlook for nominal GDP growth has also been downwardly revised



Fiscal framework

Fiscal framework over the medium term

Changes to the current fiscal framework

Fiscal slippage

Higher debt outlook and credit rating

Fiscal Framework

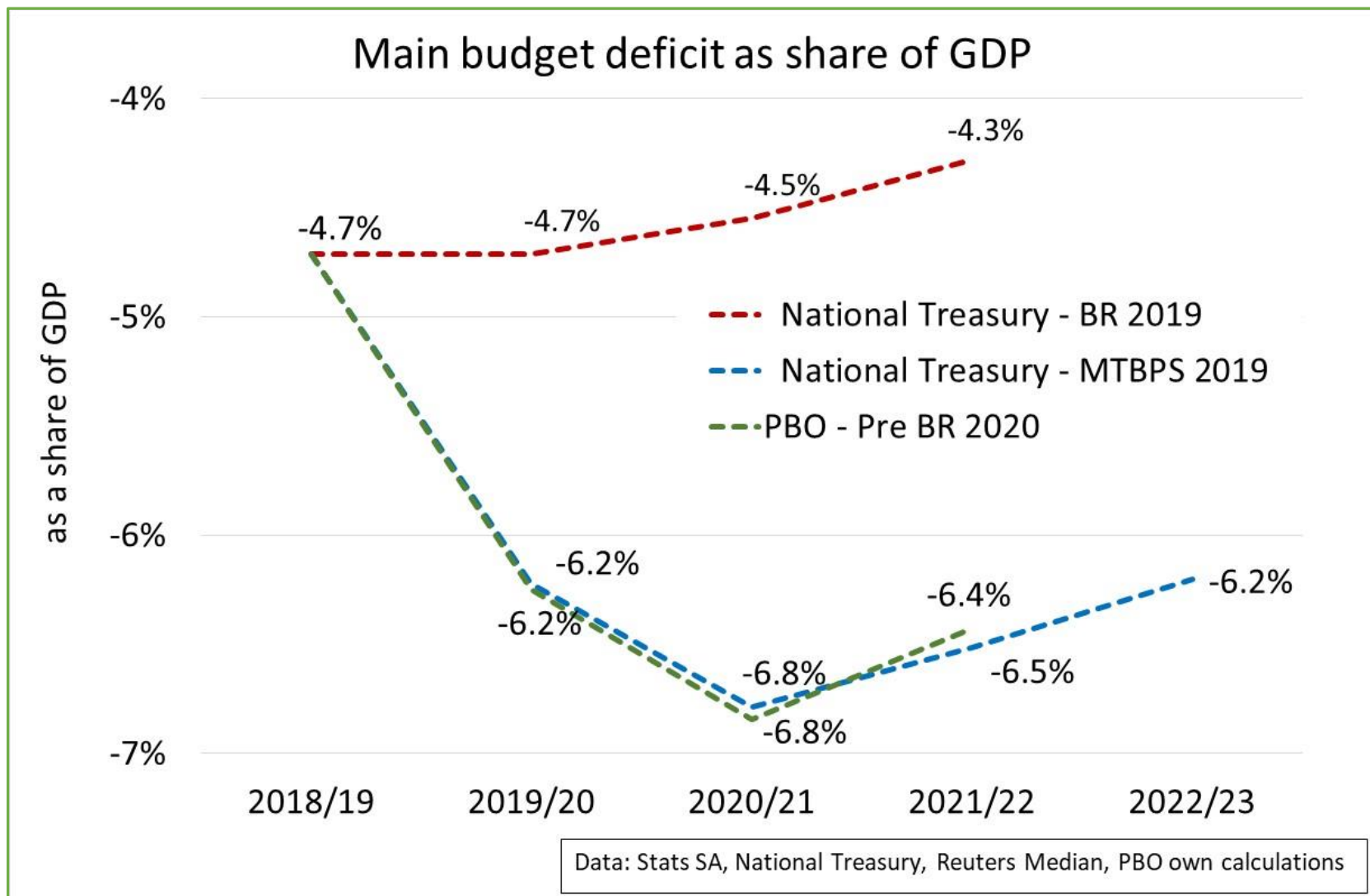
	2016/17	2017/18	2018/19	2019/20	2019/20 year-to- date	2020/21	2021/22	2022/23
R billion/percentage of GDP	Outcome			Revised		Medium-term estimates		
Main budget revenue	1 137.9	1 196.4	1 274.7	1 359.1	967.0	1 425.9	1 525.6	1 627.9
	25.7%	25.5%	25.9%	26.1%		25.8%	25.9%	25.9%
Main budget expenditure	1 305.5	1 405.0	1 506.7	1 683.4	1 216.8	1 801.2	1 909.5	2 017.7
	29.5%	29.9%	30.6%	32.3%		32.6%	32.4%	32.1%
Non-interest expenditure	1 159.0	1 242.3	1 324.9	1 479.6	1 089.3	1 568.5	1 644.9	1 718.6
	26.2%	26.4%	26.9%	28.4%		28.4%	27.9%	27.4%
Debt-service costs	146.5	162.6	181.8	203.7	127.5	232.8	264.6	299.1
	3.3%	3.5%	3.7%	3.9%		4.2%	4.5%	4.8%
Main budget balance	-167.6	-208.6	-232.0	-324.3	-249.7	-375.3	-383.9	-389.8
	-3.8%	-4.4%	-4.7%	-6.2%		-6.8%	-6.5%	-6.2%
Primary balance	-21.1	-46.0	-50.1	-120.5	-122.2	-142.5	-119.3	-90.7
	-0.5%	-1.0%	-1.0%	-2.3%		-2.6%	-2.0%	-1.4%

Changes to 2019/20 Fiscal Framework

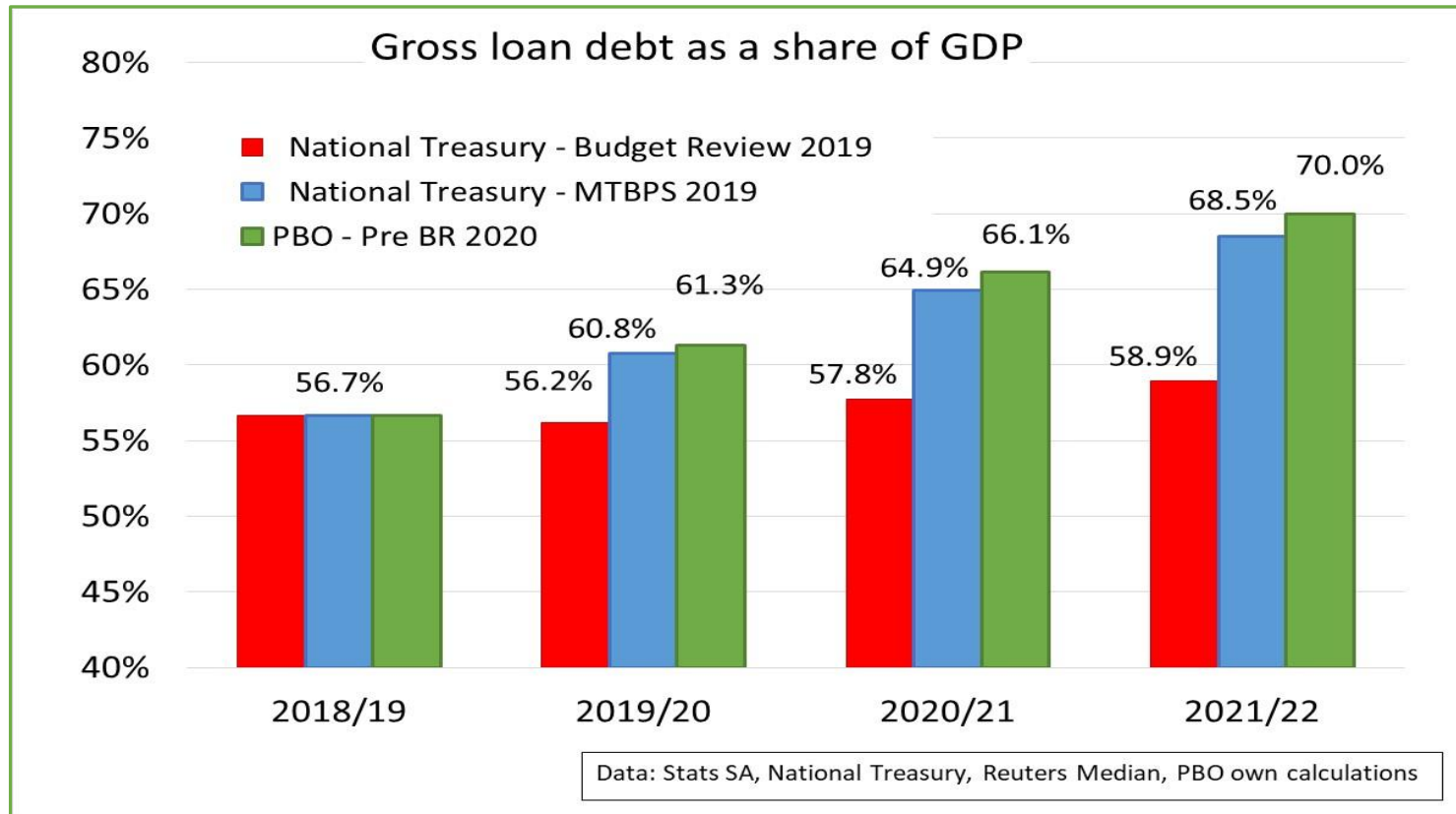
R million	NT Budget Review 2019	NT MTBPS 2019	PBO Pre-BR (February 2020) ¹	Surplus (shortfall) compared to NT MTBPS projections		
Personal income tax	552 877	527 606	533 577	5 971		1.13%
Corporate income tax	229 608	218 984	219 043	59		0.03%
Value-added tax	360 471	348 388	339 841	-8 547		-2.45%
Other tax revenue	170 182	165 488	167 865	2 378		1.44%
Customs and excise duties	109 069	109 213	110 215	1 002		0.92%
Gross tax revenue	1 422 208	1 369 678	1 370 541	863		0.06%
Main budget revenue	1 403 464	1 359 085	1 359 948	863		0.06%
Main budget expenditure	1 658 707	1 683 352	1 683 352	-		-
Main budget balance	-255 243	-324 267	-323 404	863		-0.27%
Main budget balance (% of GDP)	-4.7%	-6.2%	-6.2%	0.0%		-

1. Projections are from PBO's in-year revenue and expenditure model. PBO uses historical monthly profiles of revenue data available in Section 32 reports to project full-year main budget outcomes. PBO's model is based on methodologies employed by other independent fiscal institutions.

No debt stabilisation over the MTEF



Higher debt outlook and credit rating



- Ratings agencies have downwardly-revised sovereign debt since 2012
- Moody's is the only agency that rates local currency sovereign debt at investment grade
- Moody's will release its review of sovereign debt after the 2020 Budget
- This presents a risk to the outlook for South African debt
- SA is likely to access credit markets even if downgraded

Revenue collection and tax developments

Status of revenue collection per source

Tax developments

Status of tax revenue collection as at 31 December 2019

R'million	2018/19	2019/20		
	Collection as at end Q3	Revised Estimate	Collection: Apr-Dec 19	Collection as at end Q3
PIT	68.82%	527,606	374,499	71.0%
VAT	73.78%	348,388	246,700	70.8%
CIT	70.18%	218,984	161,843	73.9%
Fuel Levy	72.41%	78,354	59,022	75.3%
Dividend withholding	76.18%	32,012	21,587	67.4%
Custom Duties	72.84%	58,365	34,732	59.5%
Specific Excise Duties	69.02%	46,511	31,771	68.3%
Skill Development Levy	74.14%	18,574	13,459	72.5%
Ad-valorem	73.51%	4,337	3,243	74.8%
Other	59.76%	36,547	32,594	89.2%
Gross Tax Revenue	70.29%	1,369,678	979,450	71.5%

Taxation developments

Tax Policy	Implication	Effective date
Refinement of the Special Economic Zone (SEZ) definition	SEZ definition aligns with overall objectives of the SEZ tax incentive	1 March 2019
The Employment Tax Incentive (ETI)	Alignment of ETI Act with the Special Economic Zone provisions	1 January 2019
The Employment Tax Incentive (ETI)	Alignment of ETI Act with the National Minimum Wage Act	1 August 2019
Deduction for investments in a Venture Capital Companies	Limitation of annual deduction to: <ul style="list-style-type: none"> - R5 million; where the investor is a company - R2,5 million the investor is not a company 	21 July 2019
Expat Tax - section 10(1)(0)(ii)- Limitation of Foreign Employment Income Exemption- <ul style="list-style-type: none"> • Non-taxation for some residents taxpayers (not being taxed from both South African and foreign jurisdictions) • Current practice undermines the principles of equity and progressivity 	Limit double non-taxation: <ul style="list-style-type: none"> - Tax residents earning income abroad to include such income in their RSA Tax liability calculation - Including non-monetary benefits (e.g. fringe benefits like housing allowances, car allowances and etc. - Annual exemption of ± R1 million for income earned abroad - Expected to raise additional PIT revenue from 2020/21 What are the options for tax residents?	1 March 2020

Digitalised Economy and Taxation

SA Approach
Considerations

Digitalised economy and taxation

- New business models rely on the use of various technologies, digital data and markets, and the internet
- This has led to loss of markets by conventional businesses, and contributed to loss of jobs in certain economy sectors, e.g. tourism, transport and etc.
- Globally, taxation policies failed to keep up with the development of the digitalised economy and the way of doing business resulting in:
 - Losses in corporate tax revenue
 - vat, customs and other tariffs
- Globally efforts are made to reform international tax rules:
 - OECD developing an inclusive framework to reform international taxation rules addressing the effects of the digital economy and the reallocation of corporate global profits to eliminate BEPS
 - Other countries (see appendices) are opting for an unilateral approach to taxation on digital economy

Digitalised economy and taxation: The South African Approach

- Consumption taxation on digital economic transactions
- Consumption vs Income or profit taxation
- 2015 Digital tax on consumption (VAT), generated R3 billion by 2019
- VAT extended from 1 April 2019 to business to business (B2B) services provided to South African businesses by foreign providers
- RSA considered OECD guidelines, although its focus is mainly protecting the interests of its members
- RSA affected by loss of Customs taxes, due to WTO 1998 moratorium to taxing imports of digital products; e.g. E-books, Software, Music etc.

Digitalised economy and taxation: considerations

- Short term considerations:
 - Imposing turnover tax
 - Withholding tax on certain of digital transactions (tax levied at gross)
 - Levy on income revenues earned from providing digital services or advertising
- Reviewing of the following:
 - International agreements and take into account digital economy at a multilateral level
 - Review of double tax treaties to take into account digital economy
 - Review approach in using unilateral measures
 - Working towards unitary taxation of MNE
- Other consideration:
 - Is there a need to review the understanding of the concept of 'presence test'? (key principle for determining taxing rights)- Physical presence vs digital presence
- Government to update Parliament about development of taxation with the digitalised economy

Expenditure trends

Expenditure trends post adjustments

Expenditure trends per economic classification

Expenditure trends: Effect of the adjusted budget on expenditure

R thousand	Adjustments	% spent on main budget	% spent on adjusted budget
3 Communications	3 197 000	72.3%	23.9%
4 Cooperative Governance and Traditional Affairs	(371 233)	66.3%	66.6%
5 Home Affairs	1 188 000	81.9%	71.7%
9 Public Enterprises	12 938 000	60.7%	46.9%
11 Public Works	98 057	73.2%	72.3%
16 Health	(265 527)	72.9%	73.3%
19 Defence and Military Veterans	375 140	72.9%	72.4%
23 Police	(768 047)	71.8%	72.4%
24 Agriculture, Forestry and Fisheries	(52 800)	75.2%	75.8%
25 Economic Development	(55 750)	73.7%	77.9%
26 Energy	(256 464)	77.8%	80.6%
27 Environmental Affairs	(46 000)	63.3%	63.7%
28 Labour	(1 934)	68.9%	69.0%
30 Science and Technology	(4 793)	78.8%	78.9%
31 Small Business Development	(300 000)	72.5%	82.0%
34 Trade and Industry	25 700	61.4%	61.3%
35 Transport	10 954	75.0%	75.0%
36 Water and Sanitation	26 927	59.2%	59.1%
37 Arts and Culture	(45 400)	68.8%	69.5%
38 Human Settlements	(17 252)	62.1%	62.1%
39 Rural Development and Land Reform	(117 294)	67.8%	68.6%
Total appropriation by vote	14 868 725	72.9%	71.7%

Current expenditure trends

Economic Classification	Expenditure as % of available budget
Current payments	70.70%
Compensation of employees	74.60%
Goods and services	61.50%
Transfers and subsidies	75.30%
Payments for capital assets	45.30%
Payments for financial assets and liabilities	62.50%
Total	72.70%

Summary

- Planning for the 2020 medium term expenditure framework (MTEF) marks the beginning of a new 5-year planning and budgeting cycle
- A critical factor in the planning cycle is the alignment of resources with policy intent
- Different institutions including the Parliament has a role to play in the integrated planning and budgeting process
- Serious problems in the South African economy includes amongst others:
 - Mass unemployment, extraordinary levels of inequality, widespread poverty and poor levels of investment remain
- PBO's revenue collection outcome for the 2019/20 financial year is slightly higher than the adjusted estimates
- Changes and amendments to tax legislation introduced in 2017 and 2019 came into effect in 2019/20
- There is still a need to reform international and domestic taxation laws to limit losses of revenues on e-digitisation

Thank You

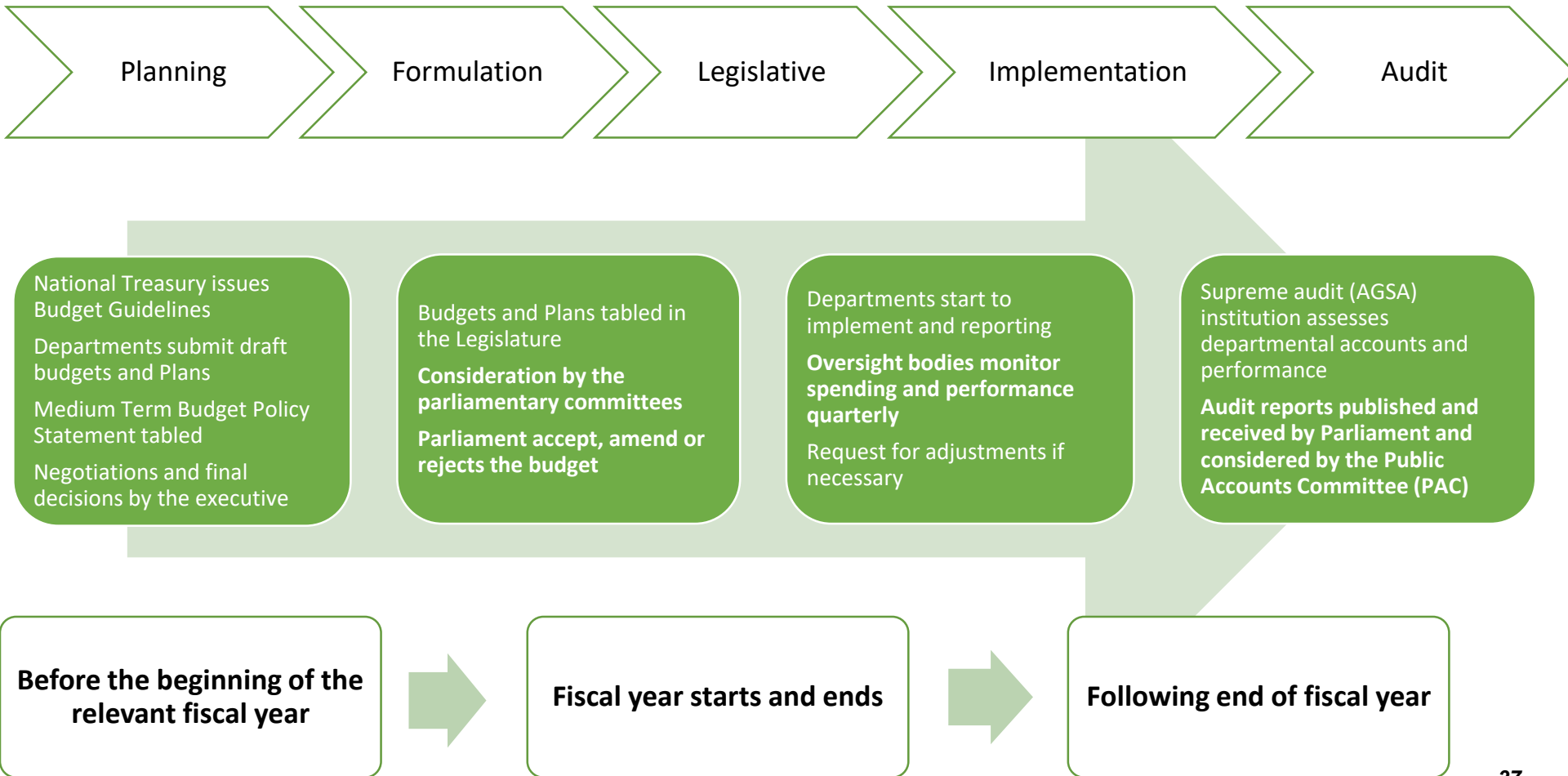
Appendices

Budget cycle

Budget documentation

Current Provincial Priorities

The Planning and Budgeting Process



Budget documentation

- The National budget consists of the:
 - Budget Review includes a summary of the:
 - Economic environment on which the budget is based
 - Fiscal policy
 - Fiscal framework
 - Revenue trends and tax proposals
 - Consolidated spending plans
 - Division of revenue and spending by provinces and municipalities
 - Government debt and contingent liabilities
 - Financial position of public-sector institutions

Budget documentation

- The Estimates of National Expenditure (ENE) contains:
 - Detailed information about the allocations set out in the Appropriation Bill, for the current financial year, proposed spending plans for the full three-year (MTEF) period.
 - ENE is compiled using data and information provided by national departments and their respective entities. Information on how government institutions have spent their budgets in previous years is included.
 - Explanations are provided of how institutions intend to use their allocations over the medium term to achieve their goals, and the outputs and outcomes their spending is expected to lead to.
 - Tables depict non-financial performance indicators and targets, departmental receipts, and detailed expenditure trends and estimates by programme, sub-programme and economic classification for each department and for selected entities. Brief explanatory narratives set out the institution's purpose (and that of its programmes), mandate, programme level objectives and descriptions of sub-programmes. A more in-depth narrative analyses the institution's expected expenditure over the MTEF period.
 - A summary table is included at the end of the chapter for votes in which there is significant spending on infrastructure.

Budget documentation

- The Division of Revenue Bill (DORA) provides for the allocation of funds between national, provincial and local government as required by the Constitution.
- Appropriations Bill sets out the proposed amounts to be appropriated from the National Revenue Fund for the first year of the medium-term expenditure framework (MTEF) period per vote, programme and economic classification.
- Subsequent to the tabling of the budget documents the relevant committees:
 - Adopt the fiscal framework, revenue proposals and possible expenditure items to be appropriated during the year
 - Pass the Division of Revenue Bill
 - Pass the Appropriation Bill
 - Pass the Revenue Bills

Provincial Priorities

- | | |
|--------------|--|
| Eastern Cape | <ul style="list-style-type: none">• An innovative, inclusive and growing economy• An enabling infrastructure network• An innovative and high value agriculture and rural sector• Human development• Environmental sustainability• Capable democratic institutions |
|--------------|--|

- | | |
|------------|--|
| Free-State | <ul style="list-style-type: none">• Health, education and economic development |
|------------|--|

- | | |
|---------|---|
| Gauteng | <ul style="list-style-type: none">• Economy, Jobs and Infrastructure• Education, Skills Revolution and Health• Integrated Human Settlements and Land Release• Safety, Social Cohesion and Food Security• Building a Capable, Ethical and Developmental State. |
|---------|---|

Kwazulu-Natal	Not available
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Limpopo	Not available
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- | | |
|------------|--|
| Mpumalanga | <ul style="list-style-type: none">• Youth development / support• Education• Industrial development programme |
|------------|--|

Provincial Priorities

North-West

- Water and Sanitation
- Unemployment
- Fighting corruption
- Rural roads
- Access to health
- Fighting crime

Northern Cape

- Building the capacity of the state and maximizing collaborative efforts to address the needs of the people
- Optimally leveraging and exploring the huge untapped potential of the mineral endowment and other dominant economic sectors in the province.

Western Cape

- Safe and cohesive communities
- Economic growth and job creation
- Empowering people
- Mobility, spatial transformation and human settlements
- Innovation and culture in government

Trends in South Africa's unemployment rate

Retrenchment Tracker: 2019-2020	
Company	Actual/Possible impact on no. of jobs
Dunkin donuts and Baskit Robbins	120 jobs
Standard Bank	maximum 1200 job losses
Group Five	Undisclosed
Absa	827 job losses
PPC Cement	Undisclosed
Tiso Blackstar Group	Undisclosed
Van Schaik	Undisclosed
Sibanye Gold	Undisclosed
Glencore	Undisclosed
Tongaat Hulett	5000 jobs
Hulamin Extrusions	200 jobs
Sibanye-Stillwater	3450 jobs
Multichoice	200 jobs
Alexkor	238 jobs
Continental Tyre	170 jobs
Eskom	Undisclosed
South African Airways (SAA)	Over 900 jobs at risk
Telkom	Shed 2000 jobs over the 2019/19 financial year. Planning to shed 3000 more jobs
Edcon group	Not stated. Intentions to close approx. 150 stores
Massmart	Approx 1400 jobs at risk

Countries with digital tax on income or profit

Countries with digital taxes proposal implementation deadline		Countries that are discussing digital taxes	
Country name	Tax Proposal and Implementation Date	Country name	Proposals
Italy	3% of revenue from Jan 2020	Canada	3% of revenue
Austria	5% of revenue from Jan 2020	United Kingdom	2% of revenue from search, social networks, online marketplaces
France	3% of revenue from Jan 2019	Czech Republic	7% of revenue from advertising, data or online marketplaces
Turkey	7.5% of revenue	Chile	10% of revenue
Indonesia	25% income tax	Israel	3% to 5% of revenue
Kenya	Tax on income now applies to foreign online marketplaces	Spain	3% of revenue from advertising, data
Malaysia	Tax on income now applies to foreign online marketplaces	Thailand	VAT on online sales
Mexico	Tax on income now applies to foreign online marketplaces	Egypt, Poland, Russia, Slovakia, Slovenia, South Korea	No firm proposal
Taiwan	Tax on income now applies to foreign online marketplaces		
Uruguay	Tax on income now applies to foreign online marketplaces		
Vietnam	Tax on income now applies to foreign online marketplaces		
Pakistan	5% of revenues from online advertising, ecommerce, digital content, data		
Zimbabwe	5% tax on foreign ecommerce companies		
Singapore	Sales tax now applies to online services		