

# South Africa's 2021-budget:

Presentation to a joint sitting of the Parliamentary Standing and  
Select Committees on Finance

3 March 2021

Presentation by the Fiscal Cliff Study Group:

Jannie Rossouw

Professor at Wits Business School

University of the Witwatersrand

Fanie Joubert

Senior Lecturer: Department of Economics

University of South Africa

Corresponding author: [sjjoube@unisa.ac.za](mailto:sjjoube@unisa.ac.za)

# Overview of Presentation

- Recent tax changes
- Number of personal income tax payers
- No budget austerity in past 10 fiscal years
- Civil service remuneration
- Fiscal cliff update
- Specific revenue and expenditure proposals
- Recommendations

# Recent tax changes

- PIT: Shift in focus from rising taxes (2015-2019) to relieve (2020+)
  - The marginal tax rates were increased in the 2015/16 and the 2017/18 fiscal years
  - Bracket creep was used between 2015/16 to 2018/19 to increase revenue
  - Personal income tax brackets adjusted for tax relief in the 2020 and 2021 budgets
  - Impact/reality of Laffer curve (as shown in previous years to this committee)
- CIT: @ 27% from 1 April 2022 (28% previously). Last adjusted in April 2008 (from 29%).
- Sin taxes (for instance excise duty on alcohol and tobacco), the fuel levy, carbon taxes and others raised annually

# Taxpayers per income category, 2021/22

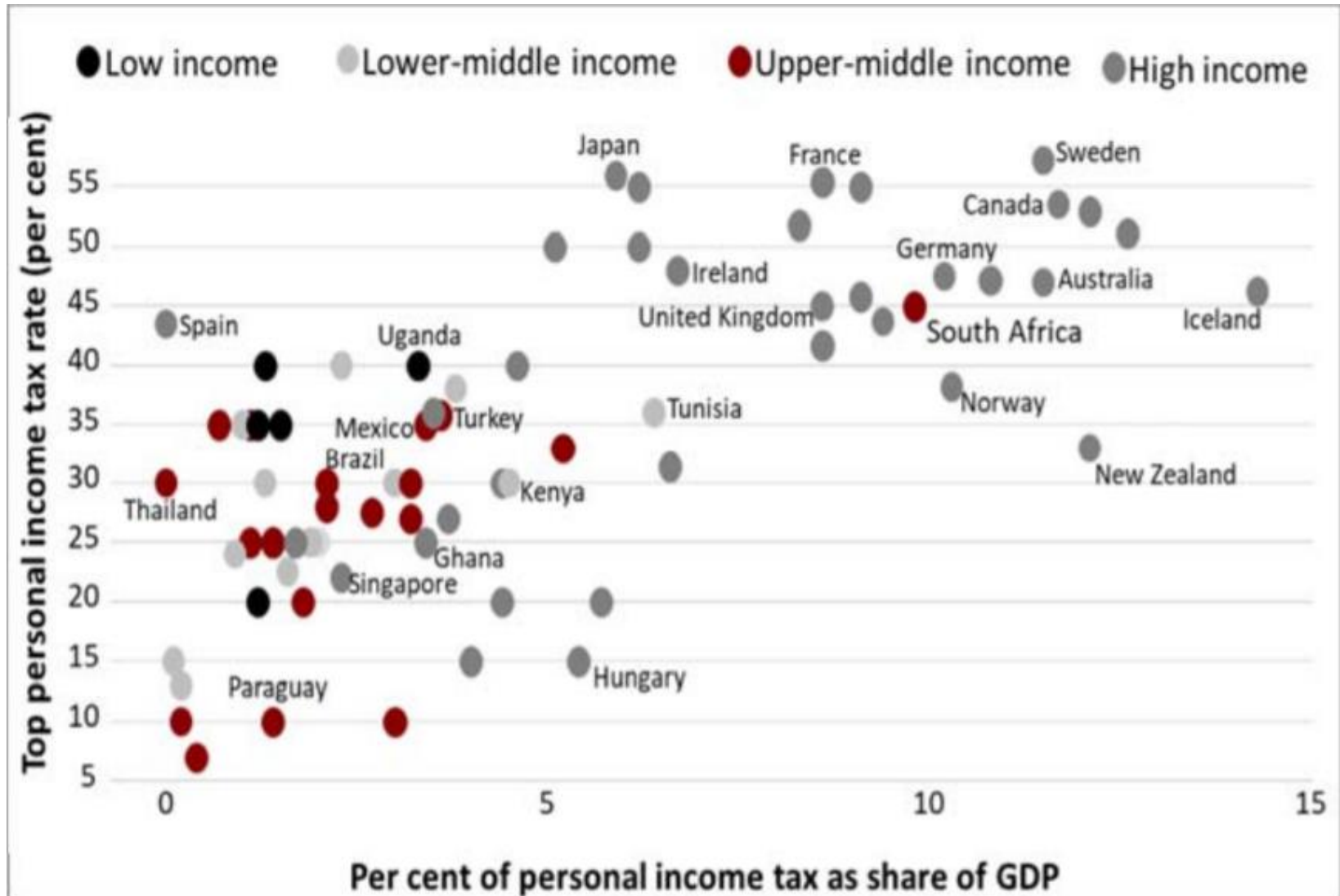
Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax payable after proposals		
	R thousand	Number	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R80 <sup>1</sup>	7 183 913		–	256.2	–	–	–	–	–	–	–
R80 - R150	1 855 292	26.7		211.1	8.6	15.7	3.0	-1.3	9.4	14.5	2.8
R150 - R250	1 691 889	24.3		329.3	13.4	29.5	5.6	-1.8	13.4	27.7	5.4
R250 - R350	1 283 954	18.4		378.4	15.4	54.5	10.3	-2.3	16.8	52.2	10.1
R350 - R500	981 993	14.1		409.1	16.6	76.6	14.5	-2.6	19.5	74.0	14.3
R500 - R750	612 177	8.8		369.1	15.0	88.4	16.7	-2.4	18.1	86.0	16.7
R750 - R1 000	262 643	3.8		226.2	9.2	65.1	12.3	-1.3	10.0	63.8	12.4
R1 000 - R1 500	159 127	2.3		191.1	7.8	61.9	11.7	-0.8	6.1	61.0	11.8
R1 500 +	113 192	1.6		346.3	14.1	137.7	26.0	-0.9	6.6	136.8	26.5
<b>Total</b>	<b>6 960 267</b>	<b>100.0</b>		<b>2 460.7</b>	<b>100.0</b>	<b>529.4</b>	<b>100.0</b>	<b>-13.4</b>	<b>100.0</b>	<b>516.0</b>	<b>100.0</b>
<b>Grand total</b>	<b>14 144 180</b>			<b>2 716.8</b>		<b>529.4</b>		<b>-13.4</b>		<b>516.0</b>	

1. Registered individuals with taxable income below the income-tax threshold

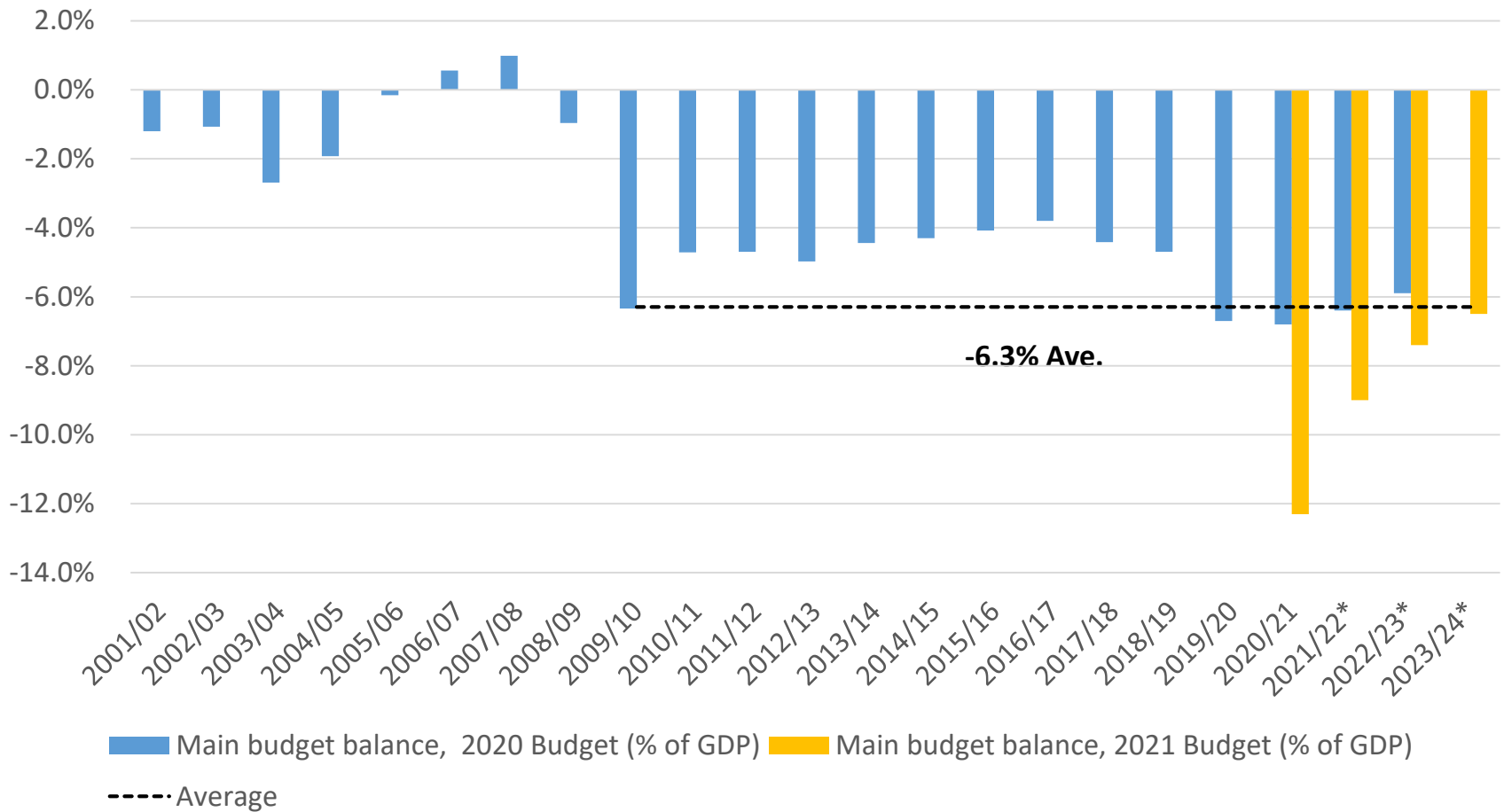
# Taxpayers per income category, 2021/22

- In 2021/22 some 535 000 individual taxpayers (or 7,7 per cent) fall into the top three income tax brackets (income of R750 000 or more per annum):
  - These taxpayers contribute R261 billion in tax, i.e.:
    - 50,6 per cent of PIT, and
    - 20,0 per cent of total government revenue
  - This group stagnates, as it comprised some 544 000 individual taxpayers in the 2019/20 tax year (i.e., - 9 000)
- Little room for further tax increases on high income earners as this tax base can emigrate
- Some estimate that between 2017 and 2020 South Africa lost 8 600 dollar millionaires (Businessstech, 2021)

# PIT burden



# No budget austerity in past 10 fiscal years



\*Treasury forecasts (2021 Budget)

**Source:** SARB, Treasury

# No budget austerity in past 10 fiscal years

- Argument of 'austerity' budget is (likely) based on the small budgeted increases in expenditure over the medium term (i.e., roughly 0.7 % per annum)
- This is a flawed (one-sided) argument
- 'Austerity measures are reductions in government spending, increases in tax revenues, or both. These harsh steps are taken to lower budget deficits and avoid a debt crisis'



# No budget austerity in past 10 fiscal years

- South Africa has been running historically large deficits during the last decade and recorded one of the biggest budget deficits on record during 2020/21 (14% of GDP).
- In addition, expenditure and debt continue to rise
- This is evidence of a highly expansionary fiscal stance
- Reality is that SA has reached its fiscal cliff/ fiscal limit; thus making it *appear* as if measures (similar to austerity) is being implemented

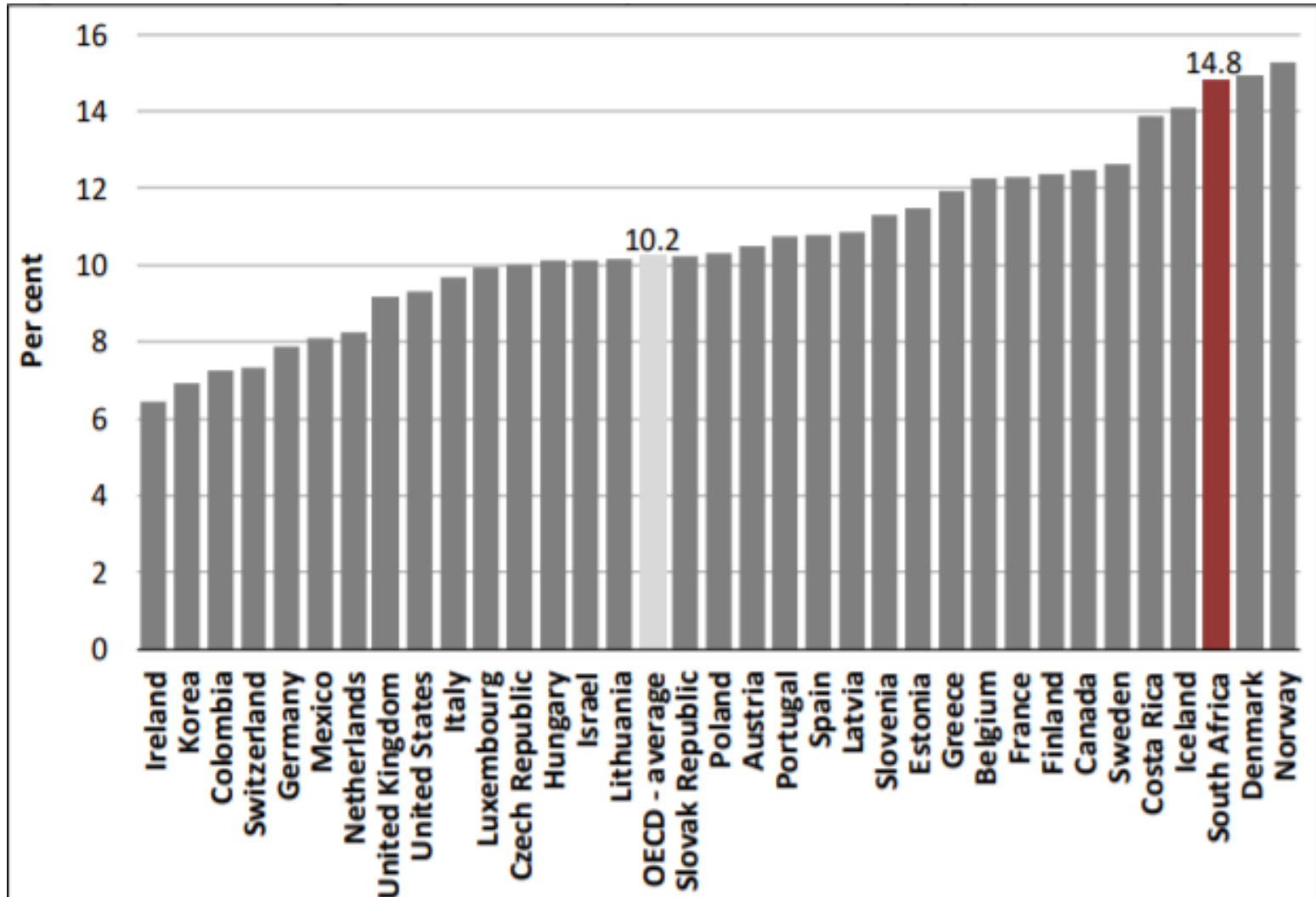
# Civil service remuneration

- The Fiscal Cliff Study Group (FCSG) has warned about unsustainable growth in civil service expenditure since 2013
- No general increase for civil servants in the February 2021 Budget is therefore to be welcomed and supported
- The whole budget rests on maintaining this budget position iro civil service remuneration: If this position slips, the budget falls apart

# Civil service remuneration

	2020/21	2021/22	2022/23	2023/24	Average annual nominal growth
<b>2019 MTBPS</b>	675.2	717.6	758.5	n/a	6.3%
<b>2020 Budget</b>	638.9	667.8	697.1	n/a	3.5%
<b>Difference</b>	-36.3	-49.8	-61.4	n/a	
<b>2020 MTBPS</b>	639.3	639.1	646.5	655.0	0.8%
<b>Difference</b>	0.4	-28.7	-50.6		
<b>2021 Budget</b>	636.9	650.4	656.0	659.3	1.2%
<b>Difference</b>	-2.40	11.30	9.50	4.30	

# Civil service remuneration – as percent GDP



# Fiscal cliff

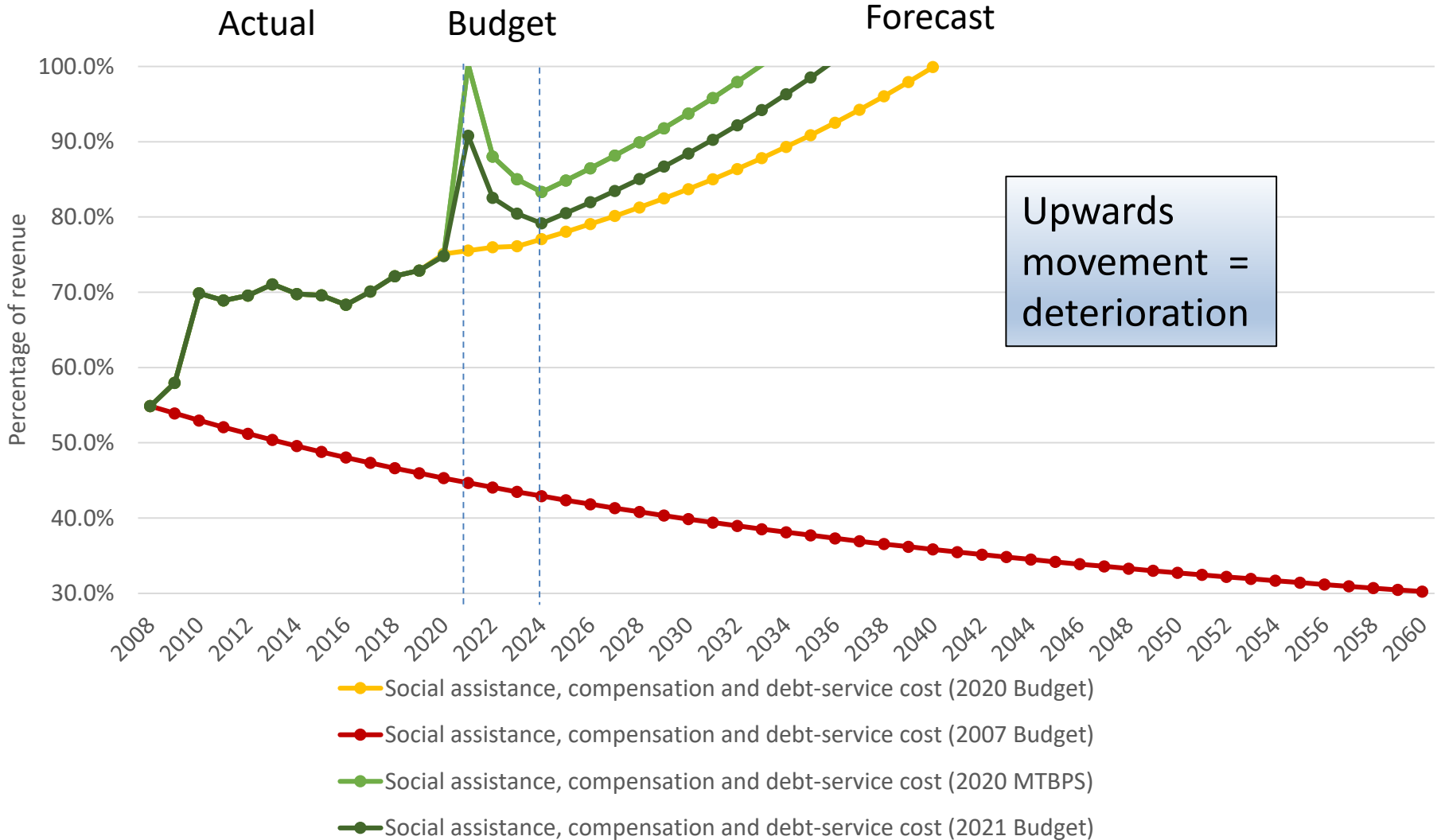
- The fiscal cliff is the point where civil service remuneration, social assistance payments and debt-service costs will absorb all **government revenue**
- Compensation of employees + social assistance payments + debt-service costs:
  - 55,0% of tax revenue in 2007/08
  - 75,5% of tax revenue in terms of February 2020 budget
  - > 100,0% of estimated tax revenue in terms of 2020 MTBPS\*
  - 91,0% of tax revenue in terms of February 2021 budget

# Fiscal cliff: Projections for 2021/22 and beyond

## Assumptions:

- **Revenue** recovery up to 2023/24 as per Budget. Thereafter growth of 6,6% per annum (average of 2007/08 to 2023/24)
- **Civil service remuneration** figures as per Budget until 2023/24. Thereafter average inflation plus 1 percentage point
- **Debt-service costs** figures as per Budget until 2023/24. Thereafter growth of 12,4% per annum (average of 2007/08 to 2023/24)
- **Social assistance payments** figures as per Budget until 2023/24. Thereafter to increase by average inflation plus 1 percentage point

# Fiscal Cliff Barometer (2021 Budget)



Upwards movement = deterioration

\*Graph intentionally limited to 100% of revenue

# 2021 Budget specifics

Proposal	Commentary
Expectation of economic growth recovery forecast over 3 year period	Good (v) but high risk area, higher deficit before borrowing if this does not realise
Curtail civil service wage bill growth	Good (v) but overoptimistic?
Eskom: <ul style="list-style-type: none"> <li>• Government provided R56 billion to Eskom for 2020/21 and allocated R31,7 billion for 2021/22, subject to compliance with the conditions of the Special Appropriation Act (2019).</li> <li>• R316 billion Government guarantees exposure</li> </ul>	Good (v) There seems to be improved transparency at Eskom
SAA remains on live support (additional R6,1 bn over medium term)	(Very!) Bad (X) This is a vanity project



# 2021 Budget specifics

Proposal	Commentary
Land Bank receives additional R7 billion	(Very!) Bad (X) Important institution that needs urgent skills upgrade
RAF: still no finality about its funding model	(Very!) Bad (X) One of the states largest contingent liabilities deserves urgent attention!
Infrastructure spend with blended finance infrastructure Fund	Good (v) Lacking details

# 2021 Budget specifics

Proposal	Commentary
CIT: <ul style="list-style-type: none"> <li>Lower to 27 per cent</li> </ul>	Good (long overdue) (✓)
PIT: <ul style="list-style-type: none"> <li>Above inflation adjustments to brackets</li> <li>Higher tax free threshold</li> </ul>	Neutral (-) Limited room to move (Laffer curve)
No VAT increase	Neutral (-)
An increase of 27c/litre for fuel	Good (expected) (✓)
Alcohol excise duties	Neutral (-) Producers still recovering from harsh lockdown
Tobacco excise duties	Bad (X) Illicit trade
Rising deficits, debt and debt servicing costs	Bad (X) Too high, as economic growth ceiling is 2,5% per annum

# Recommendations

- The fiscal cliff barometer improved compared to the 2020 MTBPS, but continued vigilance is necessary as the shift is caused by significantly smaller than expected revenue under-recovery
- The ‘structural shift upwards’ as observed after the 2020 MTBPS, remains evident in the 2021 Budget data
- The longer term outlook for the fiscal cliff barometer remains worrying as it is likely to trend in the wrong (upwards) direction

# Recommendations

- Protect institutions that still function well, but:
  - Refrain from helping non-essential failed State-owned enterprises (SOEs); e.g., Alexkor, Denel, SA Express, SA Airways (importance of Council on SOEs)
  - Limit/**reduce** the remuneration and bonuses of executives at SOEs
- Austerity budgets are inevitable, as South Africa did not have austerity budgets for the past decade
- Civil service wage restraint must be retained

# Recommendations

- The FCSG reserves some scepticism regarding medium term forecasts
- We urge members to take note of the Minister's (repeated) warnings about a looming "sovereign debt crisis"
- Global lenders' willingness to provide funds; should not be confused with South Africa's ability to repay it (SA bonds offers exception returns compared to global alternatives)
- The only real long term solution is sustainable economic growth; which will provide impetus for revenue to rise.

# Questions/Discussion

Selected references:

- 2021 Budget and various National *Budget Reviews*.
- Businessstech, 2021. Available at: <https://businessstech.co.za/news/wealth/460176/calls-for-lifestyle-audits-on-rich-south-africans-living-in-mansions-and-driving-expensive-cars/>
- Mbeki, M, Rossouw, J, Joubert, F and Breytenbach, A. 2018. Fiscal Cliff Barometer. *New Agenda: South African Journal of Social and Economic Policy*. Volume 70. Third Quarter 2018.
- Moneyweb, 2021. Available at: <https://www.moneyweb.co.za/news/south-africa/budget-woes-mean-sa-doctors-jobless-while-hospitals-battle-covid/>
- National Treasury: *Financing the budget in the post-corona world*. ERSA Fiscal Futures: Part 2 – presentation by Me T. Moahloli, 12 August 2020. [Online] Available at: <https://www.youtube.com/watch?v=k98LV-DR6oM&feature=share>
- Rossouw, J., Joubert, S. J. en Breytenbach, A. 2016. Suid-Afrika se fiskale keuses gemodelleer: Afgrond of plato? *Tydskrif vir Geesteswetenskappe*, 56 (2-2): pp. 534-554.
- Rossouw, J, Joubert, S. J. en Breytenbach, A. 2014. Suid-Afrika se fiskale afgrond: 'n Blik op die aanwending van owerheidshulpbronne. *Tydskrif vir Geesteswetenskappe*, 54 (1): pp. 144-162.