

The Budget speech

What does it mean for the ordinary South African?

Finance Minister Pravin Gordhan's Budget speech has a theme of addressing the chronic unemployment currently undermining South African's democratic transition since 1994.

While efforts of post-1994 governments have attempted to increase the available pie in which all South Africans need to eat – by encouraging pro-business policies such as the Growth, Employment and Redistribution programme and the Accelerated and Shared Growth Initiative for South Africa – these macro-economic policies have not yet translated into meaningful jobs for the average South African.

For most of the 2000s, South Africa enjoyed relatively strong economic growth. As a result, despite the volatility of the 1990s, overall economic expansion between 1994 and 2008 approached 4% – more or less the same as other upper-middle income countries. In contrast, from the late 1970s to the early 1990s, South Africa's economic growth lagged its peers, running at just over 1% a year. Despite improved growth, the economy remained one of the most inequitable in the world.

In the mid-2000s, some 40% of the national income went to the richest 10% of households. Deep inequalities were associated with the extraordinarily high levels of joblessness.

In the late 2000s, less than half of all working-age South Africans had income-earning employment, compared to an international norm of almost two-thirds.

In that period, around a third of the population lived in the former homelands. Less than one in three adults was, and still is, employed. Over half of all households in the former homelands depended mostly on remittances or grants, compared to under a quarter in the

rest of the country. The position was worse for young people, largely because too few jobs were created to absorb the large numbers of new entrants to the labour market.

In the first quarter of 2010, the unemployment rate for young people aged 16 to 30 was 40%, compared to 16% for those aged 30 to 65. To make matters worse, getting a post-matric qualification does not guarantee you a job and this has resulted in the high percentage of the youth being unemployed.

The proposed eradication of labour brokers and the pressure exerted by the Congress of South African Trade Unions in relation to the current inflexible labour legislation has given the government little leverage and few tools to create decent work.

With these major challenges, the 2011 Budget Speech has aimed to balance the needs of burdening current tax contributors to the fiscus (businesses, individuals, etc.) and never-ending lists of challenges (job creation, National Health Insurance, education and skills development).

How are these challenges addressed?

The government's New Growth Path aims to address unemployment by creating five million jobs over 10 years to reduce unemployment from 25% to 15%.

Although the plan is both aggressive and ambitious, the government has laid the platform in the past and current budgets by setting aside a large component of the Budget toward labour-absorbing activities such as construction, manufacturing, mining and services.

Infrastructure spending of more than R800 billion by the government and state-owned enterprises over the medium term, R20bn in tax incentives for manufacturing investment, R73bn for the Expanded Public Works Programme and

the R9-billion jobs fund, all result in a focused drive to boost economic growth.

In addition, a three-year allocation of R10bn for investment promotion will underpin the Industrial Policy Action Plan. The proposed R5-billion youth employment subsidy will contribute significantly to the suite of policies directed at achieving the ambitions of the New Growth Path.

The government predicts real growth in gross domestic product of 3.4% this year, 4.1% next year and 4.4% in 2013. This compares with last year's 2.8%. To make a significant dent in unemployment, growth of 7% per year is required.

The minister allocated substantial amounts of the Budget for education and skills training. Further education and training colleges will get R14bn over the next three years, while more than R20bn will go to the sector education and training authorities and R5bn to the National Skills Fund. The National Student Financial Aid Scheme will get R6bn.

Adjustments for the remuneration of teachers, a total of R243bn, will be added to education and skills spending over the next three years, which rises from R190bn next year to R215bn in 2013 to 2014.

Drinking, driving and gambling

It seems these activities will bear the brunt of creating extra revenue to finance the government's initiatives. If you smoke, you will pay 80 cents more for a packet of cigarettes. Ouch, that's got to burn!

To drown your sorrows, do not forget the extra 6.4 cents you will pay for a can of beer. If you are a wine type of a person, you will fork out an extra 13.5 cents on a bottle, or you can pay an extra R2.86 for a bottle of spirits.

To make matters worse, if you think you want to take a long or short drive to take your

frustrations away, that will cost you as well. The proposed increase in the fuel levy is 10 cents per litre for both petrol and diesel. Major ouch! This will have a great inflationary impact, as transport costs affect everything. We believe the new gambling withholding tax of 15% of all winnings above R25 000 from 1 April 2012 is a good tax to have, as it somewhat discourages gambling.

What are the implications for you?

The new tax tables are favourable for the man on the street. If you earn R150 000 per annum, the average tax (after taking into account the primary rebate for a person under 65 years of age and assuming no deductions) is 10.8%, which is fair.

The majority of working people in South Africa earn less than R200 000, thus the tax reductions relating to individuals were highest in that particular bracket comparatively to last year.

One of the interesting things to come out of this Budget is the introduction of a "third" rebate for senior citizens above 75 years and over, of an additional R2 000. That means that if you are 75 years and over, the tax-free income you may receive is up to R104 261 compared to R88 528 last year – resulting in a 15.1% tax saving.

The examples below demonstrate the individual tax savings for taxpayers younger than 65 years per the 2011/12 Budget Speech, compared to tax tables in the previous year.

The average tax is reducing, particularly for the R250 000 and below bracket. One of the best initiatives to come out of this Budget speech is the reduction of transfer duties on the acquisition of immovable property. This reduction should encourage taxpayers to acquire property and thus encourage savings.

Property with a price of up to R600 000 (2010/2011: R500 000) will not attract transfer duties. If the price of the property is between R600 000 and R1 000 000, the transfer duty is 3%, compared to the 5% in the previous years.

Other tax benefits have increased with inflation, including medical aid deductions, interest exemptions, and annual exclusions for capital gains tax. There have been further proposals in

the relation to retirement fund tax. For starters, the tax-free allowance has increased to R315 000 from R300 000 last year.

The interesting point, though, is that employer contributions to pension, provident and retirement annuity funds are to be included as fringe benefits from 1 March 2012. Employees will be allowed a deduction of up to 22.5% of taxable income for contributions to all approved retirement funds (i.e. pension, provident and retirement annuity funds) with a minimum annual deduction of R12 000 and an annual maximum of R200 000, to ensure greater equity. As a result, the definition of non-retirement funding income (which was necessary in the past to calculate the potential retirement annuity deduction) becomes obsolete and falls away.

Conclusion

The Budget Speech has been largely welcomed by most. To achieve service delivery and eradicate poverty through a number of initiatives, including employment creation, is a difficult task and it will take some time before this is achieved fully. However, the government is really committed to meet this incredible challenge and it will take a significant amount of resources, commitment and sacrifice to accomplish. Service delivery is still a burning issue and needs to be addressed if the government does not want to regress from the painful gains it has achieved despite limited resources. Local government needs to come to the party consistently to

limit the number of service delivery strikes that sometimes plague our country.

There are major issues bubbling such as the National Health Insurance and the ANC Youth League's proposed nationalisation of mines. These proposals have not been directly addressed in this Budget and have been "deferred" to future budget speeches as they are currently being debated.

However, it still feels great to be South African and the fact that we worry about petrol prices and watch budget speeches says much about the state of our country. (At least we do not have a situation such as that which Egypt, Ivory Coast and Libya are having to deal with.)

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Taxable income	Tax payable 2010/2011 year	Tax payable 2011/2012 year	Tax reduction (%)
R59 750	R495	R Ni	100%
R100 000	R7 740	R7 245	6.4%
R150 000	R17 440	R16 245	6.9%
R250 000	R43 890	R41 995	4.3%
R500 000	R130 710	R127 095	2.8%
R1000 000	R329 670	R325 495	1.3%