2014 Budget Predictions

Tax revenues and budget balance

Topic	PwC prediction
2013/14 tax revenues	In the 2013 Medium-Term Budget Policy Statement (MTBPS), estimates for 2013/14 tax revenues were revised downwards by R3 billion to R895 billion. However, a cautionary note was attached to this revised estimate in the form of a warning of uncertainties about the second half of the fiscal year. In particular, the performance with respect to VAT and excise duties was cause for concern. At that time, National Treasury estimated real GDP growth for 2013 of 2.1%. Since then, the Reserve Bank has revised its estimate of GDP growth for 2013 downwards to 1.9%. The consumer continues to be under pressure, and the recent performance of the retail sector supports that view. Given this environment, it is expected that projected tax revenues from VAT and excise duties will be further revised downwards. While corporate tax collections for the first half of the fiscal year were robust, this is expected to come under pressure in the second half of the year as a result of the slowing economy and the effects of prolonged strikes. As a result, a downward revision in estimates of company tax revenues is expected for 2013. Overall, it is unlikely that the revised estimate of tax revenues for 2013 will be achieved.
2014/15 tax revenues	The 2013 MTBPS puts estimated tax revenues for 2014/15 at R985 billion, a slight downward revision from the 2013 Budget estimate of R992 billion. This downward revision is principally due to significant decreases in the estimates for collections from dividends tax where National Treasury appears to have miscalculated the impact on tax collections that the change from STC to dividends tax would have. Significant downward revisions were also made in respect of VAT and excise duties, while estimates for customs duties were revised upwards by R4 billion along with an upward revision of R3 billion for personal income taxes.

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	Overall, the MTBPS 2014/15 tax revenue estimates constitute a nominal increase of 10% in tax collections. It is expected that these estimates will have to be revised downwards in relation to certain of the taxes, given the slower than projected performance of the economy. In the MTBPS, real GDP growth for 2014 was forecast at 3%. However, since then, the Reserve Bank has reduced its forecast to 2.8%. Given this scenario, the projected growth of 12% in company tax revenues and 10% in VAT revenues on the 2013/14 MTBPS estimates appears optimistic, particularly given our projection that actual collections are likely to be lower than these estimates.
Budget balance	In the MTBPS, the budget deficit for 2013/14 was forecast at 4.2% of GDP, more or less in line with the forecast in the 2013 Budget. Given the pressure on tax revenues, this deficit may be slightly higher than forecast unless further savings in expenditure can be squeezed out. The MTBPS forecast budget deficit for 2014/15 was 4.1% of GDP. Given the expected decline in tax revenue estimates highlighted above, it is expected that government will mount a concerted effort to curtail growth in expenditure and extract further savings in order to achieve the projected downward path in the fiscal deficit. In particular, it can be expected that further details of the cost-containment proposals indicated in the MTBPS will be provided in the 2014 Budget. The alternative is to increase taxes; however, this is not considered likely at this stage, particularly as the sustainability of SA's tax mix and tax-to-GDP ratios forms part of the Davis Committee mandate.

Business

Topic	PwC prediction
Corporate tax rates	No change is expected in the corporate tax rate of 28%. Although corporate tax revenues are expected to be under pressure in 2014/15 due to slightly lower expected economic growth, no increases are expected. Any increases would negatively impact on the competitiveness of SA's tax rates.
Small business	In December, the Davis Committee provided the Minister of Finance with its first report on small and medium business. It is expected that this will be referred to in the Budget with the recommendations in the report to be considered during the course of the year.
Mining taxes	No significant announcements are expected on changes to the mining tax regime. The Davis Committee is to undertake a review of mining tax during 2014 and an announcement to this effect in the Budget can be expected.
Deductions of expenses paid to exempt recipients	The 2013 draft Taxation Laws Amendment Bill included a proposal to defer the deduction of expenditure payable to a related party who is exempt from South African tax on the amount until such time as the amount was actually paid. This proposal was withdrawn for further consultation. It is expected that it may be placed back on the table in the 2014 Budget.
Long-term insurers	In the 2013 Budget, an announcement was made regarding the reform of the income tax regime for long-term insurers. In particular, it was announced that risk business would no longer be taxed in the policyholder funds but rather in the corporate fund. No legislation was tabled during 2013 and it is expected that this reform will be rolled forward in the 2014 Budget.
Financial instruments and derivatives	The taxation of financial instruments and derivatives is of concern to government. Possible announcements on further reforms in this regard are possible.

Individuals

Topic	PwC prediction
Personal income tax rates	Tax relief is expected to be limited to partial relief for fiscal drag in the form of increased rebates and adjustment of the tables, particularly for lower-income earners. No changes in the tax rates are expected.
National Health Insurance	In the 2013 Budget it was announced that a discussion paper on the possible funding mechanisms of the NHI would be issued during the year. This discussion paper has yet to be issued. No major announcements are expected as to how it is proposed to fund the NHI ahead of the issue of the discussion paper.
Estate duty and donations tax	In the 2011 Budget it was announced that the effectiveness of estate duty was to be reviewed. Nothing came of this, but it now forms part of the Davis Committee mandate and is to be considered in 2014. An announcement to this effect may be contained in the 2014 Budget.
Tax-preferred savings accounts	In the 2012 Budget it was announced that tax-preferred saving and investment vehicles were proposed to be introduced. A discussion paper was issued during 2012, and in the 2013 Budget it was announced that government intends to proceed with this and that new accounts would be introduced by April 2015. It is expected that an update and further details will be provided in the 2014 Budget.
Trusts	In the 2013 Budget it was announced that the taxation of trusts would be reformed. No legislative developments took place during 2013, and it is expected that the proposed reform will be rolled forward in the 2014 Budget.
Employee share schemes	In 2013, legislation was introduced with the intention of subjecting dividends to tax where those dividends are connected to employment. It is doubtful that these changes fully addressed the concerns of government, and it is expected that further reforms to the taxation of share schemes will be announced.

Indirect taxes

Topic	PwC prediction
VAT rates	No changes are expected to the VAT rate. Although there is arguably scope to increase SA's VAT rate given the relatively low rate and the growing trend to indirect taxes as a source of tax revenue globally, an increase in the VAT rate is unlikely at this stage, given the perceived regressive effect of the tax. The Davis Committee is to report on the efficiency and equity of the VAT system and consider dual rates, zero rating and exemptions during 2014, and this may be mentioned in the Budget.
Carbon tax	An update is expected to be given on the proposed introduction of carbon tax. In the 2013 Budget it was announced that a carbon tax would be introduced from 1 January 2015, and a policy paper was issued for comment in May 2013. A further discussion paper on offsets was due to be issued in 2013, but has yet to be issued. It is expected that announcements may be made in the 2014 Budget with respect to significant refinements of the proposals, including better alignment with other carbon mitigation initiatives of government and design proposals for phase 2. Given the delays being experienced with the process, the significant concerns raised regarding the proposals in the policy paper, the need for further consultation and the time required to draft legislation, the proposed implementation date of 1 January 2015 is ambitious. Although government is currently insistent that this date will be achieved, it is likely that it will be delayed.

Other environmental taxes	Other environmental taxes, such as the plastic bag levy and vehicle emissions tax, were significantly increased in 2013. No changes are therefore expected in these taxes in 2014. The electricity levy is also not expected to be changed in 2014, given the proposed phasing out of this tax as the proposed carbon tax is phased in. It is possible that the introduction of new environmental taxes and levies could be announced in the Budget.
Fuel levies	It is expected that the general fuel levy will be increased by 20c/l to 25c/l in line with recent increases. The RAF levy is also expected to increase in line with the increases over the last few years by 8c/l to 10c/l.
Excise duties	Excise duties on tobacco and alcohol are a perennial soft target for increased taxes. Smokers and drinkers can expect to see above inflation increases in these taxes
Gambling taxes	In the 2012 Budget it was announced that a national gambling tax would be introduced from 1 April 2013 in the form of a 1% levy on gross gambling revenues. This would also apply to the National Lottery. In the 2013 Budget it was announced that legislation would be introduced in 2013. There have been no developments in this regard, and it is expected that the introduction of the tax will now take place in 2014.

Tax administration

Topic	PwC prediction
Avoidance and evasion	Tax avoidance and evasion continues to be a major focus area of SARS. Expect to see a continued commitment to curbing such practices. In particular, South Africa will continue to participate in international initiatives of the G20 and OECD in this regard. The participation of South Africa in a pilot on the automatic exchange of information is a highlight.
Simplification	Further announcements on the progress of simplifying administration, particularly with regard to the single registration process, can be expected.

Contact

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