Economic growth

**PwC wish**

In PwC’s recently released 26th Global CEO Survey, 59% of South African CEOs polled expect local economic growth to decline this year. Our wish is for Budget 2023 to be encouraging to the business community and to lift business sentiment by providing an update on progress made in key economic and structural reforms as well as solutions towards the country’s energy and transport challenges.

Our real GDP growth forecasts

- 2022: 1.7%
- 2023: 1.5%
- 2024: 1.5%
- 2025: 1.5%

Our nominal GDP growth forecasts

- 2022: 6.8%
- 2023: 5.7%
- 2024: 5.5%
- 2025: 5.0%

**PwC prediction**

The South African Reserve Bank (SARB) published very conservative economic growth forecasts in January. It is likely that the National Treasury will also make a notable downward revision to its own growth predictions in Budget 2023. A conservative approach to the economic growth outlook will provide realism into the outlook for fiscal revenues.

The finance minister is likely to give an update on progress under Operation Vulindlela. It is expected that some of the key necessary structural reforms would have seen slow progress in fixing, so the finance minister might need to be creative in how he communicates this and the reasons behind slow or no progress elsewhere.
Fiscal balance

**PwC wish**

South Africa’s fiscal balance is on a narrowing trend after the large shortfall seen in 2020/21. Our wish is for the finance minister to stick to the plans he set in October 2022 to substantially narrow the fiscal deficit over the medium term. This includes a pledge for a surplus on the primary budget (revenue exceeding non-interest spending) in 2023/24.

**PwC prediction**

The reduction in the economic growth outlook, as well as the adverse operating conditions faced by many businesses, are likely to have a negative impact on revenue expectations. As such, we expect the consolidated deficit forecasts provided in October 2022 to be slightly revised, to show a slower decline in the shortfall compared to previously expected.

Our budget balance predictions are:

- 2021/2022: -4.7%
- 2022/2023: -4.9%
- 2023/2024: -5.5%
- 2024/2025: -4.9%

Expenditure

**PwC wish**

There are various areas where the minister of finance will face expenditure pressures. Our hope is that the minister will opt for budget reallocations, especially from areas where spending has not been productive.

**PwC prediction**

The finance minister will continue to show strong expenditure restraint as far as possible. The large risks to expenditure include SOEs (Eskom and Transnet in particular), as well the public sector wage bill.
Debt

**PwC wish**
The finance minister needs to make clear what his plans are with regards to the transfer of Eskom debt to the sovereign’s balance sheet. We would like to see the minister make public all the conditions, requirements and stipulations associated with this deal. The National Treasury should also make clear how this will impact consolidated expenditure and, ultimately, the taxpayer.

**PwC prediction**
MTBPS 2022 promised greater clarity on the pledge to move a large proportion of Eskom’s debt to the sovereign balance sheet. We expect the finance minister to provide clarity on a timeline for this process as well as the impact on public debt levels. It is likely that the state will try to absorb half of Eskom’s debt, around R200bn.

SOEs

**PwC wish**
A comprehensive cost-benefit analysis of the contribution of SOEs to South Africa’s society and economy is urgently required. With a view to improving this contribution, Budget 2023 should announce that appropriate assessments will be conducted in this regard. This will help determine which long-term plans and funding mechanisms will benefit South Africans the most.

We would like to see a comprehensive update about the restructuring of Eskom. While there has been some progress in restructuring the utility, the process is behind schedule and weighing on the South African economy.

**PwC prediction**
The government has been discussing “rationalising” state owned entities (SOEs), by which it is understood that some SOEs no longer are needed and could be disposed of, while others could be combined where their mandates overlap.

During the MTBPS 2022, Transnet, Sanral and Denel were allocated R33bn to help repair their balance sheet so that they could return to health. The minister is likely to take a similar tone, encouraging public sector partnership in delivering on their mandates.

Credit ratings

**PwC wish**
South Africa’s credit ratings have bottomed out, with all three major ratings agencies having recently put improved outlook assessments on the country’s ratings. Ratings agencies should consider the Eskom debt that will soon be added to the sovereign balance sheet as already incorporated into their current ratings assessments. This is because Eskom’s debt is largely already publicly guaranteed, and default risk on this should already be part of the sovereign rating.

**PwC prediction**
The budget speech usually makes limited reference to credit ratings. However, this would be an opportune time for the finance minister to highlight any progress made in the key areas observed by ratings agencies as they assess sovereign ratings. It is an opportunity to reflect on some good news around public sector finances.
Wage bill

PwC wish
Managing the wage bill is a key component in the Government’s commitment to fiscal prudence. The Government should make every effort to keep to this commitment.

PwC prediction
The Government has made a strong effort in reducing the impact of the public sector wage bill on overall expenditure. The share of compensation of employees to total consolidated expenditure has decreased from 34.5% in 2019/20 to 31.6% in 2022/23. The Government’s intention is to further reduce it to about 30.8% in 2024/25. However, there is great uncertainty in terms of how achievable this target is.

While the Government has pencilled in 3% increases in remuneration, labour unions have been aggrieved by what they call a unilateral decision by the Government. Negotiations are still underway to finalise the 2022/23 wage deal, and there is a strong likelihood of industrial action if this is not resolved soon. Given the high levels of cost pressures in the economy, the Government is likely to miss the 3% target it has set for increases in the wage bill.

Social Relief Distress Grant (SRD)

PwC wish
There is uncertainty over the fiscal framework after 2022/23 due to a lack of clarity on the SRD and possible basic income grant (BIG). There is a hole in the 2024/25 budget left by the planned end of the SRD and there is no clarity as yet about what will happen after March 2024. Budget 2023 should ideally provide greater certainty on the future of the SRD and the impact on the fiscal framework over the medium term.

PwC prediction
The finance minister previously announced that the SRD grant would be extended to March 2024. What is clear is that the Government is still unsure about a permanent solution. What has been suggested is to develop the SRD grant into a BIG. However, the challenge is at what level to peg the BIG and how to fund it. For now, the minister is likely to announce a marginal increase (inflation adjustment) to the SRD grant while noting that work is underway.

Municipal/local government finance

PwC wish
Municipalities play an important part in delivering services to business, including managing growth supporting infrastructure. Their performance is important to economic growth and development at the community level. We would like to see the minister of finance announce measures to develop a new funding model for municipalities, as well as stronger expenditure management for local governments.

PwC prediction
In Budget 2022, the minister announced that “national government had used some of the higher-than-anticipated revenue to provide additional funding to provinces and municipalities”. However, he expressed concerns about the capacity of municipalities to manage resources efficiently, and their continued ability to provide services.

In June 2022, the Auditor-General revealed that 26% of municipalities had ended the year in deficit, which meant that the following year’s budget would pay for the expenditure of the previous year(s). For 29% of municipalities, this represented as much as half of their budgets. Credit rating downgrades of some metros has placed pressure on their ability to raise funding for capital expenditure, and internal savings from the operational budgets were used to fund shortfalls.

Many municipalities had insufficient funds, which impacted project completion and service delivery. Given challenges faced by municipalities, the finance minister is likely to announce intentions to review or reform the municipal funding methodology.
Taxes

2020/21 tax revenues

PwC prediction

Revenue collections for the 2022/23 fiscal year have outperformed the original budget estimate in Budget 2022.

The National Treasury forecast total tax revenues of R1.598 trillion in Budget 2022, growth of only 3.2% on the estimate at the time for the 2021/22 fiscal year. In particular, a significant fall in corporate tax collections was forecast as the tailwinds from high commodities prices began to slow.

However, National Treasury made a significant upward revision to this figure in MTBPS 2022 by R84 billion to R1.682 trillion, mainly led by a substantial increase in the expected corporate tax collections of R63 billion as the recovery in corporate tax became more broad-based, particularly in the finance and manufacturing sectors, and the mining sector continued to outperform expectations.

Collection of personal income tax from employees in the finance sector also benefited from a recovery in earnings and improved bonus payments, as did customs duties from large import volumes and higher prices.

Based on our projections, we expect revenue collections to be broadly in line with the revised estimates in MTBPS 2022. While corporate income tax (CIT) and personal income tax (PIT) revenues should be better than those estimated, these higher revenues are expected to largely be offset by lower-than-estimated revenues for VAT and excise duties.

2023/24 tax revenues

PwC wish

It is hoped that National Treasury will not increase taxes in Budget 2023. Given the significant improvement in revenue collections for 2021/22, as well as the revenue outlook for 2022/23, National Treasury is in a position to adopt tax policies that are supportive of economic growth.

PwC prediction

In MTBPS 2022, National Treasury estimated tax revenues for 2023/24 at R1.789 trillion, or growth of 6.4% on expected nominal GDP growth of 6.2%. In that regard, National Treasury indicated that the higher estimates over the medium term than those in Budget 2022 assume that most of the windfall tax receipts from higher commodity prices fall away over the next two years and partially reflect a permanent increase in revenue, most likely due to improvements in efficiencies at SARS. In Budget 2022 some relief was provided for taxpayers in the form of moderate real relief in PIT and by not increasing the general fuel levy or the Road Accident Fund (RAF) levy (it will be remembered that further relief was provided through a subsequent temporary reduction in the general fuel levy). The rationale for this moderate relief was to support households and the economy.

It is expected that a similar approach will be adopted in Budget 2023 and moderate tax relief may be provided once again, made possible by the better than expected revenue performance over that of Budget 2022.

MTBPS 2022 extended the temporary SRD grant until March 2024, stating that:

“The future of the … grant … remains under discussion. For now, these transfers to low-income households are extended for another year without compromising fiscal consolidation. Over the next year, government will make a decision in line with its commitment to sustainable public finances. Any permanent increase in expenditure, such as a new social grant, will need to be matched by permanent revenue increases or spending reductions elsewhere.”

We accordingly do not expect any tax increases to fund the SRD grant at this stage.

MTBPS 2022 forecast nominal GDP growth for 2023/24 at 6.2% and expected tax revenues to grow at a tax buoyancy ratio of 1.03. However, given the expected deterioration in the performance of the economy, we expect nominal GDP growth to be slightly lower and, using a slightly more conservative tax buoyancy ratio of 1, expect gross tax revenues for 2023/24 to amount to approximately R1.778 trillion, or about R11 billion lower than was forecast in MTBPS 2022.
Governance of South African Revenue Service (SARS)

PwC wish

It is hoped that changes to the governance of SARS will be made during 2023 and that the South African Revenue Service Act will be amended to provide for a more open and transparent process to appoint the SARS Commissioner.

PwC prediction

The Nugent Commission made a number of recommendations to improve governance and to develop robust mechanisms to preclude governance failures in the future. The Zondo Commission has also made a recommendation in respect of the appointment of the Commissioner of SARS.

Budget 2022 stated that:

“SARS has implemented the majority of the Nugent Commission recommendations and is now aligning the outstanding recommendations with those of the State Capture Commission. A National Treasury discussion document regarding the broader governance and oversight reforms outlined in the recommendations from both commissions will soon be published for public comment. Concurrently, legislative amendments will be proposed.”

Unfortunately, the discussion document has yet to be published and no legislative amendments have been proposed to date. It is expected that Budget 2023 will give renewed urgency to these reforms.

Dividends tax

PwC prediction

We do not anticipate any change to dividends tax for 2023/24.
Corporate income tax

PwC wish

Ideally, the budget would map out a path for the reduction in the CIT rate from 27% to 25% over the medium term in a tax-neutral manner as the tax base is broadened.

PwC prediction

Budget 2020 announced the Government’s intention to restructure the CIT system by reducing avoidance opportunities and expanding the tax base, while lowering the headline tax rate.

Budget 2022 announced amendments to the interest deduction limitation rules and restrictions on the use of assessed losses, together with the CIT rate reduction to 27%.

Budget 2022 stated that:

"Over the past two years, tax policy has focused on broadening the tax base, improving administration and lowering tax rates. Government intends to continue with this approach by avoiding tax rate increases to the degree possible, subject to major expenditure decisions."

No changes are expected to the CIT rate in 2023/24, nor to the inclusion rate for capital gains tax.

However, the CIT rate may be reduced further in 2024/2025 following the implementation of further base broadening measures.

OECD BEPS project

Budget 2022 stated that:

"South Africa is a member of the Steering Group of the OECD/G20 Inclusive Framework tasked with finding consensus-based solutions to tax challenges associated with digitalisation of the economy. In October 2021, the Inclusive Framework agreed on a two–pillar solution, and will work on an implementation framework to take effect by 2023. South Africa will propose legislative amendments to implement these rules once the framework has been finalised and translated into a local context."

The second pillar of the solution involves the introduction of a global minimum tax rate of 15% and the rules for its introduction are in the final stages of completion.

A number of countries have commenced steps to adopt domestic legislation in respect of Pillar II.

Accordingly, it is expected that National Treasury will commence with the drafting and implementation of domestic legislation to give effect to the proposed Pillar II minimum tax measures.

Incentives

In Budget 2021, it was announced that the tax incentive regime will be reviewed with a view to reduce incentives to create an environment that is conducive to broad-based economic growth and that avoids complicated incentives for specific sectors or groups of taxpayers. The review commenced in 2021 and Budget 2022 announced that certain incentives will not be extended post their sunset dates. In Budget 2022, a review of depreciation and investment allowances was also announced. This review has yet to take place and it is expected that Budget 2023 will renew this undertaking.

Research and Development (‘R&D’ incentive)

Budget 2022 extended the R&D incentive in its current form until 31 December 2023 to allow time to make amendments to the incentive. Draft refinements to the R&D incentive were published in October 2022 for public comment and at the time it was indicated that the incentive is likely to be extended for a period of ten years from 31 December 2023.

It is expected that Budget 2023 will announce proposed amendments to the current R&D incentive regime and extend it (in its amended form) for a period of ten years.

Energy efficiency

National Treasury indicated recently that the Government has competing priorities, but given the global energy crisis, the current focus is on energy issues.

Given the ongoing energy crisis, Budget 2023 may announce the introduction of additional incentives to promote investment in energy efficiency and renewable energy.

Oil and Gas (O&G) regime

Budget 2021 announced a move towards a fairer and more certain fiscal and regulatory regime for upstream O&G and that a discussion paper would be issued on the potential tax reforms.

The discussion paper was published for public comment in December 2021, essentially proposing state participation in the form of a 20% carried interest combined with a flat-rate royalty of 5% on gross sales.

Budget 2022 indicated that some concerns with the approach had been raised and that further consultations would take place followed by proposed legislation in 2022. However, no further public consultations took place during 2022 and no proposed legislation has been issued. It is expected that further public consultations will take place during 2023 and that the required legislative changes may follow.
Personal income tax

PwC wish

Tax rates

As mentioned in previous years, we would like to see significant real PIT relief, but realistically, this is unlikely to happen until such time as the fiscal deficit is brought under control and the tax base is broadened.

For a number of years, various tax tables, monetary amounts and thresholds were not updated to account for the effects of inflation. Budget 2022 announced that “Government will review the approach to adjusting thresholds for inflation” in the wake of concerns raised with this approach.

Ideally, to further promote fiscal transparency, an annual review of the tax tables and monetary amounts should take place and be included in the Budget.

As many salaried employees are currently incurring (and will continue to incur in the year ahead), non-deductible expenditure due to remote working arrangements, it is hoped that National Treasury’s review will be expedited and that Budget 2023 will introduce some tax relief for expenses that result from this new way of working.

PwC prediction

Tax rates

In Budget 2021, National Treasury noted that South Africa has the highest PIT burden among upper middle-income countries, alongside one of the highest top personal income tax rates. It also noted that further increases in PIT would put additional pressure on households and undermine the chance of a stronger economic recovery. Finally, National Treasury indicated that, rather than increasing rates, it aims to reduce the rate over time by increasing the tax base through greater economic growth, employment and enforcement.

Accordingly, no increase is expected in the PIT rates for 2023 and some moderate real tax relief may instead be granted, similar to that introduced in Budget 2022.

Medical tax credits

In Budget 2018 it was announced that increases in medical tax credits would be kept below inflation for the next three years to fund the rollout of the National Health Insurance (NHI). Since Budget 2021 inflationary increases in medical tax credits have been reinstated and we expect this to continue for now. However, it is noted that the elimination of these credits is one of the proposed measures to fund the NHI and it is expected that the Government will start to gradually phase out the medical tax credit through lower than inflationary increases in future budgets.

The NHI Bill (introduced to Parliament in August 2019) is currently under consideration by the National Assembly. Even if the NHI Bill should be passed in 2023, it is unlikely to receive substantial budget allocations in the near future.

Retirement reform

The 2022 Draft Revenue Laws Amendment Bill proposed the introduction of a two-pot system for retirement contributions, i.e. a retirement pot (two-thirds) that will not be accessible prior to retirement and a savings pot that would allow pre-retirement access (one-third).

During public consultations, stakeholders expressed various concerns (including potential implementation issues). Following these consultations, National Treasury proposed that the implementation date be postponed from 1 March 2023 to 1 March 2024 and that the various concerns be addressed in an amended draft bill.

It is anticipated that the amended draft bill will be published for further consultation during 2023. It is expected that Budget 2023 will confirm National Treasury’s intention to introduce this reform from 1 March 2024.

Remote working

It was announced in Budget 2021 that National Treasury would commence with a review of the tax provisions for travel and working from home as part of a multi-year project and Budget 2022 stated that “[A] discussion document will be published in 2022 on a personal income tax regime for remote work.”

The discussion document has, however, not been issued as yet. It is expected that the document will be issued during 2023 and that any proposals in respect of this regime will only be included in Budget 2024.
Estate duty and donations tax

PwC prediction

The tax rates for estate duty and donations tax were increased from March 2018 in line with recommendations of the Davis Tax Committee. No further changes are expected in relation to these taxes at this stage.

Despite continued calls from some quarters for the introduction of wealth taxes (of which estate duty and donations tax are a form), it is unlikely that any changes will be made in this regard in Budget 2023. Nor is it likely that the introduction of any new wealth taxes will be considered in this Budget. In Budget 2022 it was announced that all provisional taxpayers with assets above R50 million will be required to declare specified assets and liabilities at market values in their 2023 tax returns. One of the reasons for this was that the additional information will help in determining the levels and structure of wealth holdings. The idea is that this information would help inform the debate on wealth taxes.

VAT

PwC prediction

VAT rate

No significant policy changes are expected to VAT. The introduction of a permanent basic income grant may necessitate a future increase in the VAT rate, but we do not expect an announcement in Budget 2023 of a VAT rate change in light of the SRD grant still being treated as temporary.

Ad valorem duties

PwC prediction

We do not anticipate any significant changes to the rates of ad valorem excise duties.

Fuel levies

PwC wish

The Russia/Ukraine conflict and movements in the international price of crude oil in 2022 resulted in South Africans paying significantly higher fuel prices.

Although a more stable year is predicted, the oil price outlook for 2023 remains uncertain. Given the financially vulnerable state of consumers, the hope is that the general fuel levy will not be increased in 2023.

It is hoped that Budget 2023 will announce a general reform of the RAF.

PwC prediction

General fuel levy

In Budget 2022, no increase was made in the general fuel levy in light of record fuel prices stemming from high oil prices and a weak currency. Post Budget 2022, further temporary relief was granted on the general fuel levy in an attempt to alleviate some of the large increases in fuel prices resulting from further significant increases in oil prices.

The general fuel levy is the fourth largest revenue item in the budget and has become an increasingly important source of revenue in the last decade, contributing R89 billion in 2021/22. While this source of revenue will diminish and have to be replaced by other sources of revenue in the future (as consumption shifts from petrol and diesel to other forms of energy), the Government is not in a position to provide significant relief from this tax in light of its fiscal position. An inflationary increase in the fuel levy is accordingly expected in Budget 2023. However, it is possible that Government could provide for the extension of diesel rebates to apply to electricity generated by generators operated by business in order to provide some relief for loadshedding costs.

RAF levy

The RAF levy was not increased in 2022 in order to support households and the economy.

Given that the RAF is in financial distress, we expect at least an inflationary increase in the RAF levy in Budget 2023.
Health promotion levy

PwC prediction

Budget 2022 announced an inflationary adjustment to the Health Promotion Levy. This was subsequently delayed by a year, coming into effect on 1 April 2023.

No further changes are anticipated in Budget 2023.

Transfer duties

PwC wish

In an ideal world, transfer duties should be replaced by a national property tax. Realistically, however, this will only be feasible as and when municipalities have reliable rating systems in place — this is unlikely to happen in the foreseeable future.

PwC prediction

2022 saw significant interest rate hikes and further hikes are expected in 2023 — this will impact negatively on the residential property market.

Due to this and the generally weak state of the economy, and as the transfer duty rates were last increased in 2020, inflationary adjustments to the transfer duty tax tables are expected.

Excise duties

PwC wish

SARS’ and SAPS’ joint efforts may have recently resulted in the confiscation of some illicit goods, but illicit trade, particularly in cigarettes, remains a major concern.

Accordingly, we hope that:

a. the budget will propose more measures to address illicit trade;

b. the Government will ratify the World Health Organisation’s Protocol to Eliminate Illicit Trade in Tobacco Products in 2023; and

c. the Government will start developing a practical track-and-trace system.

PwC prediction

The Government’s guideline to direct its excise duty policy is 11% (for wine), 23% (for beer) and 36% (for spirits) of the weighted average retail price and 40% of the price of the most popular brand for cigarettes.

Budget 2021 announced a review of the policy framework for alcohol and tobacco (this was restated in Budget 2022) and following the higher than inflation (8%) increases in previous years, Budget 2022 announced a general increase in the excise duty on alcohol and tobacco by between 4.5% and 6.5%.

The expectation is that at least an inflationary increase to excise duties will be announced in Budget 2023 and that National Treasury will finalise the policy review during 2023.

Vaping products

In 2022, the Government introduced a flat excise duty on both nicotine and non-nicotine solutions, effective from 1 June 2023. No changes are expected in 2023.
Environmental taxes

PwC prediction

In Budget 2020, the Government announced that an environmental fiscal reform review paper would be published. It was stated that this paper would explore the potential for new environmental taxes and reforms to existing instruments, such as, for example:

- restructuring the general fuel levy to include a local air pollution emissions component;
- alleviating traffic congestion through road pricing charges and design options for an annual carbon dioxide tax on vehicles, in collaboration with the Department of Transport and provincial governments;
- reviewing inefficient fossil fuel subsidies, including the VAT zero-rating of transport fuels;
- considering product taxes on electrical and electronic waste; and
- reviewing the tax treatment of company cars to incentivise the use of more fuel-efficient vehicles.

This paper has yet to be published by National Treasury. It is anticipated that the Government will continue to review environmental taxes and increasing developments in this area are likely.

Carbon tax

Carbon tax is being implemented in three phases.

Although the second phase was initially scheduled for a January 2023 commencement date, this was extended until 31 December 2025.

In Budget 2022, the Government announced its intention to ramp up the carbon price and strengthen the price signals to promote behaviour changes over the short, medium and long term. It proposed significant increases in the carbon tax rate through to 2030.

The 2022 carbon tax amendments (effective 1 January 2023) included rate changes during the periods:

- 2023 – 2025 (i.e. R159, R190 and R236 for the respective years);
- 2026 - 2030 (i.e. R308, R347, R385, R424 and R 462 for the respective years); and
- From 2031 – as announced in the budget (taking into account the impact of exchange rate movements on the comparability of the rate to global carbon pricing).

It is expected that further public consultations will take place in 2023 on the second phase of carbon tax, including on the future availability of allowances (post 2025) and the carbon tax revenue recycling potential (which is a key part of the design of carbon tax to cushion the impact on households and energy-intensive businesses).

It is further expected that National Treasury may finalise its framework for developing a local carbon offset standard during 2023.

Tax administration

PwC wish

In December 2021, SARS issued a paper titled the ‘Proposed Model for Establishing an Advance Pricing Agreement Programme’ (APA) in South Africa and drafted legislation for public comment. No further progress has been made in this regard. It is hoped that the proposed transfer pricing APA Programme will be implemented during 2023.