Budget 2024/2025

For Our Humanity: Now's the time to work together

pwc

www.pwc.co.za

Economic and fiscal policy

Economic growth

PwC wish

In PwC's recently released 26th Global CEO Survey, only one out of three South African CEOs polled said they expect local economic growth to increase this year, while most economists predict an increase. Our wish is for Budget 2024 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 logistics challenges.

Our real GDP growth forecasts:

- *2022: 1.9%*
- *2023: 0.5%*
- *2024: 0.9%*
- *2025: 1.2%*

Our nominal GDP growth forecasts:

- *2022: 6.8%*
- *2023: 4.9%*
- *2024: 4.7%*
- *2025: 6.4%*

PwC prediction

The South African Reserve Bank (SARB) published very conservative economic growth forecasts in January 2023. It is likely that National Treasury will also make a notable downward revision to its own growth predictions in Budget 2024 following disappointing GDP data released in December for 2023Q3. A conservative approach to the economic growth outlook will, however, 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

Managing the fiscal balance will give credibility to South Africa's fiscal integrity. This will also have an impact on the cost of funding as investors reconsider South Africa's risk premium, which is heightened at this point.

Our budget balance forecasts:

- 2022/2023 -4.0%
- 2023/2024 -5.1%
- 2024/2025 -4.9%
- 2025/2026 -4.5%
- 2026/2027 -3.9%

PwC prediction

The moderation in economic growth expectations, 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 2023 to be slightly revised to show a slower decline in the shortfall compared to previously expected.

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, and that much funding will be focused towards productive and growth-inducing economic infrastructure.

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.

We expect that as promised at the Medium-Term Budget Policy Statement (MTBPS) in November 2023, the minister will provide details on a new mechanism through which private sector investors and multilateral institutions can co-invest with the government for selected infrastructure projects given constraints in government spending.

Debt

PwC wish

The national debt burden is at risk of increasing further due to possible transfers of SOE debt to the sovereign balance sheet and the further guaranteeing of SOE debt. Our wish is that the stringent conditions for these guarantees and transfers of debt from SOEs to the National Treasury are upheld to indicate fiscal sustainability.

PwC prediction

We expect that the minister will announce progress in the amount of debt that has been transferred and guaranteed, whether the conditions have been met, and what actions have been taken with regard to SOEs that are not meeting the set conditions. These include municipal debt.

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 2024 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.

Government also needs to clarify its plans for Transnet. In December 2023, National Treasury announced a R47 billion bailout for the railway SOE, which was less than half of what Transnet had requested.

PwC prediction

For several years, the government has been discussing "rationalising" SOEs, by which it is understood that some SOEs are no longer needed and could be disposed of, while others could be combined where their mandates overlap. It is imperative that Budget 2024 provides an update on this given the risks that underperforming SOEs pose to the fiscus.

Credit ratings

PwC wish

The outlook on South Africa's sovereign credit ratings are currently stable according to all three major ratings agencies. However, S&P Global Ratings warned in November 2023 that it could lower the country's rating if "the implementation of economic and governance reforms does not progress as planned, resulting in a further deterioration in economic growth, or higher-than-expected fiscal financing needs." Budget 2024 would be a good opportunity for the finance minister to not only reflect on the progress made by reforms under Operation Vulindlela, but to share what is being done to reforms that are classified as facing significant challenges and with intervention required. This includes improving the efficiency of ports, implementing third party access to the freight rail network, updating and modernising the mining rights system and a review of the fuel price formula.

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.

Climate Change

PwC wish

The National Assembly approved the Climate Change Bill in 2023 after the relevant portfolio made some inputs and amendments. Our wish is that the minister will give some indications on funding the Just Energy Transition and spending on climate-resilient infrastructure. It is important that Treasury encourages responsible investing by placing requirements that all spending on infrastructure takes into account the climate resilient nature of the infrastructure being procured.

PwC prediction

The recent amendments to the Bill by the relevant portfolio committee included the adoption (in consultation with the ministry of finance) of a finance mechanism to support South Africa's climate change response. The minister of finance is likely to indicate incentives for the motor manufacturing sector and climate transition initiatives, although comprehensive funding may not be indicated in this budget.

Energy

PwC wish

In 2023, National Treasury provided incentives for solar energy installations by businesses and individuals. Our wish is that these will be extended. For businesses, we would like to see an extension beyond the 2024/2025 financial year, and that the threshold for households will be increased beyond the 25% limit in order to be more effective and improve uptake.

PwC prediction

Business invested quite significantly in alternative energy during 2023. We expect the minister will reflect on the success/uptake by businesses of the incentive scheme and what this has meant for the country's energy security. We do not expect extensions given the fiscal constraints.

Social Relief of 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) implementation. This uncertainty relates to whether SRD will be converted to BIG or adjusted upward gradually. There is a hole in the 2025/2026 budget left by the planned end of the SRD and there is no clarity as yet about what will happen after March 2025. Budget 2024 should ideally provide greater certainty on the future of the SRD and the impact on the fiscal framework in years to come. As has been indicated, increasing the SRD grant by more than inflation would require the closure of other government programs.

PwC prediction

The finance minister previously announced that the SRD grant would be extended to March 2024. What is clear is that 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 (value) 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.

National Health Insurance (NHI)

PwC wish

The NHI was passed by the National Council of Provinces (NCOP) late in 2023 and awaits President Cyril Ramapohsa's signature. Among the many criticisms levelled against the act is the lack of information on where funding will come from for the scheme. With the introduction of the NHI being an inevitability, National Treasury must comment on the funding model of the initiative.

PwC prediction

The Department of Health has said that medical aid tax credits will be eliminated to help fund the NHI. National Treasury needs to provide clarity on this and other potential funding mechanisms.

Municipal 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. At the same time, municipal finances are under significant pressure from a myriad of factors, including lower revenues from selling electricity. 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

The Minister should announce a new funding mechanism for municipalities — especially for unfunded budgets. With the release of the census in late 2023, there will be a requirement to adjust the equitable share as migration would have affected population numbers in municipalities.

Tax predictions

2023/24 tax revenues

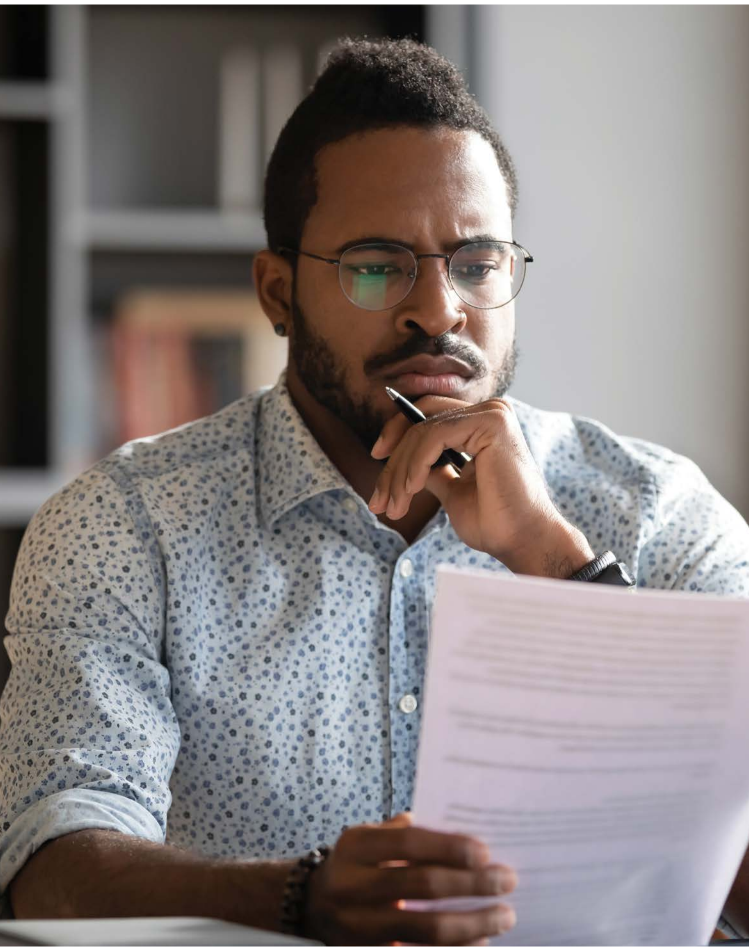
PwC prediction

Revenue collection for the 2023/24 fiscal year has underperformed the original budget estimate in Budget 2023.

National Treasury forecast total tax revenues of R1,787 billion in Budget 2023 — growth of 6% on what was collected for the 2022/23 fiscal year. In particular, a significant fall in corporate tax collections was forecast as commodity prices began to fall leading to reduced company profits in the resources sector.

However, National Treasury made a significant downward revision to this figure in MTBPS 2023 by R56 billion to R1,731 billion, mainly led by substantial decreases in the expected corporate tax collections of R36 billion and VAT of R26 billion due to higher refunds.

Based on our projections, we expect revenue collections to be broadly in line with the revised estimates in MTBPS 2023. While 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, customs duties and excise duties.



2024/25 tax revenues

PwC wish

It is hoped that National Treasury will not increase taxes in Budget 2024. While National Treasury indicated in MTBPS 2023 that it would institute tax increases of R15 billion in Budget 2024, even relatively small tax increases such as that proposed will have a dampening effect on the economy in a low-growth, high inflation, high interest rate environment, which is the current situation South Africa finds itself in.

PwC prediction

In MTBPS 2023, National Treasury estimated tax revenues for 2024/25 at R1,854 billion (R54 billion less than the forecast in Budget 2023), or growth of 7.1% on expected nominal GDP growth of 6.2%. Once again, these decreases are driven by reductions in forecasts for corporate tax and VAT refunds.

Included in these numbers is an unspecified proposed increase in taxes amounting to R15 billion, the details of which are to be announced in Budget 2024. The finance minister has acknowledged that increasing taxes in the current economic environment would be difficult. We concur with that sentiment and expect that increasing taxes would be a last resort with National Treasury hoping that revenue collections for the current fiscal year exceed the MTBPS 2023 forecast and that the revenue outlook for the medium term improves as a result. However, we do not expect that this will occur and that Government will proceed with the tax increases announced in MTBPS 2023.

For context, to raise an additional R15 billion in tax revenues would require increasing the corporate tax rate by 1.4% to 28.4%, increasing personal income tax rates by 0.5% across all tax bands or increasing the VAT rate by 0.5% to 15.5%.

We are of the view that the nominal GDP growth of 6.2% forecast for 2024/25 in MTBPS 2023 is optimistic and expect that a more realistic growth in nominal GDP is 5.1%. Given that, we expect tax revenues for 2023/24 to come in at around R1,734 billion and an expected tax buoyancy of only 1 (in the absence of any tax increases), we expect that the tax revenues for 2024/25 will amount to R1,837 billion before any tax increases. This is R17 billion less than what was estimated in MTBPS 2023.

Personal income tax

PwC wish

Tax rates

As mentioned in previous years, we would like to see significant 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. We understand that National Treasury has been performing a review of all the monetary amounts and the hope is that this will be included in Budget 2024 with appropriate adjustments.

Remote working

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 2024 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 is also noted that further increases in PIT would put additional pressure on households that were negatively affected by the pandemic 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. Since then, the PIT burden has increased even further.

Should National Treasury proceed with the proposed R15 billion in additional revenue measures announced in MTBPS 2023, it would require a 0.5% increase in tax rates across all tax bands (or an equivalent amount in fiscal drag) to raise this amount from PIT. However, historically National Treasury has sought to shield lower-income earners from the worst of the increases in PIT. Should the burden of such a tax increase be placed on those earning more than R500,000 a year, the required increase would be around 1%.

However, as indicated above, National Treasury is well aware of the impact that such increases would have on an already overburdened and narrow tax base in an environment of low-economic growth and high interest rates, and whether increases in PIT will result in the additional revenues sought or will be self-defeating.

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 NHI, Budget 2023 proposed an inflationary increase for medical tax credits and it is expected that Budget 2024 will propose a similar inflationary increase in line with forecast inflation.

The NHI Bill (introduced to Parliament in August 2019) was passed by the National Assembly on 13 June 2023 and by the NCOP on 6 December 2023. It now awaits the President's signature to be legislated. Even if the NHI Bill is passed in 2024, it is unlikely to receive substantial budget allocations in the near future.

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. Moreover, Budget 2022 stated that "[A] discussion document will be published in 2022 on a personal income tax regime for remote work."

However, the discussion document has not been issued as yet. It is expected that the document will be issued during 2024 and that any proposals in respect of this regime will be included in Budget 2025.

Tax free savings accounts

It is expected that Budget 2024 will announce a review of the tax-free savings account instrument to understand whether it has achieved its intended objectives, its impact on savings and whether it is an appropriate mechanism to improve savings among low-income earners.

Estate duty, donations tax and wealth 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 2024. Nor is it likely that the introduction of any new wealth taxes will be considered in this Budget.

VAT

PwC prediction

The most economically efficient and least harmful way to raise the additional tax revenues of R15 billion that National Treasury indicated would be introduced in Budget 2024, would be by way of a 0.5% increase in the VAT rate to 15.5%.

We believe that a VAT increase rather than a PIT increase can be justified by the extension of the SRD grant and the need to fund this, including the likelihood that the grant will be made permanent in some form. When viewed together, an increase in VAT in order to fund social spending, particularly in the form of a means tested grant, is highly progressive in aggregate. South Africa has a relatively low tax burden from general consumption taxes and a relatively low VAT rate. These considerations must be weighed against the risks and uncertainties of raising additional tax revenues from PIT or CIT. However, National Treasury will face considerable pushback to any proposed increase in the VAT rate and it is uncertain which way they will go.

Electric vehicles

PwC prediction

It is expected that incentives for the production of electric vehicles in South Africa will be announced in Budget 2024. This will include extending the Automotive Production and Development Programme (APDP) to explicitly include electric vehicles and make adjustments to address the relative decline in the net benefit of the incentive system arising from the higher share of imported components.

No incentives to support local demand for electric vehicles are expected at this stage, although it is possible that import duties on electric vehicles could be reduced to align this with import duties on internal combustion engine vehicles.

Fuel levies

PwC wish

The SARB has identified seven elements in the fuel price as possible areas for reform. It indicated that a review of the Road Accident Fund (RAF) will be one of the reforms offering the most significant benefits. It is hoped that Budget 2024 will announce a general reform of the RAF.

PwC prediction

General fuel levy

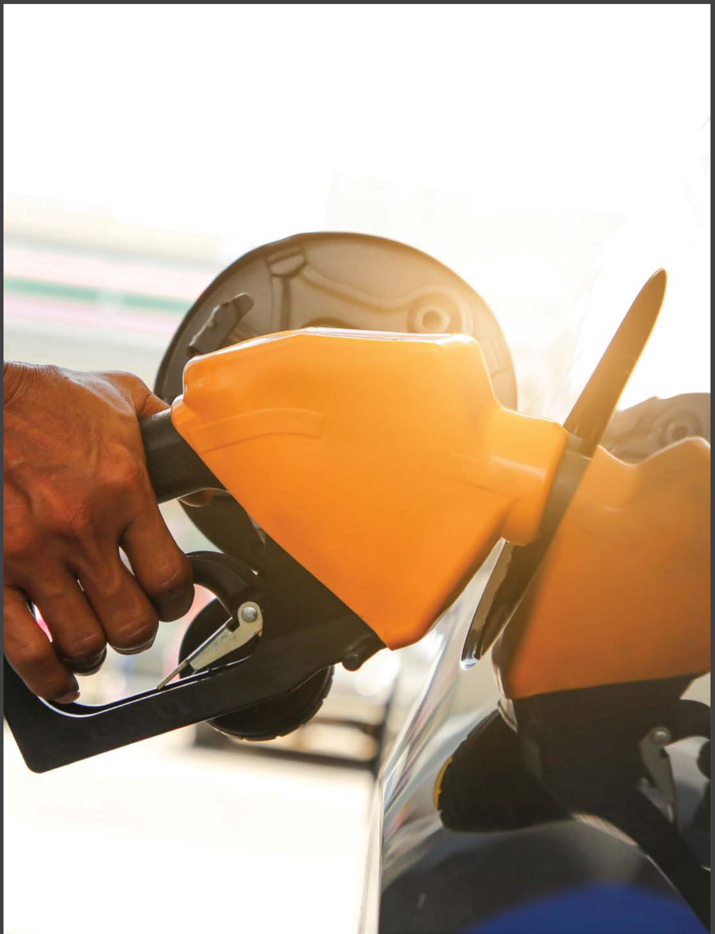
In the last two budgets, no increases were made to the general fuel levy in light of high fuel prices.

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 some R90 billion to tax revenues. Government is not in a position to continue to provide significant relief from this tax in light of its fiscal position.

As fuel prices have largely stabilised, it is expected that Government will recommence with annual increases in fuel levies. An inflationary increase in the fuel levy is accordingly expected in Budget 2024.

RAF levy

The RAF levy was not increased in 2022 and 2023 in order to support households and the economy. We expect an inflationary increase in the RAF levy in Budget 2024.



Health promotion levy

PwC prediction

In line with the announcement made in Budget 2023 that there will be no increase in the health promotion levy in 2023/24 and 2024/25, no changes to the health promotion levy are anticipated in Budget 2024.

The discussion paper on the proposals to extend the levy to pure fruit juices, and lowering the four-gram threshold that Government undertook to publish for public comment is still outstanding.

Transfer duties

PwC wish

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

PwC prediction

Budget 2023 saw the monetary values in the transfer duty tax tables being increased by 10% to partially compensate for inflation. No further adjustments to the tax brackets or the tax rates are expected in Budget 2024.

Excise duties

PwC wish

SARS and the South African Police Service's 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. Government will ratify the World Health Organisation's Protocol to Eliminate Illicit Trade in Tobacco Products in 2024; and

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

PwC prediction

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 tobacco.

Budget 2021 announced a review of the policy framework for alcohol and tobacco (this was restated in subsequent budgets) and following the higher than inflation increases in previous years, Budget 2023 announced a general increase in the excise duty on alcohol and tobacco in line with expected inflation.

The expectation is that an inflationary increase to excise duties will once again be announced in Budget 2024 and pending the finalisation of the policy reviews, which are yet to be published.

Vaping products

In 2022, Government introduced a flat excise duty on both nicotine and non-nicotine solutions of R2.90/ml, effective from 1 June 2023. An inflationary increase to this duty is expected.

Environmental taxes

PwC prediction

In Budget 2020, 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 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 postponed until January 2026.

The tax rate through to the end of 2030 has now been included in the legislation. For 2024, the tax rate will increase from R159 to R190 per tonne and will continue to increase annually, reaching R462 per tonne in 2030.

Given the 1 January 2026 commencement date for phase 2, it is expected that Government will publish a discussion document on the design of this phase (including comments on a local carbon offset standard) during 2024.

Tax administration

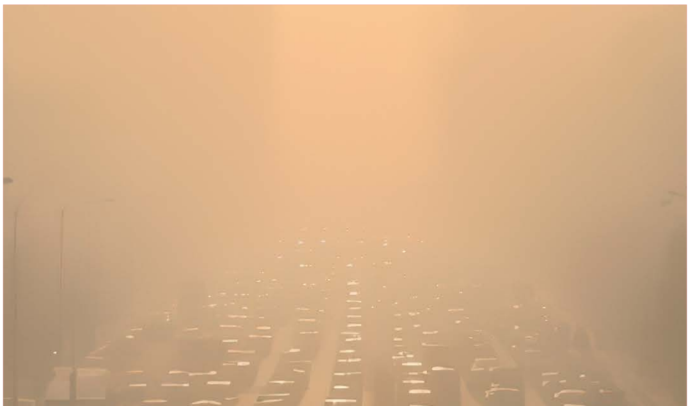
PwC prediction

In November 2023, SARS joined 47 other countries in agreeing to adopt the Crypto-Asset Reporting Framework (CARF). SARS has indicated that it intends to work towards swiftly transposing the CARF into domestic law and activating exchange agreements in time for exchanges to commence by 2027. SARS has also agreed to implement amendments to the Common Reporting Standard (CRS) as agreed by the Organisation for Economic Co-operation and Development (OECD) last year according to the same timelines.

The CARF provides for the automatic exchange of tax relevant information on crypto-assets between countries who will collect information from Crypto-Asset Service Providers effectuating crypto transactions for or on behalf of customers.

The CRS, which provides for the automatic exchange of financial account information, was amended to bring certain electronic money products and central bank digital currencies in scope. Changes have also been made to ensure that indirect investments in crypto-assets through derivatives and investment vehicles are covered by the CRS.

It can therefore be expected that SARS will commence with steps to implement CARF and the amended CRS during the course of the year.



Contacts

Kyle Mandy
PwC South Africa Tax Policy Leader
Office: +27 (0) 11 797 4977
Email: kyle.mandy@pwc.com

Lullu Krugel
PwC South Africa Chief Economist
Office: +27 (0) 11 797 4929
Email: lullu.krugel@pwc.com

www.pwc.co.za