



How will the 2018/2019 affect you, the individual?

Johannesburg, 22 February 2018 – The 2018 Budget was sure to be a delicate balancing act between the much needed tax hikes (whatever the reasons that got us onto this precarious economic precipice, the fact is that the situation is what it is) and adequate incentive to stimulate economic growth and, more importantly, improve employment and job creation. It seems that the Budget which the fiscus has produced is fit for purpose and on point. Although it is a tough budget for South Africans to swallow, it is not unduly draconian to the extent that it will create despondency and disillusionment. The message is unequivocally clear, we all need to pull together to remedy our economy.

“Unfortunately for individuals, the burden falls largely on them to recoup Budget deficits and foot the tax bill,” says Deanna Prosalendis, a member of the SAICA Employees Tax Sub-Committee and Group Tax Specialist at Wilderness Safaris. “Even more unfortunate is the fact that, despite government’s efforts to soften the blow for the poor, a tough Budget such as this will inevitably affect the more impoverished South Africans far more than it will the wealthier citizens.

The VAT rate increase to 15% is certainly the most controversial of the tax hikes and will contribute the lion’s share of the tax shortfall as it is estimated to generate an additional R22 billion. VAT is viewed as a regressive tax in that it affects poverty-stricken and poorer households far more than it does the middle and upper classes, despite the zero rating of certain basic food stuffs. The fiscus has attempted to offset this VAT hike for the poor by increasing social grants, but it is safe to say that the 1 percentage point increase will be felt keenly, particularly amongst the lower income groups. This was a controversial decision, especially as COSATU and the South African Communist Party were vehemently opposed to any change in the VAT system.

The personal income tax bands have only minimally been adjusted for fiscal drag or bracket creep. What this means is that, although there is no rate increase in personal tax rates, below inflation relief has been provided to individuals in the lower three tax brackets while no relief has been given to the highest four income brackets. In essence, this means that all income groups are affected by paying more tax on their income, with the higher income groups bearing the heavier burden. It is a “stealth tax” because, even though there is no actual rate increase,

we are all effectively paying more tax and will have less disposable income come month end.

Estate duty tax has been increased from 20% to 25% for estates greater than R30 million in value. There is also an increase in the ad-valorem excise duty rate on luxury goods from 7% to 9%. These duties will apparently apply to goods such as cosmetics, electronics and golf balls which are perceived to be consumed by wealthier income groups. The Davis Tax Committee has been mulling over a wealth tax for some time. No such tax has been introduced thus far and there was also no increase in the capital gains tax inclusion rate or the dividends tax rate, so the increase in estate duty and the ad-valorem excise duties appear to be government's way to tax wealthier citizens for the time being.

The abolition of the medical credits was also foreseen as part of the Budget speculation. Notwithstanding this, the medical credits were not removed but will only increase from R303 to R310 per month for the first two beneficiaries (2.3%), and from R204 to R209 per month (2.5%) for the remaining beneficiaries. The fiscus has indicated that below inflation increases in the medical credits over the next three fiscal periods will help fund the rollout of the National Health Insurance.

Fuel levies and the road accident levy will also be increased, affecting both drivers of vehicles and commuters (bus and taxi users) alike. The usual suspects - sin taxes on alcohol and smokers - were increased as well. In addition, the sugar tax mooted in the last Budget as well as carbon tax, which has long been on the cards, will be implemented and the plastic bag levy has been increased. All of these smaller adjustments will affect all South Africans.

Will the Budget be sufficient to ward off a Moody's downgrade? Who knows? The Rand did strengthen after the Budget Speech and markets seemed to be appeased, but this Budget will certainly put strain on all South African citizens – taxpaying citizens as well as those who fall below the tax threshold will be affected nonetheless," concluded Prosalendis.

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