Fiscal Framework and Revenue Proposals Submissions and Hearings – 4 March 2014

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Opening remarks

• Economists are generally better suited to provide specialist input

• SAICA’s National Tax Committee wishes to thank you for the opportunity to submit written comments and make oral presentations

• Our comments will deal with the Fiscal Framework and Revenue Proposals
General Comment

• We commend the Finance Minister and his National Treasury team for producing a balanced budget under very difficult economic circumstances and conditions.
Estimates of all revenue

Tax is a withdrawal from the economy to fund the country’s collective expense.

This withdrawal should be properly balanced.

The tax revenue collection as a percentage of GDP has increased over the past five years (tax-to-GDP ratio) from 24.4% to 26.1% for the 2013/14 fiscal year.

The ideal tax-to-GDP ratio should be approximately 25%.
Estimates of all revenue

There are only two variables i.e. the growth rate and revenue collections that can be controlled.

Growth rate

The NDP is the country’s roadmap for collective investment into the future with the fiscal policy setting out the framework to fund this roadmap. South Africa will require growth rates in excess of 3%.

These have been continually revised downwards. The 2015/16 budget proposals are now based on 2% for the 2015/16 financial year.
Estimates of all revenue – growth rates
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Revenue

The economic impact of the tax to-GDP ratio is underpinned by the various sources from which taxes are extracted namely personal income taxes; corporate taxes and indirect taxes (the tax mix).

This tax mix should ideally be fairly distributed across the tax sources.
Estimates of all revenue

As we are already exceeding the ideal levels of tax extraction from the economy this begs the question whether there should not be a review of the NDP goals to better reflect the South Africa’s ability to achieve these goals.
Estimates of all revenue
- - Proposed solutions

Increase our ability to produce manufactured goods from raw materials. This can be done through:

Improving skills at both schooling and post-schooling levels;

Improving and enhancing our road, rail and port infrastructure;

Improved labour and business relations;

Creating an enabling environment for business and individuals to trade by reducing administrative and compliance burdens.
Estimates of all expenditure

It is government’s prerogative to allocate budget spend to reach its strategic goals. To date the budgeting process has been very robust, transparent and as a result not subjected to much criticism.
Estimates of all expenditure

Infrastructure spend
  Road
    Spend at least the fuel levy collected.
  Port and rail
    Expanded investment to expand our railway network which forms the backbone to facilitate the movement of bulk goods in our economy

Social protection expenditure
  Conduct further research as to whether the cash payment model is the most efficient and beneficial

Education
  Academic education and employment without skills transfer will not uplift the current generation to support a production economy.
Estimates of borrowing for the financial year

General principle:

A government generally has to resort to borrowing when it spends more than it collects by way of taxes.

... our main concern is “that South Africa’s debt is expected to increase from the 39.7% (for the 2013 / 14 year) to 41.9% in the 2014 / 15 year.

... key for stability is that our sovereign credit rating does not move downwards.

“...the net loan debt (i.e. gross debt less cash balances) is expected to stabilise at 43.7 per cent of GDP in 2017/18, about 2.6 percentage points lower than the 2014 MTBPS estimate.”
Estimates of borrowing for the financial year

“…total nominal gross debt stock is projected to grow from R1.8 trillion in 2014/15 to R2.3 trillion in 2017/18. When combined with redemptions, government’s gross borrowing requirement is R229 billion in 2014/15, growing to R247 billion in 2017/18.”

at the end of December 2014, “total outstanding gross state debt amounted to R1.8-trillion, which is equal to about 47% of gross domestic product. This debt consists mostly of bonds but other instruments such as treasury bills and foreign loans are also included.”

… the minister… prefers to subtract the state’s cash balances from the gross figure to get "net loan debt" — which was about 41% of GDP in December.
We welcome Minister Nene’s statement that “from 2015/16 onwards, government will close its current deficit – the difference between current revenue and spending on compensation, goods and services, interest, and current transfers and subsidies.”

It is not clear how this is to be achieved.

“should revenue again underperform or should GDP growth again disappoint, the debt-to-GDP ratio will be likely to exceed Minister Nene’s expectations and could exceed previous highs during the next financial year.”
Estimates of borrowing for the financial year

Key to meeting the deficit targets will be reaching the Treasury’s economic growth forecasts.

The Minister predicted economic growth of 2% for this year, sharply down from the 2.5% projected in October’s medium-term budget policy statement.

Slower growth has meant that tax revenue in the current fiscal year was R14.7bn lower than was estimated in last year’s budget. Revenue projections for the next three years have deteriorated by R36bn since the October statement.
Estimates of borrowing for the financial year

... government’s support for Eskom includes a medium-term funding allocation of R23 billion. Appropriations will be made to Eskom as funds from the disposal of non-core assets are realised, ensuring that there is no increase in government debt and no effect on the fiscal position.

“The sale of non-strategic assets, however defined, could be contested and could take time. However, some state-owned entities need financial assistance more immediately. The National Treasury will have to speedily finalise measures to separate the commercial and developmental aspects of the state-owned entities and other measures to assist the entities in ways that contribute to improving their financial position in the interim.”
Estimates of interest and debt servicing charges

The debt-service costs continue to be the fastest-growing component of main budget expenditure, increasing by 10.1 per cent in nominal terms over the medium term.

Over the next three years capital will be the fastest-growing category of non-interest spending.

Rising debt-service costs, which amount to R115 billion in 2014/15 alone, threaten the sustainability of social gains achieved over the past decade.
The contingency reserve

In the 2013 budget review (27 February 2013) government reduced the unallocated portion of spending by trimming the contingency reserve. It was then set at R4 billion, R6.5 billion and R10 billion over the three years of the MTEF (the R4 billion was for the 2013/2014 year and the R6.5 billion was for the 2014/2015 one).

This was done because “unforeseen and unavoidable expenditure adjustments have, however, averaged just R4 billion in the last five years…”

we are not sure why the reserve is set to increase to R15 billion in the next fiscal year and to R45 billion in the year thereafter.
Thank you for your time

Any questions