Here are the biggest bombshells in the Budget – including taxpayers getting R2 billion in tax relief

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Here are the biggest bombshells in the Budget – including taxpayers getting R2 billion in tax relief Helena Wasserman , Business Insider SA Feb 26, 2020, 02:01 PM facebook twitter email Tito Mboweni. Photo: Adrian de Kock Government plans to slash its own spending instead of hitting embattled South Africans with more taxes.Personal income tax brackets will be changed so that individual taxpayers will pay less in income tax. The civil servant wage bill be hit.For more stories visit Business Insider South Africa. As its debt burden grows at an alarming rate, government plans to slash its own spending instead of hitting embattled South Africans with more taxes. The total government debt burden now equals almost 66% of South Africa's total economy – and repayments on this debt is growing by more than 12% a year. Despite big tax hikes in recent years, government earned R63 billion less than it budgeted from tax over the past year. This shortfall is bigger than what South Africa suffered in 2009, amid the global financial crisis. Because the economy is currently in such bad shape, and unemployment has reached record levels, there are fewer taxpayers, and companies are making less money, which means less tax. But while its income is under pressure, government is spending much more, including R112 billion to keep Eskom afloat over the next three years, R16 billion to settle SAA's debts, and to fund free university places. Meanwhile, plans to cut spending on the civil servant wage bill by R27 billion last year basically flopped, with fewer government workers willing to take early retirement than what was thought. Civil servant salaries now represent almost a third of government's total spending, and in the 2020 Budget, finance minister Tito Mboweni is determined to slash at least R38 billion from that wage bill this year. Here's what Tito Mboweni's 2020 national budget has to say: Income taxpayers are getting R2 billion in tax relief Government is treating income taxpayers – which are already shouldering 52% of SA's tax burden, compared to the contribution from VAT (26%) and companies (16%) – very gently in this Budget. Contrary to what Absa, Old Mutual and others were predicting, there is no hike in the VAT rate, no once-off tax levy and no hikes (or "bracket creep") in the personal income tax rate. It would be foolhardy to increase tax in this environment, finance minister Tito Mboweni said at a press briefing before the Budget speech. Personal income tax brackets will be changed so that individual taxpayers will pay around R2 billion less in income tax. The changes will mean that someone earning R460,000 a year will see their taxes reduced by nearly R3,400 over the next year. Government wants to slash spending – especially on civil servant salaries Mboweni announced plans to reduce the state employee wage bill by more than R160 billion over the next three years. "Government recognises that public-service employees should be fairly remunerated, but is obligated to balance compensation demands with the broader needs of society as reflected in the budget. Civil servants' salaries have grown by about 40 percent in real terms over the past 12 years, without equivalent increases in productivity." It wants to lower the wage bill R37.8 billion in the next year, with R54.9 billion in 2021/22 and R67.5 billion in 2022/23. It is expected that this will involve cutting benefits to civil servants, and perhaps even a wage freeze. On Tuesday, on the eve of the Budget, government approached civil servants to say it won't be able to afford some of the payments agreed on in a three-year wage deal. This was promptly rejected by the Public Servants Association, which represents 230,000 civil servants. But Mboweni is confident that common ground will be found. "That R160 billion has to be found for all our sake," he said. Civil servant perks will also be reduced, including an end to the current "wasteful" subsidence and travel system, says Mboweni. Government will also "replace" its current cell phone policy for civil servants, and require economy class travel for all domestic flights, "except for exceptional circumstances". Some of the other government spending cuts include: R15 billion less for human settlements over the next three years, "implying fewer subsidy houses, serviced sites and related bulk and connector infrastructure". Public transport spending is reduced by R13.2 billion over the next three years, mainly on allocations to the Passenger Rail Agency of South Africa (Prasa) and the public transport network grant. Government is abandoning plans to establish integrated public transport networks in Buffalo City, Mbombela and Msunduzi, as these cities have not made much progress in public transport systems. R5.2 billion less for education infrastructure.The defence budget has been cut by 0.2%, while police will be getting 2.8% more, and the courts and prisons 3.5%. With a budget of R106 billion, police is now getting more than defence, law and prison combined.Some of South Africa's overseas missions will be closed and international embassy staff will be reduced. Chill on plans for NHI Treasury also announced that the health budget will be reduced by R3.9 billion over the next three years. “This implies that some activities related to national health insurance will be phased in over a longer timeframe.” For example, next year, unspent allocations for national health insurance (NHI) will be moved to other parts of the health budget. Petrol price hikes The fuel levy has been increased by 16c, and the levy for the Road Accident Fund (RAF) rose by 9c. The fund is completely underwater, and will face a total deficit of R593 billion by 2022/23, and it is now government’s biggest liability after Eskom. The total tax on 93 octane petrol in Gauteng will be increased to R5.88 a litre, and to R5.74 on diesel. This means that tax is now 37% of the petrol price and 39% of the diesel price. Changes in corporate tax Restricting companies to fully offset assessed losses from previous years against taxable income. When a company’s tax-deductible expenses exceed its income, it records an assessed loss. Often, the loss is carried forward to the next year and is offset against taxable income in that year. Government wants to restrict the offset of assessed losses carried forward to 80% of taxable income, from 1 January 2021. Tax incentives canned Government wants to cancel tax incentives dealing with airport and port assets, rolling stock, and home loans by businesses for their employees – and it is reviewing other tax incentives that are “redundant, inefficient or inequitable”. Treasury believes tax incentives offer greater benefits to larger firms and those who are able to afford specialist tax advice. Clampdown on corporate interest deductions Government wants to restrict net interest expense deductions to 30% of earnings from January 2021. “This measure will address a typical form of base erosion and profit shifting by multinational corporations. This practice involves artificially inflating company debt and/or the interest rate on that debt to a related party in another jurisdiction with a lower corporate income tax rate. The resulting interest payments are deducted in South Africa, reducing the domestic tax base and effectively shifting profits to be taxed at a lower rate offshore.” Government wants to lower the corporate tax rate South Africa’s corporate income tax rate has remained unchanged at 28% for more than a decade – while other countries like India, the US and the UK have all recently reduced their corporate income tax rates below 28%. “Reducing the corporate income tax rate will encourage businesses to invest and expand production, improve the country’s competitiveness as an investment destination, and reduce the appeal of base erosion and profit shifting.” Sovereign Wealth Fund Mboweni announced the formal establishment of the new fund with a target capital amount of about R30 billion. “There are a variety of possible funding sources, such as the proceeds of spectrum allocation, petroleum, gas or minerals rights royalties, the sale of non-core state assets, future fiscal surpluses and money we set aside. This will ensure that we continue to invest in the future generations of this country in a fiscally-prudent manner,” he said in his Budget speech. Pricier new cars and bakkies The vehicle emissions tax rate for passenger cars will increase from R95 to R120 per gram of carbon dioxide emissions per kilometre (gCO_2/km) and to R160 gCO_2/km for double cabs on 1 April 2020. This tax is paid on new vehicles sold. But Treasury is now investigating an annual carbon dioxide tax on all vehicles, which could be levied when you buy your annual car licence. Plastic bag levy will more than double – and straws will also cost more from next year Government proposes to raise the plastic bag levy from 12 cents to 25 cents per bag effective 1 April 2020. Levies on single-use plastic straws, packaging and utensils may also be levied from next year. Energy-inefficient light bulbs will cost much more From 1

April, the incandescent light bulb levy will be increased by R2 from R8 to R10, to encourage the uptake of more energy-efficient light bulbs. Government is also considering product taxes on electrical and electronic waste. Trucking companies may face higher taxes in future Government is adamant that it wants to see a move from road to rail freight. Treasury officials told Business Insider SA that the state is investigating higher tolls, for example on the N3, on trucks. They say that road freight users are not paying what they should, given the damage that trucks wreak on roads, as well as in terms of congestion, environment damage and road accidents, which result in higher claims against the Road Accident Fund. Higher tax cap on salaries earned overseas The cap on the exemption of foreign remuneration earned by South African tax residents will be increased to R1.25 million per year from 1 March 2020. “Government wants to encourage all South Africans working abroad to maintain their ties to the country.” Medical tax credits Government proposes an increase in the value of medical tax credits in 2020/21 from R310 to R319 per month for the first two beneficiaries, and from R209 to R215 per month for the remaining beneficiaries. Tax-free savings accounts The annual limit on contributions to tax-free savings accounts will be increased from R33,000 to R36,000 from 1 March 2020. New export tax on scrap metal Proposed export taxes will apply to ferrous metals at the rate of R1,000 per tonne, aluminium at R3,000 per tonne, red metals at R8,426 per tonne, and other waste and scrap metals at R1,000 per tonne. “This reform aims to improve the availability of better quality scrap metal at affordable prices for domestic foundries and mills,” Treasury said. Vaping tax For the first time, heated tobacco products will be taxed. The tax will be calculated on the tobacco used – at a rate of 75% of the tax on cigarettes. Electronic cigarettes (which don’t include tobacco, though they may include nicotine) will be taxed from next year. Sparkling wine and cigars hit with the biggest sin-tax hikes While other sin taxes have been largely increased in line with inflation (at around 4.5%), the excise tax on sparkling wine has been hiked by 6%, and for pipe tobacco and cigars the increase is 7.5%. Transfer duties have been hiked For the first time since 2017, the brackets to calculate transfer duties on the sale of property have been hiked. No transfer duty will be liable on the purchase of property with a value below R1 million. Social grants have been hiked in line with inflation – but children are getting more Children are getting more. The total number of welfare beneficiaries is expected to increase by almost 1 million, to approximately 19 million, by 2022/23. SA will be borrowing more from overseas Government plans to borrow more money overseas, with foreign-currency bonds – mainly denominated in dollars and euros. In the past year, it borrowed $5 billion in these bonds, which it wants to hike to $8.5 billion in the next three years. South African Express looks doomed Treasury calls SA Express “illiquid and insolvent” in the Budget document, and said it is unable to settle its debts, and that it has suffered R1.2 billion in cumulative losses over the past decade. “Government will need to assess its appetite for continued ownership of the carrier, given that it has a limited role in the local aviation market.” The new state bank will consolidate government-owned banks Deputy minister of finance David Masondo said that a new state bank will consolidate all the “quasi state banks” owned by government, including the Post Bank and various provincial banks. The new bank will help poor, rural people and small businesses to get access to finance, he added. Mboweni favours the Cosatu plan for Eskom Government is currently consulting on a Cosatu plan that the Public Investment Corporation – which manages money on behalf of the Government Employees’ Pension Fund (GEPF) – should take on R254 billion of Eskom’s debt. At a press briefing before the Budget, Mboweni said it wasn’t a bad idea, but indicated that private sector pensions will also be included. “If we are going the pension route it must be all of us. It can’t (only be) public servant pensions (on the line), it must be all pensions.” Watch the delivery of the national Budget speech for 2020 here: Receive a daily update on your cellphone with all our latest news: click here. facebook twitter email Tagged In tito mboweni budget 2020 taxes.