R195bn: That is our budget deficit

Johannesburg - The gap between government expenditure and income during the first eight months of the tax year widened to a record R195 billion as tax collections lagged and government kept on spending.

From April to November last year, government spent R893.7bn, up 6.2% from a year ago, while its collection of tax revenue reached R698.7bn, up 4% from a year ago, according to a report on Treasury's website.

This widening gap is worrying, especially as Finance Minister Malusi Gigaba prepares to present his first budget speech on February 21.

South Africa, investors and international ratings agencies will be watching closely to see if he has a concrete plan to grow the economy, contain the government deficit and bring rising debt under control.

The previous widest gap between expenditure and revenue in a tax year was in the first 10 months of the 2017 tax year (April 2016 to January 2017). The state spent R1.067trn and collected R882bn in tax, leading to a gap of R185bn.

For the nine months to December, the gap between expenditure and tax income was R182bn as a result of expenditure of almost R1.038 trillion and revenue of R856bn.

It has been projected that the SA Revenue Service (Sars) will miss the initial 2018 gross tax revenue target of R1.266bn, which was set during last year's budget speech, by almost R51bn.

From April to December, total gross tax revenue was almost R870bn – up 6.2% from R819bn compared with the same period in 2016.

At a 6.2% rate of tax collection increase, Sars could collect R1.215trn for the tax year that ends next month. This is in line with the projected gross tax revenue outlined in the medium-term budget policy statement, which was presented in October.

However, Nazrien Kader, managing partner for Deloitte Tax & Legal Services in Africa, this week said that Sars could miss its revenue target for the 2018 tax year by as much as R65 billion. She also said that the budget deficit for the 2018 tax year could widen mainly due to unbudgeted expenditure, including President Jacob

Zuma's announcement in December that students will receive free tertiary education.

"Unexpected expenditure is coming to the fore. There is a worsening drought. We have water infrastructure and maintenance ... There is a lot that has changed since the estimate was first made available to us," she said.

Ashleigh Theophanides, director and healthcare actuary at Deloitte, said that, in light of the recent decisions by the ANC regarding free higher education, it was unclear if Gigaba would prioritise the funding and implementation of the National Health Insurance (NHI) scheme.

Theophanides said the decision to offer free higher education was expected to cost government at least R35bn in unbudgeted expenditure.

"The move will necessitate tough trade-offs to fund the new policy. One of these trade-offs may be the funding for NHI," she said.

Kader identified a number of tax revenue options that Gigaba may resort to, including a surcharge on wealthy individuals and companies.

"It is conceivable that a special levy or surcharge might be applied to individuals with earnings above a set threshold. This is also likely to apply to companies, based on turnover, as a means to collect some tax," she said.

"There is a little scope to increase the proportion of capital gains subject to tax."

Wealth taxes could garner between R3bn and R5bn. A hike in value-added tax (VAT) from 14% to 15% could increase tax revenue by between R15bn and R20bn.

"This would, however, have the consequential impact of a reduction of 0.2% to 0.4% on gross domestic product, as well as an increase in inflation," Kader said.

"A more palatable change, as opposed to an overall increase in the rate of VAT, would be the implementation of a tiered VAT system, or the implementation of a dual rate – a higher rate for non-essential or luxury items."

Turning to the sugar tax, which will be implemented across the sector in April, Kader said that research suggested that about R11bn could be raised through taxing sugar in beverages, but this figure was debatable because there were many variables that had not yet been finalised.

Gigaba could use fiscal drag, where tax tables aren't amended for inflationary wage increases, which could allow for an extra R12bn to R15bn to be collected.

Kader said that R10bn could be raised from above-inflation hikes in the fuel levy and from so-called sin taxes, which are taxes on alcohol and tobacco.

"The current company tax rate of 28% is unlikely to be increased, given the African average of 27% and the global average of 24%," she added.

"If taxpayers are expecting tax hikes, the expectations are also that there will be spending efficiencies on the part of government by avoiding wasteful expenditure, a 'zero-tolerance' approach to corruption in the public sector and an overall culture of 'thriftiness'."

Izak Swart, a director at Deloitte, said that comments for the second draft of the Carbon Tax Bill close on March 9 and, as a result, it was unlikely that the proposed bill would be mentioned during the upcoming budget speech.

"The implementation date for the proposed carbon tax is uncertain, and National Treasury is expected to announce its implementation either during the course of 2018 or in the 2019 budget speech," he said.

"We anticipate that the carbon tax may be implemented in 2019, but it will more likely be 2020. We will be looking out for any movement in the environmental levy, which is currently 3.5c per kilowatt-hour on electricity generated from fossil fuels, as this might impact the carbon tax.

"The levy has been stable at 3.5c for a number of years and will most likely not increase given the state of the economy. Incentives to transition towards cleaner energy and processes will hopefully be introduced so that the industry can start changing behaviour in this regard," he said.

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