Tax-increment is an unpleasant necessity for the South African budget, says PwC

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Global professional services firm PwC has weighed in on the debate around the imminent South African budget, warning that the country's budget deficit might spiral to R250 billion if taxes are not driven up and spending is not controlled. Experts at the firm expect taxes to rise by at least R30 billion.

The upcoming South African budget, due to be delivered on the 25th of February by Finance Minister Malusi Gigaba, is among the more crucial ones that the country has seen. The country is navigating a period of significant political change, unlike any other over the last decade, while also struggling against the most challenging of economic conditions.

In keeping with the trend in recent years, the South African economy has had little cause for celebration over the last year. A dip in oil prices in 2015 sent the country, alongside the rest of the continent, into a period of economic slowdown. Last year, the price of precious metals fell, which dealt a significant blow to the crucial mining industry. The industry's output was further affected by the spike in production costs as a result of a wage hike.

Such economic conditions have put a strain on the South African government, which is struggling to maintain basic stability, compounded by the welfare promises that were made under the leadership of Jacob Zuma. According to experts from Big Four accounting and advisory firm PwC, these conditions will persist in 2018, and the government will have to take strong measures in this budget to mitigate the negative effects.

Lullu Krugel, Partner and Chief Economist at PwC Africa, highlights some key areas where there is a critical need for clarification and planning by the government. Specifically, measures need to be taken in the domains of healthcare, energy, and education, with emphasis on the role played by state-owned enterprises (SOEs).

In terms of healthcare, Krugel appeals for a clear indication of funding channels to the National Health Insurance (NHI), which is shrouded in uncertainty. She said; "The estimated costs of the NHI by 2025 is R256bn, an anticipated shortfall of R108bn. This is despite the planned redirecting of R22bn in medical aid credits to the NHI."

The need for funds extends to the sphere of education, especially in light of the announcement last year from president Zuma that higher education would be provided free of cost to meritorious candidates. The scheme is especially strenuous, given the fact that South Africa has one of the highest populations in the 15-24 age bracket.

In order to meet these need, experts at the firm highlight the unfortunate necessity of an unfavourable change to tax policy, in two different respects.

Firstly, the firm anticipates a possible removal of tax incentives, most likely those provided to small business corporations, which end up costing the government approximately R2.5 billion per year.

As elucidated by Kyle Mandy, the leader of tax policy for PwC South Africa; "We expect that less than full relief will be given for inflation, and fiscal drag will be used to raise additional taxes of R5-billion to R8-billion. The bulk of this burden is expected to be borne by middle- and high-income earners."

Secondly, similar to the recommendations made by fellow Big Four firm Deloitte, the firm highlights the benefits that a 1% increment in the Value Added Tax (VAT) rate across the country could bring, suggesting that such a hike could generate up to R22 billion in revenues for the government.

Krugel also called for improvement in the SOE sector, which is a major drain on government resources due to funding challenges and inefficiencies. She said, “State-owned enterprises (SOE) are a big-ticket item and it is time to turn them around. They face financial difficulties and rating downgrades which increase financial deficits. Future funding proposals need to be addressed.”