

# GOOD NEWS IN BUDGET ON TAX AND SPENDING

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Finance Minister Trevor Manuel's 2007/08 budget tabled in Parliament on Wednesday holds good news for most, with R8,4-billion staying in the pockets of individual taxpayers -- who will also benefit from the abolition of retirement-fund tax from March 1.

Business gains from the replacement of secondary tax on companies with a dividend tax at a reduced rate of 10%, down from 12,5%.

Extra cash is earmarked for fighting crime and HIV/Aids, welfare, education, infrastructure and the 2010 Fifa Soccer World Cup, among others.

"We are budgeting to spend R534-billion [27,5% of GDP] in 2007/08, rising to R650-billion in 2009/10," Manuel told MPs and guests.

Total revenue is expected to be R544,6-billion [28,1% of GDP], which will climb to R641,5-billion by 2009/10.

"Since tax revenues are likely to grow more strongly than spending for at least another year, we are budgeting for a fiscal surplus of about 0,6% of GDP in 2007/08, reverting to a moderate deficit by the end of the forecast period."

Turning to spending priorities, Manuel said the budget framework allows for additional spending of R89,5-billion over the next three years compared with spending plans a year ago.

## Health

The health sector gets R5,3-billion more for improving salaries and increasing staff levels, while a further R1,7-billion goes to treating people living with Aids.

An additional R1,65-billion has been committed to provinces over the next three years for their Aids-treatment programmes. The programmes are being run at 272 sites, and the Health Department says more than 210 000 patients there are on antiretroviral treatment.

Spending on dedicated HIV/Aids programme will exceed R5-billion by 2009/10.

The hospital-revitalisation programme receives R1-billion more, taking total spending for this to R6,8-billion over the next three years. The health sector will also get R1-billion for modernising tertiary services, especially diagnostic equipment.

## **Social grants**

Manuel said there is strong evidence social grants are well targeted, and these account for a substantial share of poor households' income.

The system has been significantly stabilised since measures were started three years ago to curb fraud, with more than 130 000 people removed from the system and about 2 500 charged with fraud so far.

Old-age pensions, disability and care-dependency grants increase by R50 a month, to a maximum of R870; child-support grants by R10 to R200 a month; and foster-care grants to R620.

## **Education**

Manuel paid tribute to teachers as "the front line of our education system" -- and then matched his praise with hard cash. Over the next three years, the government will set aside an additional R8,1-billion to hire more teachers, teaching assistants and support staff, and to improve teachers' pay.

An additional R700-million will be set aside for bursaries, in order to encourage young people to train as teachers and pursue careers in the public schooling system.

Overall, education remains the single largest category of combined national and provincial government spending, accounting for a total of R105,5-billion, with welfare coming second at R89,4-billion.

## **Exchange-control relaxations**

The budget proposals contain further relaxation of exchange controls.

The requirement that South African companies obtain a majority shareholding in foreign entities or projects outside of Africa is abolished, and they now have to obtain only a 25% shareholding.

According to the Treasury's budget review document, this is aligned with the threshold for African investments and will help South African companies engage in strategic international partnerships.

## **Housing**

The Department of Housing has been allocated R32-billion over the next three years in an attempt to reduce significant backlogs and fast-track housing delivery. The department is struggling to cope with growing housing demand.

The department will receive R8,8-billion in 2007/08, R10,5-billion in 2008/09 and R12,5-billion in 2009/10. The 2007/08 allocation represents a R2,7-billion increase compared with the previous year, Manuel said.

Despite the delivery of two million subsidised houses since the inception of the new housing programme in 1994, the housing backlog has continued to grow, and currently stands at 2,4-million units.

## **Fighting crime**

Resources going to the police rise by 34%, from R33-billion in 2006/07 to R44-billion in 2009/10. An additional R2,4-billion in 2007/08 will go to expanding police numbers and investment in technology and forensic equipment.

Close on 190 000 police officers will be on the streets by 2010, and electronic fingerprinting and dockets will become the norm.

The budget shows safety and security spending rising from R35,9-billion in 2007/08 to almost R43,6-billion in 2009/10. The 2006/07 safety and security budget was R32,5-billion.

"In this year's budget, we are allocating an extra R2,4-billion to the police to further expand police numbers and invest in technology and forensic equipment," Manuel told MPs.

The Department of Justice and Constitutional Development gets a budget of R8,5-billion -- R1,5-billion more over three years to improve court capacity, reduce case backlogs and modernise administration.

The Correctional Services Department is allocated R10,7-billion in 2007/08, a R1,5-billion increase over the previous year.

Manuel had harsh words for especially white-collar criminals, saying a situation where individuals pillage and plunder millions from the companies they run, or from ordinary citizens, leaving them destitute, will not be tolerated.

"Effective crime fighting depends on partnerships between our law-enforcement agencies and communities," the minister said. "Through community police forums, all citizens have the opportunity to contribute towards making their communities safer."

The Financial Intelligence Centre, the Financial Services Board and the South African Revenue Service will work with the police and prosecutors in dealing with financial crime and its proceeds.

## **World Cup**

An additional R13,3-billion over three years is allocated for the 2010 World Cup, bringing the national government's contribution to R17,4-billion, comprising R8,4-billion for stadiums and R9-billion for municipal transport infrastructure.

The government is confident it will remain within budget for hosting the World Cup, Deputy Finance Minister Jabu Moleketi said in Cape Town at a media briefing ahead of Manuel's Budget speech.

Replying to a question about the reported escalation of stadium building costs, Moleketi said estimates had been based on an over-compensation for risk factors. He said the entire process was assessed by the Finance Department's advisers, who concluded that the construction of the stadiums was within the budgetary allocations.

However, the stadiums will be built to the minimum standards required by Fifa and not have any frills.

"We must go out of our way to ensure a successful tournament and a lasting legacy beyond 2010, but fiscal prudence and sound budgeting principles must be adhered to at all times," Manuel said in his speech.

## **Tax relief**

On taxation, Manuel said net tax relief totals R12,4-billion, with R8,4-billion going to individuals. Personal-income tax-bracket changes will compensate for inflation and partially offset the effects of changes to medical-aid contributions and car allowances.

"I appeal to taxpayers to use this relief to first settle their debts or save, rather than for consumption," he said.

Interest income exemption is raised from R16Â 500 to R18Â 000 for those under 65, and from R24Â 500 to R26Â 000 for those older.

The income-tax threshold for people under 65 is R43Â 000, and the upper tax bracket is raised from R400Â 000 to R450Â 000.

The secondary tax on companies will be phased out and replaced with a dividend tax at shareholder level, the rate being reduced from 12,5% to 10% and the base redefined to apply to all distributions from October 1. The conversion to dividend tax should be completed by the end of next year.

A tax-depreciation allowance for the economic wear and tear of new or upgraded commercial buildings with a 20-year write-off period will also be implemented.

## **Municipal infrastructure**

Municipalities will get R52-billion from the central government over the next three years for the development of infrastructure projects. Transfers to provincial and local governments have increased by 19% each year in recognition of the role they played in the delivery of social and household services, said Manuel.

Provincial governments and municipalities will receive 64% of the additional R89-billion allocated in the 2007/08 budget. In addition, municipalities receive the bulk of allocations for stadiums and related infrastructure for the Soccer World Cup, Manuel said.

Local government will receive an additional R5-billion for the delivery of free basic services, which now reach an average of 80% of households. In an attempt to eradicate the bucket system, the municipal infrastructure grant has received R400-million, Manuel said.

A further R600-million is provided for the electrification programme; R1,4-billion for bulk water and sanitation infrastructure; and R950-million to deliver water and electricity to schools and clinics.

## **Defence**

The Department of Defence's budget has risen to R25,9-billion to meet the rising cost of peacekeeping operations, skills-development programmes and the military's need to beef up its airlift capacity.

The 2007/08 budget allocation is R2-billion up on the previous year, and forecast to rise to R28,6-billion by 2009/10.

Manuel said the SANDF has to be beefed up. "We now have peacekeeping operations in the Democratic Republic of Congo, Burundi, Sudan and [CÃ´te d'Ivoire]. According to the 2007 budget review document, the SANDF will spend R2,8-billion of its budget on African peacekeeping operations.

### **Small business, BEE**

Agencies operating under the umbrella of the Department of Trade and Industry receive R1,7-billion to promote black economic empowerment (BEE) and small-business development, Manuel said.

An additional R380-million goes to the national empowerment fund to promote broader participation in the economy. A further R300-million is allocated to this critical infrastructure programme to promote private-sector investment.

Another R300-million will be used to attract local and international filmmakers to South Africa.

An amount of R1,2-billion is set aside for science and technology, including R500-million for the government's contribution to the Square Kilometre Array telescope, should it be built in South Africa.

### **Sin taxes and fuel price**

On the downside, tax on cigarettes goes up by 60 cents for a packet of 20. A can of beer goes up by five cents, a bottle of wine by 10 cents and a 750ml bottle of spirits by R1,88.

Manuel said the increases in excise tax will bring in R1,5-billion.

The fuel levy and the Road Accident Fund levy both increased by five cents a litre. This means the fuel price will increase by at least 10 cents a litre.

Manuel further announced a mandatory, earnings-related social security scheme, to be financed by a social security tax and implemented by 2010.

It will provide improved unemployment insurance, disability and death benefits targeted at the income needs of dependants, and a standard retirement savings arrangement.

To offset the cost of the tax for low-income workers, and to lower the cost of job creations, a wage subsidy for those earning below the income tax threshold will be introduced, he said.

GDP growth is expected to be 4,8% this year and average 5% over the next three years, with CPIX inflation to remain within the 3% to 6% target range and average 4,7% over the next three years, he said.