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Mr Allen Wicomb, Ms Teboho Sepanya and Mr Zolani Rento
Committee Secretaries
Standing and Select Committees on Finance
3rd Floor
90 Plein Street
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Dear Mr Wicomb, Ms Sepanya and Mr Rento

Per email: awicomb@parliament.gov.za / tsepanya@parliament.gov.za / zrento@parliament.gov.za

BUSA SUBMISSION ON THE FISCAL FRAMEWORK AND REVENUE PROPOSALS

BUSA would like to thank the Standing and Select Committees on Finance for affording it the opportunity to submit written submissions on the Fiscal Framework and Revenue Proposals that were tabled together with the 2018 / 19 Budget on 21 February 2018.

BUSA is a confederation of business organisations including chambers of commerce and industry, professional associations, corporate associations and unisectoral organisations. It represents South African business on macro-economic and high-level issues that affect it at national and international levels. BUSA's function is to ensure that business plays a constructive role in the country's economic growth, development and transformation and to create an environment in which businesses of all sizes and in all sectors can thrive, expand and be competitive.

As the principal representative of business in South Africa, BUSA represents the views of its members in a number of national structures and bodies, both statutory and non-statutory. BUSA also represents business' interests in the National Economic Development and Labour Council (NEDLAC).

Comments

BUSA recognises that difficult trade-offs were required in the development of the 2018 National Budget in order to place South Africa's fiscus on a sustainable basis over the medium term. Considering this, BUSA believes that Government has presented a balanced budget that largely succeeds in identifying key priorities whilst seeking to reduce or eliminate unnecessary expenditure.

BUSA welcomes Treasury's achievement in the Budget of maintaining real (additional to inflation) average growth of 1.8% in non-interest spending over the next three years, with post-school education and training, health, social development and community and economic development the fastest-growing categories of spending. This growth in expenditure has been received favourably as it serves as a catalyst for building the foundation for sustainable, inclusive economic growth.

Notwithstanding the success of the Budget in helping to stabilise the negative trajectory in the economy, significant risks to South Africa's public finances remain. Among these include the remaining threat of further sovereign ratings downgrades, with potential effects on borrowing costs, currency weakness, divestment, consumption and employment. Furthermore, significant risks to the fiscus continue to be posed by the overall public-sector debt requirement, particularly the financing of State-Owned Enterprises (SOEs). For this reason, BUSA is supportive of government's plans to address shortcomings in in the operations, procurement practices and corporate governance of SOEs. Lastly, a further risk to the fiscus is that of the performance of the economy itself. In recent years, overly optimistic GDP growth forecasts by Treasury have resulted in under-collection of revenue targets, with negative consequences in respect of the budget deficit and the credibility of government's fiscal consolidation plans. Lower than expected economic growth may have similar effects on the 2018 Budget.

Given the still significant risks South Africa's public finances, BUSA is broadly supportive of the tax proposals outlined in the 2018 Budget. BUSA is on record in submissions made in the 2017 Budget that future tax increases over the medium term would need to maintain an optimal balance between direct taxes such as Corporate Income Tax (CIT) and Personal Income Tax (PIT), and indirect taxes such as Value Added Tax (VAT). With evidence emerging that direct taxation levels were beginning to become self-defeating through the negative effects on economic growth and compliance levels, it was clear that any further CIT and PIT tax hikes would have been counter-productive. Tax increases need to maintain an efficient, diversified and sustainable tax system that should be aligned with Government's economic growth objectives and job creation in line with the NDP.

In view of this, BUSA is broadly supportive of the taxes identified for increase in the Budget, including the increase in VAT by 1% to 15%. This is forecast to yield R22.9 billion in the 2018/19 financial year. While BUSA recognises that consumers will come under greater pressure with a VAT hike, we believe that this is the least damaging of available options. In this regard, Treasury's decision to ensure that a suitable proportion of the revenue generated from the VAT increase will be directed towards real increases in social grants is welcomed. However, BUSA proposes that consideration be given to accompanying the VAT increase by a further zero-rating of basic goods as an additional compensatory mechanism to protect the most vulnerable. In view of this, BUSA notes the recent discussions at the Standing Committee on Finance and would support expanding the list of zero-rated goods.

Overall, the success of government's programme will depend on achieving the envisaged cuts in expenditure, budget deficit targets, revenue collection and economic growth. Provided that government adheres to the targets set, the 2018 Budget is a credible plan to place the economy on a stable footing. Fiscal consolidation through moderate revenue increases and expenditure reductions holds the only prospect of sustaining government's pro-poor, pro-growth policies over time.

Yours Sincerely,

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