ENGLISH

2016 BUDGET PEOPLE'S GUIDE

A joint publication between National Treasury and South African Revenue Service

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WHAT IS THE BUDGET?

In February of each year, the Finance Minister tables the national budget, whereby he announces government's spending, tax and borrowing plans for the next three years. The national budget divides money between national departments, provinces and municipalities.

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OUR COMMITMENT TO PLACE THE ECONOMY ON THE RIGHT PATH

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The 2016 Budget affirms government's commitment to close the gap between spending and revenue and implement a plan for stronger economic growth.

It is about sticking to our plans despite increasingly challenging circumstances. Government's aim is to eliminate wasteful spending and reduce it on non-critical items so as to sustain service delivery and maintain strong public finances.

It has been a number of years since South Africa's economic growth has been strong enough to encourage employment, promote investment and reduce government's debt. In recent months, the situation has deteriorated further as expectations for growth have decreased, the rand has depreciated and confidence of business and consumers has fallen.

Economic growth was 1.3 per cent in 2015 and is expected to decline to 0.9 per cent in 2016 before rising to 1.7 per cent in 2017 and 2.4 per cent in 2018.

This low economic growth translates into reduced tax revenue. The gap between government spending and revenue stands at 4.2 percent of GDP in 2015/16. Spending has outpaced revenue as government maintained service delivery programmes in the middle of poor economic performance. In that period, debt has climbed steadily.

Over the next three years, government will lower the expenditure ceiling, increase tax revenues, and manage the size of the government workforce, which is a major source of expenditure. To achieve this, government will reduce compensation budgets by R10 billion in 2017/18 and R15 billion in 2018/19. An additional R48 billion in tax revenue will be raised over the next three years by adjusting tax and improving tax collection.

Although the spending ceiling will be lowered, it will still be growing moderately. Social grants have been protected, and core social and economic programmes will be maintained.

The country needs faster inclusive economic growth to achieve its development targets and improve its public finances. This kind of growth depends on higher levels of confidence and investment within the private sector. It is because of this that government has increased its engagements with business.

Government will be partnering with the private sector to invest in infrastructure projects, entrepreneurship, skills development projects and the independent power producer programme that will increase power supply. This partnership with the private sector, an expanding tourism sector, less labour strikes and better global growth conditions should support a pick-up in economic growth over the medium term ■

MESSAGE FROM THE MINISTER

Fellow South Africans, we are presenting this budget to the people of South Africa, recognising that we are accountable to the public on how we spend their taxes and the money we borrow.

This Budget comes at a time of increased uncertainty in the global economy; a period that is characterised by negative investor sentiment towards emerging markets. This global backdrop and our challenges that include electricity shortages and drought mean that we are facing a difficult period ahead. Our economy is not inclusive or growing fast enough to ensure meaningful participation by all South Africans.

A growing economy gives us more revenue; we borrow less, create jobs, new opportunities for youth and enable new types of businesses to be created. Our focus is to work with business and labour to grow the economy. We are committed to restoring South Africa's public finances to a healthy state. This requires that we make tough decisions.

We have therefore, decided as government to further cut wasteful expenditure, show more restraint and also delay some of the projects. But we will not compromise on spending on social services to the poor. Further allocations to higher education will ensure that more students from poor backgrounds have access to universities.

This is but one example of our commitment to protecting social spending. We are a resilient nation and our challenges are not insurmountable, if we pull together ■

MEASURES TOWARDS REALISING FASTER ECONOMIC RECOVERY

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Government is committed to raising growth rates over the medium and long term. Success will depend on marshalling the active support of business, labour and civil society for the National Development Plan.

Key areas of intervention include:

- Focusing on electricity supply: Electricity has been the main constraint to faster economic growth. Government is therefore focusing on measures to increase electricity supply and building infrastructure to encourage investment and create jobs. Over the next 3 years, Eskom will invest R157 billion to expand electricity generating capacity.
- Infrastructure building is essential for encouraging investment, creating jobs and developing the right environment for the economy to grow rapidly. In line with the National Development Plan, the 2016 Budget prioritises spending on infrastructure. Over the next three years, government has committed R796 million towards investment in housing, roads, public transport, water and electricity.
- A total of R121.5 billion has been allocated for water and sanitation. The Department of Water and Sanitation will continue to focus on developing and rehabilitating water infrastructure to connect households.
- Focus on sectors that are less energy intensive and more labour intensive such as tourism, the ocean economy; agriculture and agro-processing. Government will identify and remove regulatory constraints that continue to hold back growth in these sectors.
- Using public resources to stimulate economic activity by prioritising spending on actions that have direct impact on the economy.
- Focus on small businesses, especially start-ups.
- Transforming the cities into mixed income precinct where people are close to transport networks and jobs. This also involves ensuring ongoing investment in infrastructure maintenance.

Restoring the momentum of growth requires greater confidence in the future on the part of all South Africans. Faster growth in private investment is key to economic recovery and employment creation. Restructuring the economy into a fast growing one involves creating globally competitive sectors. Government is aware that this difficult process takes time and will therefore focus on those measures that will grow the economy and create jobs ■

PROTECTING SOCIAL GRANTS AGAINST RISING INFLATION

The value of social grants will increase in 2016/17 to ensure that grants keep up with inflation.

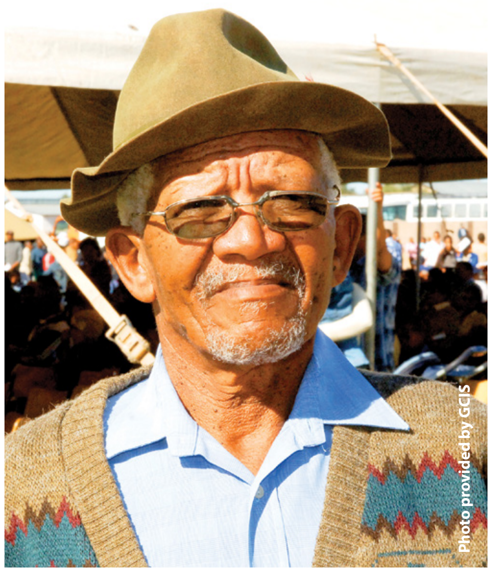
Increases to the Social Protection budget will also cater for a rise in the number of beneficiaries, mostly those receiving the *old-age pension grant* and the *child-support grant*.

This rise in beneficiaries is largely as a result of government's improving provision of healthcare and basic services over the years –old people are living longer and child mortality rates are falling.

In 2016/17, the *old-age pension grant* is set to increase by R90 and the *child-support grant* by R20 ■

SOCIAL GRANTS

2015/16	2016/17
STATE OLD AGE GRANT	
R1 415	R 1 505
STATE OLD AGE GRANT, OVER 75s	
R1 435	R 1 525
WAR VETERANS GRANT	
R1 435	R 1 525
DISABILITY GRANT	
R1 415	R 1 505
FOSTER CARE GRANT	
R860	R890
CARE DEPENDENCY GRANT	
R1 415	R 1 505
CHILD SUPPORT GRANT	
R330	R350



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EXPANDING ACCESS TO POST SCHOOL EDUCATION AND TRAINING

Expanding access to higher education remains a priority for government in order to produce the skills needed to fill jobs and boost the economy.

The need to address the challenge of funding higher education was brought to the fore after student protests at universities nationwide. After announcing that there would be no fee increases in 2016, President Zuma established a task team to explore how the challenges could be addressed and provide possible solutions. The no-increase in fees for 2016 resulted in a R2.3 billion shortfall, which will be financed through contributions from government and universities.

Since its start in 1991, NSFAS has assisted 1.5 million students from poor backgrounds with R50 billion in loans and bursaries for university and vocational colleges. NSFAS funding will be R32.1 billion over the medium term. About R8 billion will support current unfunded new and continuing students and R2.5 billion will bring relief to 71 753 university students who were unable to get loans between 2013 to 2015. This additional funding has been sourced from shifting funds away from other government programmes as well as cost-saving measures in the department.

Higher education institutions will receive subsidies of R93.1 billion over the next three years with a portion going towards financing infrastructure and operations for the new University of Mpumalanga and Sol Plaatje University.

The National Skills Fund and Sector Education and Training Authorities (SETAs) also play a critical role in providing skills development and training. This is done primarily through skills programmes, learnerships, internships and apprenticeships, and partnerships with vocational colleges, universities and the labour market, to provide students with opportunities to gain experience in the workplace. Income from the skills development levy is transferred directly to the SETAs and the National Skills Fund, and will reach R22 billion in 2018/19 ■

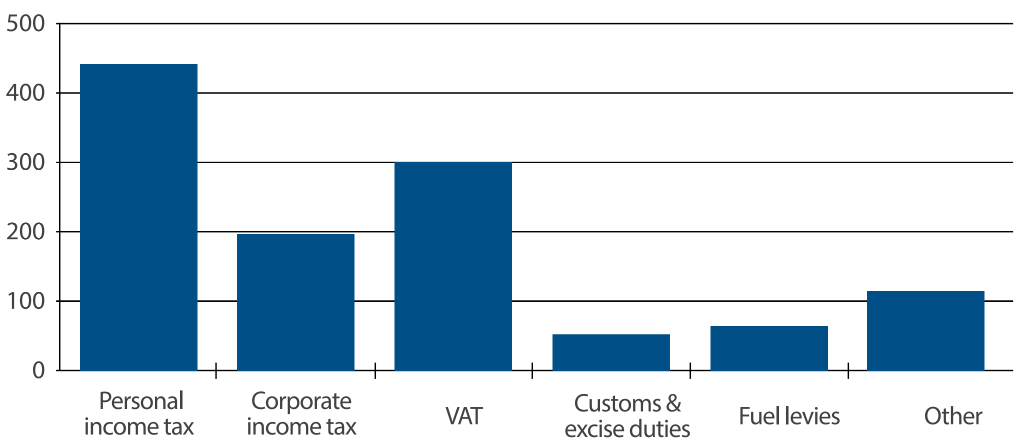
WHERE THE MONEY COMES FROM

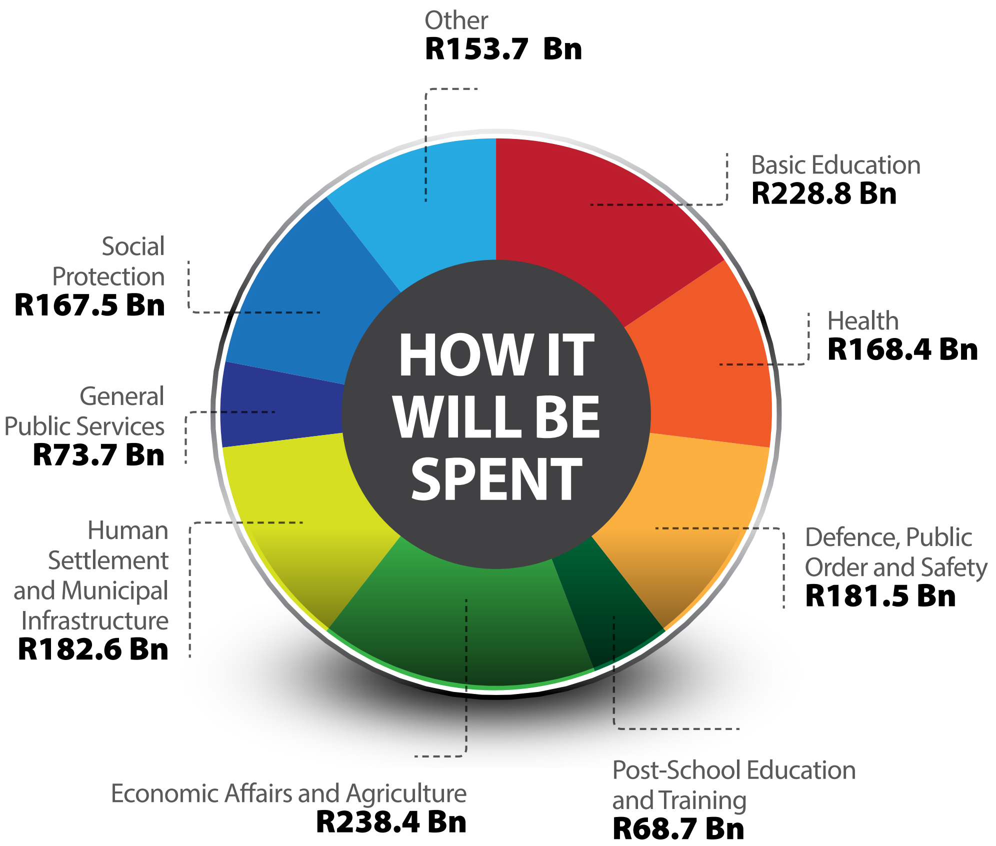
The biggest portion of the money that government spends comes from the National Revenue Fund, mainly through taxes and levies.

Government also borrows from investors so it can build schools, hospitals and better roads. Due to faltering economic growth and tax collections coming under pressure, government has increased borrowing in recent years. Net debt has gone up from R673 billion in 2009/10 to R1.8 trillion currently.

Government is cognisant of the risks associated with accumulated debt and would like departments to work more efficiently with public funds and reduce wastage ■

TAX REVENUE	2016/17	%
PERSONAL INCOME TAX	441.0	37.5
CORPORATE INCOME TAX	198.3	16.9
VAT	301.3	25.6
CUSTOMS AND EXCISE DUTIES	54.0	4.6
FUEL LEVIES	64.5	5.5
OTHER	115.7	9.8
TOTAL	**1 174.8**	**100.0**





HOW DOES GOVERNMENT FUND MUNICIPALITIES?

Municipalities play a major role in ensuring that people live in well-serviced, clean and dignified cities and towns.

They provide services such as water and sanitation, electricity, refuse removal, storm water management and street lighting and subsidise some of these for the poor. Of the total budget, 9.1 per cent is allocated to municipalities. They receive a smaller share because they collect own revenues through user charges, rates and taxes.

The largest transfer is the local government equitable share, which is based on a formula that ensures that poor and rural municipalities receive higher transfers. Municipalities also receive conditional grants, to fund infrastructure ■

2016 BUDGET TAX PROPOSALS

PERSONAL INCOME TAX

HOW DO THE PERSONAL INCOME TAX CHANGES AFFECT YOU?

The 2016 Budget sees a reduction of R5.65 billion in personal income tax payable by individuals.

This is made up of R5.5 billion to partially reduce the effect of inflation on tax payable by lower and medium income earners and R1.1 billion due to an increase in monthly medical scheme tax credits, less R950 million due to the increase in capital gains tax.

This Budget provides for some changes to personal income tax, including adjustments to the three lower taxable income tax brackets and the primary rebate, to provide some relief for lower income individuals from the effect of inflation. The amount an individual can earn before being required to pay tax has been adjusted as follows for the tax year that runs from 1 March 2016 to 28 February 2017:

TAX THRESHOLDS	TAX YEAR: 2015/16	TAX YEAR: 2016/17
Below age 65	R73 650	R75 000
Age 65 to 74	R114 800	R116 150
Age 75 and over	R128 500	R129 850

MEDICAL SCHEME TAX CREDITS	TAX YEAR: 2015/16	TAX YEAR: 2016/17
Each of the first two beneficiaries	R270	R286
Each additional beneficiary	R181	R192

TAX RATES

THE TAX RATES

Tax payable by individuals for the tax year ending 28 February 2017.

TAXABLE INCOME OF INDIVIDUALS (R)	TAX PAYABLE (R)
0 to 188 000	18% of taxable income
188 001 to 293 600	33 840 + 26% of taxable income above 188 000
293 601 to 406 400	61 296 + 31% of taxable income above 293 600
406 401 to 550 100	96 264 + 36% of taxable income above 406 400
550 101 to 701 300	147 996 + 39% of taxable income above 550 100
701 301 and above	206 964 + 41% of taxable income above 701 300
Trusts other than special trusts	Rate of tax 41%

INCOME TAX: COMPANIES

Financial years ending on any date between 1 April 2016 and 31 March 2017

Type	Rate of Tax (R)
Companies	28% of taxable income

INCOME TAX: SMALL BUSINESS CORPORATIONS

Financial years ending on any date between 1 April 2016 and 31 March 2017

Taxable Income (R)	**Rate of Tax (R)**
0 – 75 000	0% of taxable income
75 001 – 365 000	7% of taxable income above 75 000
365 001 – 550 000	20 300 + 21% of taxable income above 365 000
550 001 and above	59 150 + 28% of taxable income above 550 000

TURNOVER TAX FOR MICRO BUSINESS

Financial years ending on any date between 1 March 2016 and 28 February 2017

0 – 335 000	0% of taxable turnover
335 001 – 500 000	1% of taxable turnover above 335 000
500 001 – 750 000	1 650 + 2% of taxable turnover above 500 000
750 001 and above	6 650 + 3% of taxable turnover above 750 000

SIN TAXES

RISE IN TOBACCO AND ALCOHOL DUTIES

Excise duties on alcoholic beverages (particularly beer, ciders, fruit beverages and spirits) will increase by between 6.7 and 8.5 per cent. The increases in excise duties are as follows:

	INCREASES BY:
Malt beer	11c per 340ml can
Unfortified wine	18c per 750ml bottle
Fortified wine	27c per 750ml bottle
Sparkling wine	59c per 750ml bottle
Ciders and alcoholic fruit beverages	11c per 340ml bottle
Spirits	R3.94 per 750ml bottle
Cigarettes	82c per packet of 20
Cigarette tobacco	94c per 50g
Pipe tobacco	27c per 25g
Cigars	R4.32 per 23g

SUGAR TAX

SUGAR-SWEETENED BEVERAGES' TAX

Obesity is a worldwide concern. South Africa has the worst obesity ranking in sub-Saharan Africa. This has led to greater risk of heart disease, diabetes and cancer. Government proposes to introduce a tax on sugar-sweetened beverages on 1 April 2017 to help reduce excessive sugar intake.

FUEL LEVY

INCREASE IN GENERAL FUEL LEVY

The general fuel levy will increase by 30c per litre on 6 April 2016. This will push up the general fuel levy to R2.85 per litre of petrol and to R2.70 per litre of diesel.

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