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.

For some time, the South African government has been spending more than it can afford, leading to rising debt. The economy has also been growing at a slow pace as a result of low business confidence and falling private investment. At the time of the October Medium Term Budget Policy Statement government presented an unsustainable debt outlook. The 2018 Budget presents proposals to rebuild confidence and put the public finances on a more sustainable path. South Africa has an opportunity to build on the positive developments that have emerged in recent months. The economy has performed slightly faster than expected, with economic growth now projected to be 1 per cent in 2017, 1.5 per cent in 2018 and 2.1 per cent by 2020. This pace of economic growth is welcome, but is still too slow to address unemployment and poverty. This will make it difficult for government to achieve its targets for public finances. The central budget proposals involve boosting the public finances by raising taxes, reducing spending and reprioritising. Government will raise taxes by R36 billion through a one percentage point increase in the VAT rate to 15 per cent, and adjustments to other taxes. Raising VAT is estimated to have the least harmful effects on growth over the period ahead. Spending will also be reduced in other areas and reallocations will be made to other priorities mostly fee-free higher education and training over the next three years. Despite these changes, national government will still need to borrow R191 billion in 2018/19. However, the national debt outlook is now on a sustainable path. A sustainable budget is the first step in getting the economy back on track and growing more quickly. Government will work to deliver on important policy reforms as well as working on improving the governance and performance of state-owned-companies (SOCs) which is also key in supporting the growth of the economy. Although the economic situation has improved, the risks are still significant. The possibility of government collecting less revenue than it budgeted for, low economic growth and severe financial weakening at several major SOCs, still remain a factor.

A sustainable budget is the first step in getting the economy back on track and growing more quickly.
MESSAGE FROM THE MINISTER

Fellow South Africans. It is that
time again where government
addresses the nation about
how their hard-earned taxes are
going to be spent over the next
few years. In 2018, the focus will be
on restoring business and consumer
confidence by putting South Africa’s
finances on a sustainable path.

The time is now to put shoulders to
the wheel and reduce the budget
deficit. Through this reduction of
the budget deficit, government will
depend less on borrowings and
begin to build space to spend on the
services that matter the most, quality
education, health and social services
among others.

We also want to focus on creating jobs
for our people in order to reduce the
millions of people who are on social
grants. Government cares about the
people, and the tough economic
times will not prevent us from
continuing to cater for the poor. In
2018, government will increase social
grants at a higher rate than before
in order to compensate the poor
for the increase in VAT which will be
introduced this year.

Government is also serious about
improving access to quality
education. To fund fee-free higher
education announced by former
President Zuma in December 2017,
an additional amount of
R57 billion has been allocated to
fund the higher education system
over the medium term.

Let us work together – government,
business, labour and civil society –
to make South Africa a winning
rainbow nation!

BOOSTING CONFIDENCE,
THE ECONOMY AND
CREATING JOBS

Private investment in South
Africa has been declining
since 2015 as a result of low
levels of business and consumer
confidence. The 2018 Budget is
being introduced during a period
that provides an opportunity to
reduce confidence and boost
economic growth.

Government is expected to finalise
outstanding policy reforms, act
decisively against corruption in the
public and private sectors, and move
swiftly to resolve governance and
operational failures at SOCs.

To spur growth and boost
employment, government is working
collaboratively with different
stakeholders on a number of
initiatives. These include:

• The Financial Sector Code
which will allow the provision of
affordable housing, financing of
small businesses and agricultural
development for black farmers.

• The issuing of banking licences to
Discovery Bank and Tyme Digital
in 2017. Bank Zero is in the early
stages of a mutual bank licence.
Progress has also been made with
Post Bank’s licence. These new
banks will transform the sector
by improving competition and
providing South Africans with
more banking options.

• The Youth Employment Services
(YES) initiative which aims to
provide quality work experience
for vulnerable youth scheduled
to begin in March 2018 and is
expected to create 40 000 jobs.

• The Small Business and Innovation
Fund established by government
to fund ideation and early start-up
phases of businesses.

Delivering policy certainty is vital to
restore trust and create a supportive
environment for investment
growth. Government is addressing
barriers to investment in the
telecommunications, mining and
energy, and transport sectors.

IMPROVING SPENDING
EFFICIENCY ON INFRA-
STRUCTURE PROJECTS

The National Development
Plan identifies that in order
to overcome unemployment,
poverty and inequality, there needs
to be significant infrastructure
investment.

The Budget Facility for Infrastructure
(BFI) is a reform introduced by
government aimed at improving
the efficiency of spending on
infrastructure projects across the
public-sector. The first phase of the
BFI has begun to address weaknesses
in project preparation and the next
phase will continue to support quality
government investments through better
planning, financing, procurement
and implementation of infrastructure
projects. The 2018 Budget makes
provision for funds that will be used
to provide assistance for projects that
require further work before they can
be considered for funding.

IMALI YETHU AND
NATIONAL TREASURY
WORKING TO IMPROVE
PUBLIC PARTICIPATION
IN THE BUDGET

Over the past year, IMALI
YETHU-a voluntary coalition
of civil society organisations
(CSOs) has worked alongside
National Treasury in pursuit of the
goal of making budget information
accessible and engaging for all.

February 2018 sees the launch of this
exciting project, an online budget
data portal called vulekamali! This
project is important for all CSOs
involved – and the South African
public. The opportunity for real
collaboration with government
departments can provide lessons
for us all regarding openness and
transparency of budget
resources. Although South Africa is
a top-scoring country in terms of
making budget information open and
available – this is a chance to involve
the public – young and old.

We believe that the budget processes
should be more inclusive and that all
people should have the chance to
understand and have their say.
WHERE IS THE MONEY COMING FROM AND HOW WILL IT BE SPENT IN 2018/19?

The money that government spends comes from taxes and levies. Government proposes raising additional tax revenue mainly from value-added tax (VAT) and other taxes.

**TAX REVENUE (R billion)**

<table>
<thead>
<tr>
<th></th>
<th>2018/19</th>
<th>%</th>
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<tr>
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<td>505.8</td>
<td>37.6</td>
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<tr>
<td>VAT</td>
<td>348.1</td>
<td>25.9</td>
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<tr>
<td>Corporate income tax</td>
<td>231.2</td>
<td>17.2</td>
</tr>
<tr>
<td>Other</td>
<td>84.8</td>
<td>6.3</td>
</tr>
<tr>
<td>Fuel levies</td>
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<td>5.8</td>
</tr>
<tr>
<td>Customs and excise duties</td>
<td>97.4</td>
<td>7.2</td>
</tr>
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<td><strong>TOTAL</strong></td>
<td>1 345.0</td>
<td>100.0</td>
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Therefore, R1.345 trillion is expected to be collected in 2018/19. Since the revenue will not be enough to cover all the expenses, government will need to borrow R191 billion in 2018/19.

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### CONSOLIDATED SPENDING 2018/19

<table>
<thead>
<tr>
<th>Category</th>
<th>2017/18</th>
<th>2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning and culture</td>
<td>R351.1 bn</td>
<td></td>
</tr>
<tr>
<td>Social development</td>
<td>R259.4 bn</td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>R205.4 bn</td>
<td></td>
</tr>
<tr>
<td>Peace and security</td>
<td>R200.8 bn</td>
<td></td>
</tr>
<tr>
<td>Economic development</td>
<td>R200.1 bn</td>
<td></td>
</tr>
<tr>
<td>Community development</td>
<td>R196.3 bn</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>R194.2 bn</td>
<td></td>
</tr>
<tr>
<td>General public services</td>
<td>R64.0 bn</td>
<td></td>
</tr>
</tbody>
</table>

### PROVIDING SOCIAL SUPPORT TO THE POOR

18.1 million South Africans will be receiving social grants by 2020. In the 2018 Budget, government will increase social grants at a higher rate than before in order to compensate the poor for the increase in VAT. This means that in 2018/19, the child support grants will increase by R25 per month while the foster care grant will go up by R40. The old age grant will increase by R95 a month in 2018/19.

<table>
<thead>
<tr>
<th>Grant</th>
<th>2017/18</th>
<th>2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>State old age grant</td>
<td>R1 600</td>
<td>R1 695</td>
</tr>
<tr>
<td>State old age grant, over 75s</td>
<td>R1 620</td>
<td>R1 715</td>
</tr>
<tr>
<td>War veterans grant</td>
<td>R1 620</td>
<td>R1 715</td>
</tr>
<tr>
<td>Disability grant</td>
<td>R1 600</td>
<td>R1 695</td>
</tr>
<tr>
<td>Foster care grant</td>
<td>R920</td>
<td>R960</td>
</tr>
<tr>
<td>Care dependency grant</td>
<td>R1 600</td>
<td>R1 695</td>
</tr>
<tr>
<td>Child support grant</td>
<td>R380</td>
<td>R405</td>
</tr>
</tbody>
</table>

### RESPONDING TO THE DROUGHT EMERGENCY

Several provinces in South Africa including the Western Cape and parts of the Eastern Cape are experiencing a serious drought.

Government is responding to both the short-term challenge of ensuring that water supplies are not interrupted, and to the longer-term need to build a sustainable water system. For the short term, water restrictions are already in place and have been significantly extended especially in the Western Cape. The 2018 Budget provisionally allocates funds in 2018/19 that will be used to support the initiation of major long-term schemes to expand water supply. Government is committed to managing available supply to ensure that basic needs are met, while implementing plans to improve long-term sustainability.

### FEE-FREE HIGHER EDUCATION AND TRAINING FOR STUDENTS FROM POOR AND WORKING CLASS FAMILIES

In December 2017, former President Zuma announced fee-free higher education and training for students from families whose income is less than R350 000 a year. An additional amount of R 57 billion has been allocated to fund the system over the medium term.

This includes a subsidy to universities to fund the zero fee increase for students from families with household income of between R350 000 and R600 000.

The National Student Financial Aid Scheme (NSFAS) will provide bursaries for undergraduate university and technical and vocational education and training (TVET) college students below household income of R350 000. The bursary will cover the full cost of study, which includes tuition fees, study material, and subsidised meals, accommodation and/or a travel allowance. In the first year of the new system (2018), the bursary will only cover students in their first year of study. In 2019, the scheme will cover first and second year students.

The conditions attached to the bursary have been developed by the Department of Higher Education and Training.

Returning NSFAS university students (those from a family income of under R122 000 a year) who are in their second, third or fourth year of study in 2018 will have their loans converted into a bursary under the same conditions as when they first received the financial support. For TVET students currently on NSFAS, this does not apply as they have always received a bursary and not a loan.
The 2018 Budget provides for some changes to personal income tax. The personal income tax rebates are increased and the bottom three personal income tax brackets are adjusted to provide partial relief for the effect of inflation.

The amount an individual can earn before being required to pay income tax has been adjusted as follows for the tax year from 1 March 2018 to 28 February 2019.

**Personal Income Tax**

**HOW DO THE PERSONAL INCOME TAX CHANGES AFFECT YOU?**

**The new tax thresholds are due to increases in the tax rebates for individual taxpayers.**

<table>
<thead>
<tr>
<th>TAXABLE INCOME (R)</th>
<th>TAX PAYABLE (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 195 850</td>
<td>18% of taxable income</td>
</tr>
<tr>
<td>195 851 to 305 850</td>
<td>35 253 + 26% of taxable income above 195 850</td>
</tr>
<tr>
<td>305 851 to 423 300</td>
<td>63 853 + 31% of taxable income above 305 850</td>
</tr>
<tr>
<td>423 301 to 555 600</td>
<td>100 263 + 36% of taxable income above 423 300</td>
</tr>
<tr>
<td>555 601 to 708 310</td>
<td>147 891 + 39% of taxable income above 555 600</td>
</tr>
<tr>
<td>708 311 to 1 500 000</td>
<td>207 448 + 41% of taxable income above 708 310</td>
</tr>
<tr>
<td>1 500 001 and above</td>
<td>532 041 + 45% of taxable income above 1 500 000</td>
</tr>
</tbody>
</table>

**Trusts other than special trusts**

Rate of tax 45%

This Budget sees an increase in monthly medical scheme tax credits from R303 to R310 for the first two beneficiaries and from R204 to R209 for additional beneficiaries. The increased amounts are effective from 1 March 2018.

**Value-Added Tax**

**The VAT rate will increase from 14 to 15 per cent with effect from 1 April 2018.**

**Income Tax: Companies**

Financial years ending on any date between 1 April 2018 and 31 March 2019.

<table>
<thead>
<tr>
<th>Type</th>
<th>Rate of Tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies</td>
<td>28% of taxable income</td>
</tr>
</tbody>
</table>

**Income Tax: Small Business Corporations**

Financial years ending on any date between 1 April 2018 and 31 March 2019.

<table>
<thead>
<tr>
<th>Taxable Income (R)</th>
<th>Rate of Tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 78 150</td>
<td>0% of taxable income</td>
</tr>
<tr>
<td>78 151 – 365 000</td>
<td>7% of taxable income above 78 150</td>
</tr>
<tr>
<td>365 001 – 550 000</td>
<td>20 080 + 21% of taxable income above 365 000</td>
</tr>
<tr>
<td>550 001 and above</td>
<td>58 930 + 28% of the amount above 550 000</td>
</tr>
</tbody>
</table>

**Turnover Tax for Micro Business**

Financial years ending on any date between 1 March 2018 and 28 February 2019.

<table>
<thead>
<tr>
<th>Taxable Income (R)</th>
<th>Rate of Tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 335 000</td>
<td>0% of taxable turnover</td>
</tr>
<tr>
<td>335 001 – 500 000</td>
<td>1% of taxable turnover above 335 000</td>
</tr>
<tr>
<td>500 001 – 750 000</td>
<td>1 650 + 2% of taxable turnover above 500 000</td>
</tr>
<tr>
<td>750 001 and above</td>
<td>6 650 + 3% of taxable turnover above 750 000</td>
</tr>
</tbody>
</table>

**Estate Duty and Donations Tax**

- From 1 March 2018 the dutiable value of an estate exceeding R30 million will be taxed at a rate of 25 per cent instead of the current rate of 20 per cent.
- The amount of donations exceeding R30 million will be taxed at a rate of 25 per cent instead of the current rate of 20 per cent.

**Fuel Levies**

**The general fuel levy will increase by 22 cents per litre and the road accident fund levy will increase by 30 cents.**

- The general fuel levy to R3.37 per litre of petrol and to R3.22 per litre of diesel.
- The road accident fund levy to R1.93 per litre for both petrol and diesel.

The increased levies take effect on 4 April 2018.

**Sin Taxes**

Specific excise duties on alcoholic beverages will increase by between 6 and 10 per cent and specific excise duties on tobacco products will increase by 8.5 per cent.

The increases in excise duties are as follows:

- Malt beer: 15c per 340ml can
- Unfortified wine: 23c per 750ml bottle
- Fortified wine: 28c per 750ml bottle
- Sparkling wine: 73c per 750ml bottle
- Ciders and alcoholic fruit beverages: 15c per 340ml can
- Spirits: R4.80 per 750ml bottle
- Cigarettes: R1.22 per packet of 20
- Cigarette tobacco: R1.37 per 50g
- Pipe tobacco: R6.45 per 23g
- Cigars: R7.71 per 23g