ENGLISH

2018 BUDGET PEOPLE'S GUIDE

A joint publication between National Treasury and South African Revenue Service

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REPUBLIC OF SOUTH AFRICA

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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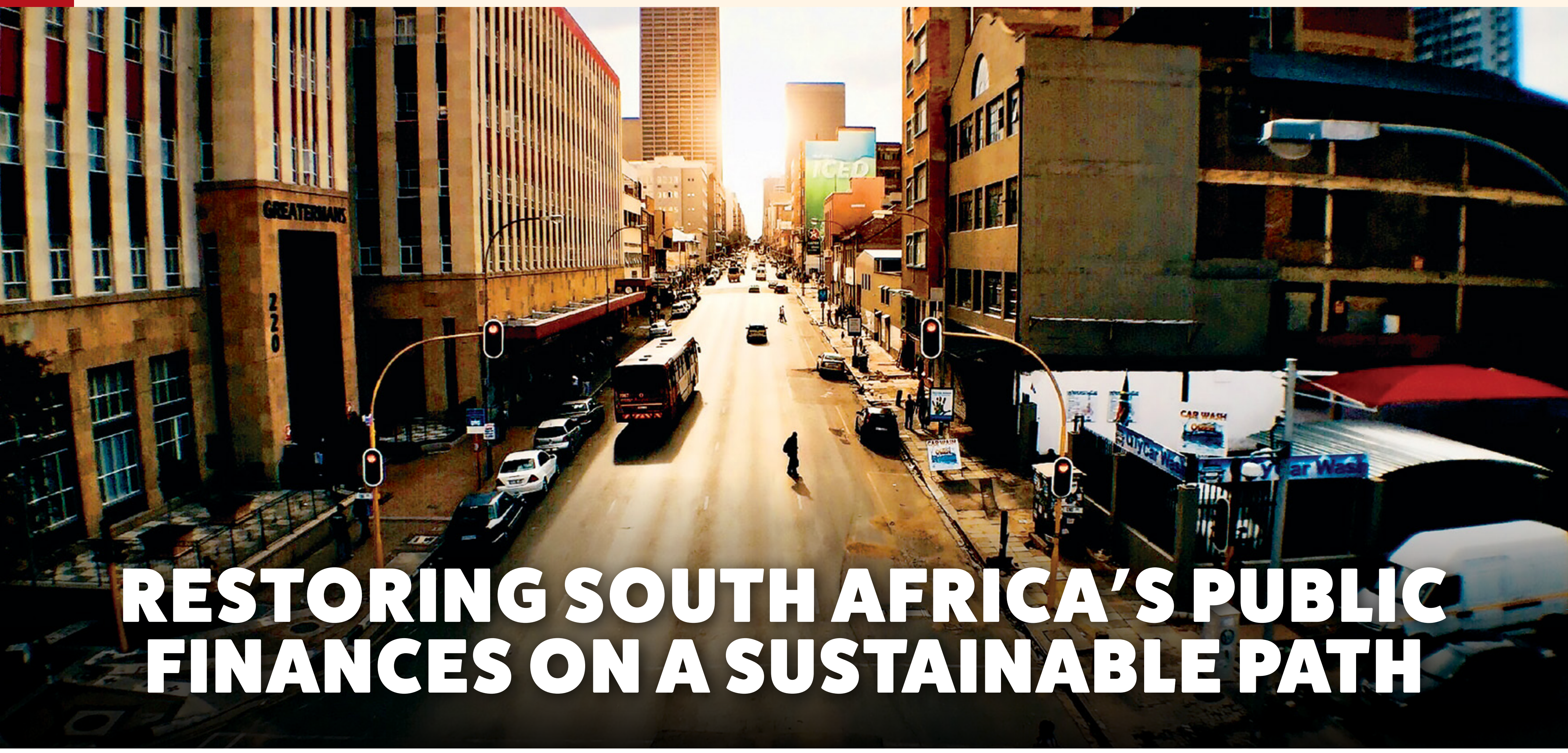
! HOW IS THE BUDGET PUT TOGETHER?

① Departmental guideline is issued indicating budget information required
② Departments prioritise their programmes, compile spending plans and service delivery commitments
③ Budget proposals are submitted to treasury and deliberated on
④ Interdepartmental committees of Directors-General consider allocation proposals
⑤ They make recommendations to Ministers' Committee on the Budget
⑥ Medium Term Budget Policy Statement signals the upcoming Budget
⑦ Finally allocations are decided in Cabinet
⑧ Budget documents are prepared
⑨ Main Budget is tabled
⑩ Parliament deliberates and adopts a Budget
⑪ Sent to the President for signing into Law



RESTORING SOUTH AFRICA'S PUBLIC FINANCES ON A SUSTAINABLE PATH

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.

> **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 ■

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.

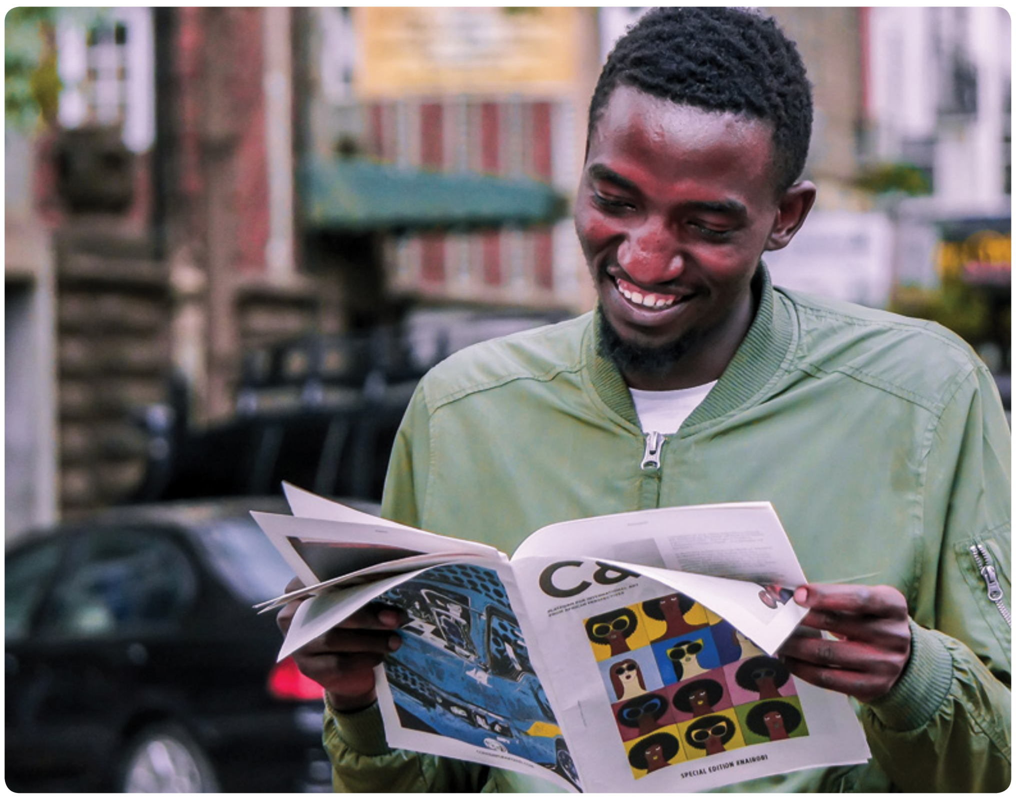
The time is now to put shoulders to the wheel and reduce the budget deficit. Through this reduction of the budget deficit, government will depend less on borrowings and begin to build space to spend on the services that matter the most, quality education, health and social services among others.

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 restore 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 public 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 partnership 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 transparent governance of public 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.

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.

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.

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 ▪

TAX REVENUE (R billion)	2018/19	%
Personal income tax	505.8	37.6
VAT	348.1	25.9
Corporate income tax	231.2	17.2
Other	84.8	6.3
Fuel levies	77.5	5.8
Customs and excise duties	97.4	7.2
TOTAL	**1 345.0**	**100.0**

CONSOLIDATED SPENDING 2018/19

R351.1 bn	Learning and culture
R259.4 bn	Social development
R205.4 bn	Health
R200.8 bn	Peace and security
R200.1 bn	Economic development
R196.3 bn	Community development
R194.2 bn	Other
R64.0 bn	General public services

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 ▪

	2017/18	2018/19
State old age grant	R1 600	R1 695
State old age grant, over 75s	R1 620	R1 715
War veterans grant	R1 620	R1 715
Disability grant	R1 600	R1 695
Foster care grant	R920	R960
Care dependency grant	R1 600	R1 695
Child support grant	R380	R405

2018 BUDGET | TAX PROPOSALS

SARS At Your Service

Personal Income Tax

HOW DO THE PERSONAL INCOME TAX CHANGES AFFECT YOU?

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.

TAX THRESHOLDS	TAX YEAR: 2017/18	TAX YEAR: 2018/19
Below age 65	R75 750	R78 150
Age 65 to 74	R117 300	R121 000
Age 75 and over	R131 150	R135 300

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

TAX REBATES	TAX YEAR: 2017/18	TAX YEAR: 2018/19
Primary (age below 65)	R13 635	R14 067
Secondary (age 65 and over)	R7 479	R7 713
Tertiary (age 75 and over)	R2 493	R2 574

Tax Rates

THE NEW INCOME TAX RATES

Tax payable for the tax year ending between 1 March 2018 and 28 February 2019.

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

INCOME TAX: COMPANIES

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

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

INCOME TAX: SMALL BUSINESS CORPORATIONS

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

Taxable Income (R)	Rate of Tax (R)
0 – 78 150	0% of taxable income
78 151 – 365 000	7% of taxable income above 78 150
365 001 – 550 000	20 080 + 21% of taxable income above 365 000
550 001 and above	58 930 + 28% of the amount above 550 000

TURNOVER TAX FOR MICRO BUSINESS

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

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

Value-Added Tax

VALUE-ADDED TAX

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

Fuel Levies

INCREASES IN FUEL LEVIES

The general fuel levy will increase by 22 cents per litre and the road accident fund levy will increase by 30 cents. This will push up:

- 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

RISE IN ALCOHOL AND TOBACCO DUTIES

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:

	INCREASES BY:
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	39c per 25g
Cigars	R6.45 per 23g

Estate Duty and Donations Tax

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.