Our Budget 2020 in a Time of Global Market Uncertainty

As we wrote last month, the South African economy is at a crucial juncture and the 2020 Budget was bound to be a deciding moment in determining our future path.

We were concerned with how many of the resolutions and intentions presented in the October 2019 medium-term budget policy statement and National Treasury's economic transformation plan would be adopted and implemented. We, like most South Africans, listened to the 2020 Budget speech with a degree of trepidation. Would the Minister's speech bring much needed relief to the South African economy, or spell the end to our last investment-grade rating?

The speech delivered was optimistic and focused on creating much-needed economic growth, with current growth rates for South Africa estimated to be 0.8% in 2020 and forecasting 1.3% in 2021 and 1.6% in 2022. Importantly, there were no significant tax increases, nor any changes to the corporate tax rate or VAT.

The Minister did, however, provide real tax income relief to individuals, which means that government will not raise additional revenue from tax proposals, but instead, have to reduce government's spending, which includes a reduction of some R160 billion to the bloated state wage bill.

We have summarised the key Budget highlights below:

Personal Income Tax

An above average adjustment to personal tax brackets, which provides some welcome relief to consumers. The maximum tax rate was unchanged at 45%.

Medical Tax Credits

An increase by 2.8% of the medical tax credit from 310 to R319. The reason for the below inflation increase is to fund the National Health Insurance Programme.

Transfer Duty

The exemption threshold on transfer duty was raised to R1 000 000.

Tax Free Savings Accounts

The annual contribution limit was raised to R36 000 per annum; the lifetime limit remains unchanged.

Corporate Income Tax

The tax rate for companies remains unchanged at 28%. The Minister is seeking to broaden the corporate tax base to allow for future reductions in corporate tax rates.

'Sin' Taxes

As expected, cigarettes and alcohol will face increases in taxes, and this will be increased to include electronic cigarettes.

Fuel Levy

The fuel levy will be increased by 25 cents on 1 April 2020, with 16 cents being used to fuel the Road Accident Fund.

Foreign Employment Income Exemption

The partial exemption on Foreign Employment Income will be increased to R1 250 000; this is increased from R1 000 000.

Exchange Control Emigration

Government is looking to review the concept of financial emigration through the Reserve Bank of South Africa by South African tax residents and phase this out by 1 March 2021. Further details on this will be communicated.

Conclusion

This Budget was met by most, including asset managers, with a sigh of relief and is sensible and reasonable towards the taxpayers of South Africa. This, together with the additional reforms to SARS to enhance tax collection, could be the catalyst the South African economy so desperately requires. The big challenge still facing government, however, is how to manage the budget deficit, currently at 6.8% of gross domestic product, and negotiate with labour unions to cut the state wage bill.

While the budget stresses the need for structural economic reform, the key remains boosting economic growth over the medium term. We believe the 2020 budget says all the right things, but political will and concrete action is needed from government.

Although we believe South Africa is turning the corner, and we will look to capitalise on the opportunities that present themselves, it is important to note a number of factors:

1. South Africa makes up a tiny fraction of the global economy and global stock market, and we still believe that a well-diversified portfolio should include companies which have revenue streams not dependent on one geographic region alone.
2. Even though the South African economy is poised for a turnaround over the next 12 to 18 months, it is important that we weigh-up the fundamentals of an investment versus the market's expectations of that investment and identify any potential upside or downside risk.
3. At present, there is significant concern around world markets regarding the effects the COVID-19 virus will have on global growth. In times like this market sentiment often runs ahead of fundamentals, exposing investors to unnecessary downside risk. It is our job to identify which opportunities look attractive versus which opportunities are attractive. Getting these calls right and staying the course will benefit all of our clients!