

2013

Budget Speech

Minister of Finance

Pravin Gordhan

27 February 2013



ISBN: 978-0-621-41456-1
RP: 345/2012

To obtain copies please contact:
Communications Unit
National Treasury
Private Bag X115
Pretoria
0001
Tel: +27 12 315 5526
Fax: +27 12 315 5126

Budget documents are available at: www.treasury.gov.za

Honourable Speaker

I have the honour to present the fourth budget of President Zuma's administration.

Mr President you said in the State of the Nation address that "we should put South Africa first. All of us have a patriotic duty and responsibility to build and promote our country." You further said "The National Development Plan provides a perfect vehicle for united action precisely because it has the support of South Africans across the political and cultural spectrum. Leaders in every avenue should be ready to rise above sectional interests and with great maturity, pull together to take this country forward."

This challenge applies to all sections of our society: business, labour, public representatives, activists and citizens in every part of the country.

As we pointed out in the 2012 Budget, global economic uncertainty will remain with us for some time.

South Africa's economic outlook is improving, but requires that we actively pursue a different trajectory if we are to address the challenges ahead.

Under your leadership Mr President, we have opened new channels of communication and built more cohesion among key stakeholders in South Africa. We have taken many steps to create the conditions for higher levels of confidence in our economy and society. Now we are ready to implement the National Development Plan.

South Africans have a rich history of acting together for a better future.

- Thirty years ago, the United Democratic Front brought together people of goodwill and foresight from all corners of the country. Many points of view, many differences in approach, were marshalled around a single cause – building a united and non-racial society. We did the same for the first democratic elections in 1994 which laid the basis for an enduring democracy.
- The Reconstruction and Development Programme is the foundation on which we build. It said:

“It is this collective heritage of struggle, these common yearnings, which are our greatest strength... At the same time the challenges facing South Africa are enormous. Only a comprehensive approach to harnessing the resources of our country can reverse the crisis created by apartheid. Only an all-round effort to harness the life experience, skills, energies and aspirations of the people can lay the basis for a new South Africa.”

The schools, clinics, taps and houses we have built since then are testimony to the truth of these assertions. The freedom and democracy we cherish - and the knowledge that these are permanent, inalienable rights grounded in our basic law – are the foundation on which all South Africans can make a contribution.

- Looking back on the path we have travelled since 1994, we see the importance of a long-term perspective on development and change. It is people acting together for a common vision that connects the past to the present, and makes a better future possible.

The challenge for us, honourable members, is that people are asking if we can sustain our “miracle”. They are asking whether we as a nation have the ability, the will and the wisdom to take another leap forward in reconstructing and developing South Africa. They are asking whether South Africans can still show the world how to overcome intractable problems that face the community of nations. In these trying times, South Africans too ask the question, “can we be a winning nation?”.

Of course we can!

As Benedict Mongalo, a young man from Johannesburg, writes in his tip: “*We all acknowledge that unemployment, poverty and inequality are the greatest challenge facing our country... We will not eradicate this problem overnight.. This is like manually moving a mountain and the only way to do it, is to move one rock aside and the next generation, or next government, will do the same until this mountain is moved.*”

Hope and confidence come from energetic involvement and a willingness to make a direct contribution to change. The imperatives of change are not just challenges to government, they confront all of society. A new framework for development is an opportunity to unite around an inclusive vision, and join hands in constructing a shared future.

The National Planning Commission has cautioned that our development objectives will take time and hard work to achieve. Measured year by year, district by district, there will be advances and there will be setbacks. But in each five-year term of government we must demonstrate, as we have since 1994, that we can meet more demanding milestones – more jobs, more enterprises, more technological innovation, better housing, progress in education and health.

Working together we all know that we can do better. All of us - citizens, taxpayers, public servants, teachers, activists, managers, workers – we all have a shared future, and we have a shared plan to make it work.

The Batswana’s say, “*Sedikwa ke ntšwa pedi ga se thata*” - working together we can do more!

Overview of the 2013 Budget

The 2013 Budget is presented in challenging times, but against the background of a new strategic framework for growth and development. This is a budget in which there is limited room for expansion, yet there are significant opportunities for change.

- There are signs of improvement in the world economy, though the outlook remains troubled.
- South Africa's economy has continued to grow, but at a slower rate than projected at the time of the 2012 Budget.
- The 2013 Budget takes the National Development Plan as its point of departure. The strategic plans of government and the medium-term expenditure plans will be aligned to realise our objectives.
- Government has taken measures to control growth in spending. Spending plans have been reduced by R10.4 billion through reprioritisation, savings and a draw-down on the contingency reserve.
- Government remains committed to a large-scale infrastructure investment programme.
- Our path of spending and the recovery in revenue will stabilise debt at just higher than 40 per cent of GDP. The budget deficit will fall from 5.2 per cent of GDP in 2012/13 to 3.1 per cent in 2015/16.
- A review will be initiated this year of our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability.
- In the 2013/14 fiscal year, personal income tax relief of R7 billion is granted.

- A new local government equitable share formula is proposed, providing a subsidy for free basic services designed to reach 59 per cent of households.
- Further education and training will continue to be extended and enhanced.
- And following careful consideration of inputs from various stakeholders, a revised youth employment incentive will be tabled in the House, together with a proposed employment incentive for special economic zones.
- In this budget we continue to invest in education, health, housing, public transport and social development – components of the social wage which add up to about 60 per cent of public expenditure.

Global situation

There are signs of improvement in the world economy, though the outlook remains troubled. Growth is still muted in the United States and Japan, and much of Europe is in recession. Policy interventions by the major central banks were needed during 2012 to avert new economic and fiscal crises. Yet many advanced economies contracted during the fourth quarter of 2012 and global prospects are expected to improve only marginally, from growth of 3.2 per cent in 2012 to 3.5 per cent in 2013. Emerging markets, particularly China and India, continue to lead global growth, although at lower rates than before.

High levels of debt are inhibiting progress in many countries. Yet measures to reduce indebtedness have the effect of holding back growth. Unemployment remains high in many countries, yet technological progress continues to reduce demand for labour in many industries. Around the world, inequality is fuelling discontent.

So there are parallels between the global economic discourse and our own policy challenges. In seeking a pragmatic balance between recovery and consolidation, between economic power and social solidarity, between infrastructure investment and human development, between encouraging

enterprise and regulating markets – we are grappling with issues that confront many other nations.

South Africa's economic outlook

South Africa's economy has continued to grow, but at a slower rate than projected at the time of the 2012 Budget. GDP growth reached 2.5 per cent in 2012 and is expected to grow at 2.7 per cent in 2013, rising to 3.8 per cent in 2015. Inflation has remained moderate, with consumer prices rising by 5.7 per cent in 2012 and projected to increase by an average of 5.5 per cent a year over the period ahead.

However, our trade performance is holding us back. Exports grew by just 1.1 per cent in real terms last year, while imports increased by 7.2 per cent. The deficit on the current account of the balance of payments was 6.1 per cent of GDP. This means, in simple terms, that expenditure in the South African economy exceeded the value of production and income by about R190 billion last year. This is partly a consequence of the disruption of mining sector activity and the structural reduction in mineral exports due to lower demand.

Some of the foundations of faster growth are in place. Strong capital investment by the public sector, the addition of electricity-generating capacity, relatively stable inflation and low interest rates will support improved growth rates over the medium term.

But this is not enough. Much more is needed. In particular, a significant increase in private sector investment and competitiveness is needed in the wider economy: agriculture, manufacturing, tourism, communications – every sector has to play its part in expanding trade, investment and job creation.

The National Development Plan: a new trajectory

The NDP, supported by the New Growth Path and other programmes, invites us to look beyond the constraints of the present to the transformation imperatives of the next twenty and thirty years.

These imperatives are already apparent in the realities of the social and economic restructuring that is under way.

- The first reality is our demographic transition – a million young people leave school every year, and we need a package of reforms that will improve education, training and work opportunities for young people.
- The second is that we are a rapidly urbanising society. This means we need to meet urgent demand for housing, municipal services, schools, clinics, public transport and commercial development, but it also means we have an opportunity to build an integrated urban landscape, with effective partnerships between municipalities, local businesses and civic associations.
- A third imperative is economic competitiveness. We need to invest in infrastructure, raise productivity and diversify our economy, to create jobs and raise living standards.
- Improving the quality of education and training is an essential foundation of a more productive and inclusive growth path.
- Stronger links with Africa and other emerging economies are needed.
- We have to adapt to a low-carbon economy, including mobilisation of our renewable energy potential.
- Finally there is the social solidarity challenge that cuts across all of these, which is to build a more equal and inclusive economy that bridges our racial and other divides.

These are themes on which the NDP provides clear guidance, not just about strategic goals and objectives, but also about the practical difficulties and choices we face.

There are substantial strengths on which to build – a well-established legal system, secure property rights, an effective tax system, world-class higher education institutions and science councils, established energy, transport, water and communications infrastructure networks, expertise and capacity in many areas - mining, construction, retail, finance, logistics and manufactured exports – and a sound macroeconomic and fiscal framework.

While building on these strengths, we have to tackle our weaknesses aggressively. The NDP emphasises key institutional capabilities:

- The need to professionalise the public service and strengthen accountability,
- Improved management and enforcement systems to fight corruption,
- Reinforcement of the education accountability chain, with lines of responsibility from state to classroom,
- Improved planning and management of strategic infrastructure projects.

The NDP also highlights the need to lower the cost of living for households, and to reduce the cost of doing business for small and emerging enterprises.

Let me also reiterate the NDP's emphasis on uniting South Africans around a common vision: it proposes a social compact to reduce poverty and inequality, and raise employment and investment, recognising that progress towards a more equal society requires shared efforts across the public and private sectors.

And so the 2013 Budget takes the National Development Plan as its point of departure.

- It recognises that our medium-term plans are framed in the context of a long-term vision and strategy.
- It focuses on strengthening growth and employment creation.
- It prioritises improvements in education and expansion of training opportunities.
- It promotes progress towards a more equal society and an inclusive growth path.

The fiscal framework and long-term sustainability

National development must be coupled with fiscal sustainability, which ensures that the progress we make will not be interrupted or reversed. The government relies on resources derived from the wider economy, and the best way to generate resources is to grow the economy faster and increase the tax base. The NDP targets an annual growth rate of more than 5 per cent a year. This would double the resources available to government in the next two decades.

The present reality is that growth is more modest. The economic turbulence we experienced in the second half of last year has resulted in a revenue shortfall amounting to R16.3 billion. The deficit is now estimated to be 5.2 per cent of GDP in 2012/13. The growth outlook for the next three years has weakened, and government's net debt is now expected to stabilise marginally higher than 40 per cent of GDP.

In the Medium Term Budget Policy Statement, we noted that if the economic environment were to deteriorate, government would reassess its revenue and spending plans to secure South Africa's fiscal footing. In the circumstances, our approach involves several elements:

- Additional measures to control spending, reducing real expenditure growth to an average of 2.3 per cent over the next three years, compared with 2.9 per cent signalled in October 2012
- A reduction in the budget deficit to 3.1 per cent by 2015/16, a level consistent with the stabilisation of debt
- Steps to reinforce growth, building on the competitiveness enhancement programme introduced last year
- Initiation of a tax policy review
- A comprehensive review of expenditure, focusing on both spending controls and value for money in government programmes and agencies

- Strengthening the capacity of the state to implement our plans and programmes.

Government is committed to remaining within the expenditure ceiling set out in the budget. New policy initiatives over the next three years will be financed from savings, efficiency gains and reprioritisation.

Structural increases in spending require corresponding revenue increases if they are to be financed sustainably. If we succeed in driving growth towards 5 per cent a year and government revenue doubles in the next 20 years, major infrastructure projects and new policy initiatives such as national health insurance and expanded vocational education will be affordable with limited adjustments to tax policy. But if growth continues along the present trajectory, substantial spending commitments would require significant adjustments in revenue and reductions in other areas of spending.

On Parliament's request, National Treasury has prepared a report that considers fiscal sustainability from a long-term perspective. The report is currently being considered within government, after which it will be tabled for Parliament's consideration.

Growing the real economy

Growing the economy means expanding business activity. We recognise the key role that private companies play in our economy.

In the lead-up to the Budget, we engaged with several business leaders on the investment and development challenges we face. Allow me to share with you some of their plans, which signal growing confidence in the business outlook, despite difficult conditions.

- Construction and refurbishment by a company in the hospitality sector firm of R2.5 billion in the next 18 months and expansion of R3 billion in the pipeline
- Two telecommunications investments amounting to R14 billion this year

- Capital expenditure of R3.4 billion over the next three years by a rail and logistics operator
- A R2.5 billion expansion and longer-term plans of R15 billion in mining projects
- Investment of R1.4 billion this year by a leading retailer, and plans to open 100 new stores by another
- An expansion of R1.2 billion this year by a food and beverage sector firm
- Plans for R28.5 billion in long-term infrastructure investment by a leading industrial company, which will create 10 000 temporary and 4 000 permanent jobs.

In recent times, the world has become a more uncertain place for businesses, causing some to build cash reserves rather than invest in new or expanding operations. As government, we wish to encourage businesses to keep investing in our economy, and seize the opportunities around us. We are therefore reinforcing several initiatives that support business development:

- The *Manufacturing Competitiveness Enhancement Programme (MCEP)*, announced in 2012, has received a total of 215 applications with requests for grants totalling R2.3 billion mainly from the chemicals, metals and agro-processing sectors. Applications are expected to increase over the period ahead and funding of R1.5 billion per year has been provided on the budget of the Department of Trade and Industry.
- The *Special Economic Zone (SEZ) Programme*, also announced last year, has received funding to build world class industrial parks. I am in discussion with Minister Davies on specific tax incentives to enhance this initiative.
- *The Jobs Fund* announced in the 2011 Budget has concluded two calls for proposals. In total, 3 614 applications have been received, and 65

projects approved. Grant funding of R3.3 billion has been approved, matched by a further R3.1 billion in funding raised by the private sector.

- Small, Medium and Micro Enterprises (SMMEs) play a key role in the development of the economy and are a significant generator of employment. Financing of SMMEs has been simplified with the creation of the Small Enterprise Finance Agency last year. We have been progressively working to simplify the tax requirements for small business. The turnover threshold will be increased this year and the graduated rate structure will be revised.

Regional Integration

Africa is our home, and it is our future. It is a market of over one billion people and it is growing rapidly.

The National Development Plan acknowledges the global shift of economic power from West to East, and highlights the rise of Africa.

Indeed, we have already begun to see our trade patterns shift from traditional partners in Europe and the United States to new markets in Asia and Africa. Africa now accounts for about 18 per cent of our total exports, and nearly a quarter of our manufactured exports.

Over the past five years, the South African Reserve Bank has approved nearly 1 000 large investments into 36 African countries. These are mutually beneficial, as they support development in those countries, and also generate tax revenue, dividends and jobs both abroad as well as in South Africa. To further support the private sector in expanding operations in Africa, I will announce simpler rules that will reduce the time and costs of doing business in Africa.

A number of measures are proposed to relax cross-border financial regulations and tax requirements on companies, making it easier for banks and other financial institutions to invest and operate in other countries. Similar measures will apply to foreign companies wanting to invest in African countries using South Africa as their regional headquarters. The outward investment reforms that apply as part of the Gateway to Africa reforms will also pertain to those

companies seeking to invest in countries outside Africa, including BRIC countries.

In addition, substantial direct investments in regional development are underway:

- We are helping to build infrastructure that will create opportunities for South African companies to expand trade and investment across the border. The DBSA is accelerating investment into the SADC region. We are supporting infrastructure projects in multiple countries, particularly in the key areas of electricity generation and transmission, and in strengthening road links in the region.
- Investment by the Industrial Development Corporation in 41 projects across 17 countries totalled R6.2 billion in 2012. The bulk of those projects are in mining, industrial infrastructure, agro-processing and tourism.
- As part of its long-term strategy to help secure energy supply for South Africa and the region, Eskom is considering options for investment in several regional generation and transmission projects.

Working with our BRICS Partners

Next month, we will host the 5th annual BRICS Summit, which brings together Brazil, Russia, India, China and South Africa. The Summit will unveil the work we have been doing with our BRICS partners on the following projects:

- The possible establishment of a BRICS-led bank is intended to mobilise domestic savings and co-fund infrastructure in developing regions
- The pooling of members' foreign exchange reserves with the view of using them to support each other at times of balance of payments or currency crisis. Collectively, BRICS countries hold reserves totalling USD 4.5 trillion.

- Work is underway on creating a trade and development insurance risk pool. The aim is to establish a sustainable and alternative insurance and reinsurance network for the BRICS countries.

Financing infrastructure investment

The NDP reminds us that “South Africa needs to invest in a strong network of economic infrastructure designed to support the country’s medium- and long-term economic and social objectives.”

Over the next three years, R827 billion is planned to be spent by the fiscus and state-owned companies to build infrastructure. The financing for these projects is in place, and is not affected by the spending cuts in the budget.

The fiscus has allocated just under R430 billion for schools, hospitals, clinics, dams, water and electricity distribution networks, electrification of over a million new homes, sanitation schemes, building more courtrooms and prisons, and improved bus, commuter rail and road links. Most of the spending falls under provinces and municipalities.

Eskom, Transnet and other State-Owned Companies fund a further R400 billion of projects. This will be financed both through own resources and additional borrowing over the next three years, supported by Treasury guarantees.

This will pay for the ongoing building of power generation plants and new transmission lines, investment in rail, ports and pipelines, large new water transfer schemes, and various airport upgrades.

Of course, we are well aware that there are parts of government that struggle to spend their full infrastructure budgets. It is important to bear in mind that spending programmes have become more ambitious, funding levels have increased, and pressure to deliver has intensified. Records show that government’s ability to spend has been steadily rising from year to year. But it is not yet fast enough.

On this challenge, Willie du Preez expresses concern about whether infrastructure investment is actually taking place. He suggests: “*As a citizen one should be able to obtain from the treasury website at the end of each*

financial year what amount was spent on what infrastructure.” Mr du Preez, you can already obtain that information from the treasury website, not just every year, but every month!

Investing in Urban Development

Our urban areas make a vital contribution to the national economy, hosting factories and offices and many work opportunities, and will always be attractive to young people seeking a better life. It is little surprise then that the Census 2011 shows that 62 per cent of South Africans are now living in our cities and towns. And that the population of some municipalities grew by over 50 per cent between 2001 and 2011.

The challenge we face of highly inefficient, segregated and exclusionary divides between town and township imposes costs not only on the economy and the fiscus, but also on families and communities.

A new formula for the local government equitable share will be introduced in 2013/14 that recognises the need to better differentiate assistance to different municipalities, including those in rural areas. Municipal infrastructure grants will also be re-aligned, and go hand in hand with more integrated planning of new developments, so that we can make meaningful strides in overcoming the spatial inequalities of the past.

Low carbon economy

The Development Plan further calls on government to send a signal to industry and consumers that we are living in an environmentally stressed world.

And so Government proposes to price carbon by way of a carbon tax at the rate of R120 per ton of CO₂ equivalent, effective from 1 January 2015. To soften the impact, a tax-free exemption threshold of 60 per cent will be set, with additional allowances for emissions intensive and trade-exposed industries. An updated carbon tax policy paper will be published for further consultation by the end of March 2013.

To ensure that South Africa produces fuel that is more environmentally friendly, support mechanisms for both biofuel production and the upgrade of oil refineries to cleaner fuel standards will be introduced.

In addition, government continues to direct spending towards environmental programmes, such as installing solar water geysers, procuring renewable energy, low carbon public transport, cleaning up derelict mines, addressing acid mine drainage, supporting our national parks, and in particular, to saving our rhino population, who remain under threat.

We are also encouraging the private sector and smaller public entities to be creative and develop low-carbon projects through the Green Fund. In the first call for proposals, 590 applications were received. The R800 million that was previously allocated is to be topped up with an additional R300 million.

The social wage

The NDP recognises that reducing the cost of living is essential for broadening economic participation and eliminating poverty. Alongside the “economic wage” earned through work, the “social wage” provided by government is a steadily rising contribution to the living conditions of working people and their families.

Substantial growth in social spending over the past decade has financed a threefold increase in the number of people receiving social grants, a doubling in per capita health spending, construction of 1.5 million free homes and the provision of free basic education to the poorest 60 per cent of learners. The impact is evident in improved living standards, expanded access to basic services and the changing landscape of both urban and rural areas.

The social assistance budget has increased by an average of 11 per cent a year since 2008/09, in part due to the extension of the child support grant to the age of 18. Spending on social assistance will rise to R120 billion next year.

- The old age and disability grants will increase in April from R1 200 a month to R1 260,
- The foster care grant will increase from R770 to R800, and

- The child support grant will increase to R290 in April and R300 a month in October.

It is also proposed that the old age grant means test should be phased out by 2016, accompanied by offsetting revisions to the secondary and tertiary rebates. All citizens over a designated age will be eligible for the grant, which will simplify its administration and address the disincentive to save that arises from the present means test.

Alongside social assistance, access to health care is a vital element in the social wage. There has been progress in reducing mortality and improving our HIV and TB programmes, and an expansion in medical and nurse training capacity is under way.

Pilot national health insurance projects have been initiated this year in ten districts, and will include improvements to health facilities, contracting with general practitioners and financial management reforms. A new conditional grant is introduced this year to enable the national Department of Health to play a greater role in coordinating these reforms.

The initial phase of NHI development will not place new revenue demands on the fiscus. Over the longer term, however, it is anticipated that a tax increase will be needed. The National Treasury is working with the Department of Health to examine the funding arrangements and system reforms required for NHI. A discussion paper inviting public comment on various options will be published this year.

Government's contribution to housing and basic municipal services is a substantial component of the social wage. The budget for housing and community amenities has increased by over 16 per cent a year since 2008.

Progress continues to be made in extending access to housing, electricity, water, sanitation and refuse removal services. The main contribution of the national budget to the financing of household amenities is the local government equitable share. A new equitable share formula is proposed in this Budget, which will provide a subsidy of R275 for every household with a monthly income less than R2 300, or about 59 per cent of all households.

We also recognise that many businesses provide their employees with housing assistance or home loans. However, the current fringe benefit tax is unduly burdensome in cases where an employer transfers a house to a low-income worker at a price below market value. Tax relief is proposed to address this difficulty.

The social wage complements employment earnings and contributes to a more equitable and inclusive economic growth path. National health insurance and further steps in social security reform will also reinforce social solidarity and the decent work agenda.

Social spending, however, is not a substitute for job creation.

One of our most pressing development challenges is to expand work opportunities for young people. There has been extensive debate on how this should be done. The answer is that a wide range of measures are needed, including further education, training, public employment opportunities and support for job creation in the private sector.

To complement existing programmes, a tax incentive aimed at sharing the costs of employing young work-seekers will be tabled for consideration by Parliament. It will help young people enter the labour market to gain valuable experience and access career opportunities. A similar incentive is proposed for eligible workers of all ages within special economic zones.

Financial services and retirement reform

In last year's Budget, I indicated the need for South African households to save more. I am now able to announce the following proposals, for consultation before we introduce the necessary legislation later this year:

- Tax-preferred savings and investment accounts will be introduced in 2015.
- Retirement funds will be required to identify appropriate preservation funds for exiting members, who will be encouraged to preserve when changing jobs.

- Retirement funds will be required to guide their members through the process of converting savings into a regular income after retirement, and to choose or establish default annuity products that meet appropriate principles and standards. More competition will be promoted by allowing providers other than life offices to sell living annuities.
- The tax treatment of pension, provident and retirement annuity funds will be simplified and harmonized.
- Governance reforms of retirement funds will also be implemented, with measures in place to ensure trustees of retirement funds are trained once they have been appointed. I intend to call up a conference of all trustees this year to take this process forward.

We are also considering how to encourage all employers to provide appropriate retirement mechanisms for their employees, as part of the broader social security reforms. In implementing these reforms, the vested rights of current members of retirement funds will be protected.

Let me take this opportunity, to confirm that the Government Employees Pension Fund has remained fully funded despite the turmoil in financial markets in recent years. A 6 per cent increase in civil service pensions will be effected in April this year.

Credit

There has been rapid growth in unsecured credit in recent years. The share of new mortgage lending has fallen rapidly, and is now less than or almost equal to both new vehicle credit and new personal loans. We will engage with the banking sector to explore how to increase the level and share of new mortgage loans. Small business financing must also be supported to a far greater extent than is being done.

We are concerned by the abuse of emolument attachment orders that has left many workers without money to live on after they have serviced their debts every month. We are in discussion with the National Credit Regulator, the Department of Justice and banks, to ensure that the lending market remedies its behaviour. In the meanwhile, all employers, including the public sector, can

play a role and assist their workers to manage their finances and to interrogate all emolument attachment or garnishee orders to ensure that they have been properly issued. I also call on the various law societies to take action against members who abuse the system.

Tax policy

Allow me to turn now to the revenue proposals.

We find ourselves in a challenging period, with revenues lower than expected by R16.3 billion compared with estimates at the time of the 2012 budget. This is predominantly due to weak economic growth during the second half of 2012, mining sector disruptions and lower commodity prices. Tax revenues are expected to improve over the medium-term in line with higher economic growth and the stabilization of key commodity prices.

Over the past decade, we have steadily broadened the tax base, both through policy reforms and improved revenue administration. This has made substantial tax relief possible, contributing both to household disposable income and a lower cost of doing business.

The main tax proposals for 2013 are as follows:

- Personal income tax relief of R7 billion, together with adjustments to the medical tax credit and other monetary thresholds, amounting to about R350 million.
- Reforms to the tax treatment of contributions to retirement savings.
- An employment incentive through the tax system for first-time job seekers.
- Further tax relief for small businesses, including an increase in the monetary tax thresholds applicable for small business corporations.
- An overall increase of 23 cents per litre in fuel levies in April, which includes 8 cents per litre in the road accident fund levy.

- Increases in excise duties on alcohol and tobacco products of between 5.7 and 10 per cent, and
- Introduction of the carbon tax in 2015, together with the phasing-out of the electricity levy.

A tax review will be initiated this year to assess our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability, amongst other things.

The Budget Review outlines various measures proposed to protect the tax base and limit the scope for tax leakage and avoidance. The taxation of trusts will come under review to control abuse; modifications are proposed to the tax treatment of employment share schemes and disability or income-protection policies; outstanding difficulties in the distinction between debt and equity will be addressed; and it is proposed that foreign businesses which sell e-books, music and other digital goods and services should be required to register as VAT vendors, in line with regulations which have been adopted by the European Union and other jurisdictions.

Tax administration

Millions of honest taxpayers in our country continue to sustain our growth and development agenda. To them we owe a debt of gratitude and, more importantly, a commitment to spend that money wisely, efficiently and effectively. We thank you!

Tax avoidance

We also owe it to our taxpayers to ensure they are not carrying the burden of those who benefit from our country's infrastructure and resources without paying their fair share of the costs.

Around the world, taxpayers and their governments are challenging large multinational companies that pay little or no tax in the countries in which they operate. Meeting in Moscow earlier this month, finance ministers of the G20 countries were united in supporting an overhaul of international company tax

rules to address this issue. The South African Revenue Service is currently engaging with companies that have their base of operations in SA but appear to have shifted a large proportion of their profits to low tax jurisdictions where only a few people are employed. This is unacceptable!

SARS is also pursuing schemes identified under the revised general anti-avoidance rules following several years' painstaking work tracing transactions through multiple jurisdictions and entities. These benefits typically accrue to advisors and pre-existing shareholders, rather than new shareholders who were introduced as the ostensible beneficiaries of the transactions.

Voluntary disclosure

A temporary voluntary disclosure programme was implemented under legislation enacted in 2010 which allowed taxpayers in default to regularise their tax affairs. More than 18 000 taxpayers made use of the programme and tax of more than R3 billion has so far been collected as a result of the programme.

From 1 October 2012, a permanent voluntary disclosure programme became effective as part of the Tax Administration Act (2011). Some 700 taxpayers have already come forward. Tax of more than R200 million will be collected before the end of March 2013.

Non-compliance

SARS is also targeting other areas of non-compliance, including recipients of government expenditure who are not up to date with their taxes. By working closely with Treasury and interfacing with the government payment system, SARS has identified companies who have received payments but have not declared their full income. They are being audited, and others will follow.

This intervention will be further underpinned by the reform of the Tax Clearance Certificate process which I announced in October.

In the near future, SARS will introduce a Single Registration process in which companies are able to register once-off in a simple manner for all tax types and Customs activities.

On this, we can perhaps consider adding the suggestion by Amanda Hayes, who runs a small business in Cape Town. She proposes that a single database of suppliers to government be created out of all the companies that apply to SARS for tax clearance certificates. In addition to reducing the burden on small businesses, Amanda says this database will help reduce corruption because of the tighter national oversight over companies who are registered.

Medium-term expenditure framework and division of revenue

I have indicated many of the specific programmes and activities of government that contribute to our growth and social development objectives. Allow me to summarise the framework within which these allocations are made.

The 2013 Budget provides for continued real growth in spending to support service delivery, and to expand investment in infrastructure. It will also accommodate the costs of the three-year public service wage agreement signed last year.

In the past, we have been able to add substantially to medium term spending plans during the Budget, but this year is different. Money has been taken away from programmes that are not performing or are not aligned to government's core priorities and given to programmes that are delivering as planned.

The main appropriation provides for R1 055 billion in expenditure next year, rising to R1 226 billion in 2015/16. Debt-service costs will come to R100 billion next year, and R4 billion is set aside as a contingency reserve. This leaves R951 billion to be divided between the national, provincial and local spheres.

National departments are allocated 47.6 per cent of available funds in 2013/14. Provinces are allocated 43.5 per cent, mainly for education, health and social welfare. Local government receives 8.9 per cent, primarily for providing basic services to low-income households.

Allocations from the contingency reserve will be made later in the year, mainly for unforeseeable and unavoidable expenditure. Work is in progress to determine funding requirements for reconstruction and rehabilitation following flood damage in Western Cape, KwaZulu-Natal, Limpopo and Mpumalanga. An allocation will also be made in the adjustments appropriation for the Dinaledi

schools connectivity programme and other broadband infrastructure projects, subject to finalisation of implementation plans.

The equitable division of revenue between provinces and municipalities takes into account the 2011 Census, which shows substantial shifts in the distribution and age structure of the population since 2001. The changes to provincial and municipal allocations will be phased in to avoid disruption of services.

Allocations to provinces and municipalities

The provincial equitable share amounts to R338 billion in 2013/14, and conditional grants to provinces will total R77 billion. Additional allocations have been made to increase employment of social workers and to provide additional support to non-governmental organisations which provide critical welfare services. There is additional funding for teachers in the poorest 20 per cent of schools and grade R classes, and for community library services. Provinces are also funded for an expansion in HIV and Aids programmes and an improved TB diagnosis system.

Infrastructure transfers to provinces have increased sharply in recent years, growing from R4.8 billion in 2005/06 to R39.7 billion in 2012/13. To improve the quality of spending, the application process for infrastructure grants is being revised: provinces will be required to submit building plans two years ahead of implementation and will only receive allocations if plans meet certain benchmarks.

A total of R85 billion is allocated for transfer to municipalities in 2013/14, rising to R101 billion in 2015/16. Additional allocations are made for municipal water infrastructure, public transport and integrated city development.

Consolidated government expenditure

There is considerable detail in the Budget Review and the Estimates of National Expenditure on government spending plans and service delivery targets. I will highlight just a few key points.

Consolidated government expenditure is budgeted to increase by 8.1 per cent a year, from R1.1 trillion in 2012/13 to R1.3 trillion in 2015/16.

Job creation and labour

Allocations for employment programmes increase by 13.5 per cent a year over the next three years.

There will be higher funding for employment projects of non-governmental organisations and for Working for Fisheries. The expanded public works programme aims to support 684 800 fulltime equivalent jobs in 2013/14.

Additional allocations are also made for the sheltered employment factories of the Department of Labour, and to support the work of the Commission for Conciliation, Mediation and Arbitration.

Health and social protection

Consolidated spending on health and social protection is R268 billion in 2013/14.

Health infrastructure remains a priority. In 2012, a total of 1 967 health facilities and 49 nursing colleges were in different stages of planning, construction and refurbishment.

Substantial improvements in the social assistance payments system are in progress, providing easier access by recipients to their grants. The cost of social grants payments has been reduced from R32 to R16 per disbursement.

Education, sport and culture

Spending on education, sport and culture will amount to R233 billion in 2013/14. Over the period ahead, the basic education sector will focus on improving numeracy and literacy, expanding enrolment in grade R and reducing school infrastructure backlogs. Together with the broader education infrastructure grant, R23.9 billion is available to provincial education departments for infrastructure over the next three years.

R700 million has been allocated over the MTEF period for the technical secondary schools recapitalisation grant. This will finance construction and

refurbishment of 259 workshops and training of over 1 500 technology teachers.

Transfers to higher education institutions increase from R20.4 billion in 2012/13 to R24.6 billion in 2015/16. The total number of students enrolled in higher education institutions is expected to increase from 910 000 currently to 990 000 in 2015. Funding has been allocated for the construction of new universities in the Northern Cape and Mpumalanga to commence this year.

Economic services

Expenditure on economic services in 2013/14 will amount to R48 billion, including R5.3 billion for the manufacturing competitiveness enhancement programme and R2.9 billion for special economic zones.

Additional allocations include R450 million over three years to the Economic Development Department for the Small Enterprise Finance Agency. The Department of Agriculture, Forestry and Fisheries will continue its support for smallholder farmers. Additional funding goes to the Department of Mineral Resources to support beneficiation and rehabilitate derelict and ownerless mines.

The allocation to the Department of Science and Technology includes R2 billion to support the Square Kilometre Array project.

Transport, energy and communications

Expenditure on transport, energy and communications will amount to R89 billion next year.

The allocation to the Department of Transport increases from R42.3 billion next year to R53.4 billion in 2015/16, reflecting increased allocations to the Passenger Rail Agency for its rolling stock procurement programme and further investment in the national road network. Additional funding goes to integrated public transport networks in urban areas, and for provincial road maintenance.

The integrated national electrification grant is allocated additional funding to increase the number of new electricity connections by 645 000 over the next

three years. The solar water geyser programme will be continued until 2015/16 and Sentech will receive R599 million over the medium term for the migration from analogue to digital terrestrial television.

Local government, community amenities and housing

Local government, community amenities and housing are allocated R132 billion in 2013/14. The largest increases go to bulk water, water treatment and water distribution projects, and allocations to the local government equitable share.

R4.3 billion is allocated to a new grant to be administered by the Department of Water Affairs, providing for water treatment, distribution, demand management and support for rural municipalities. The Municipal Infrastructure Support Agency of the Department for Cooperative Governance receives R820 million to provide technical assistance to rural and low-capacity municipalities.

Funding for improving human settlements will grow from R26.2 billion to R30.5 billion over the next three years, including R1.1 billion to support the informal settlement upgrading programme in mining towns. Social housing receives an additional allocation of R685 million.

General public services

The general public services function is allocated R57 billion in 2013/14. This includes the SARS budget of R9.5 billion, which is just over 1 per cent of revenue to be collected.

The Department of Public Works reprioritised R464 million over the medium-term to fund its turnaround strategy, which focuses on lease and property management portfolios. The Public Service Commission receives R71.4 million to combat corruption and address grievances.

Over the MTEF period, the Department of Home Affairs will spend R1 billion on its information systems modernisation programme, which has already led to substantial reductions in the time required to produce official documents.

Defence, public order and safety

The allocations for defence, public order and safety amount to R154 billion in 2013/14.

Provision is made for peace-keeping operations in the Central African Republic, where 400 defence force personnel have been deployed.

The Department of Police has reprioritised R2.5 billion over the MTEF to improve detective and forensic capability. The Department of Justice and Constitutional Development receives R1.2 billion for the criminal justice sector revamp and modernisation programme. There is increased funding allocated to the National Prosecuting Authority for the Thuthuzela Care Centres. The Public Protector of South Africa receives funding to increase its investigative capacity and additional funds are also made to Legal Aid South Africa and the South African Human Rights Commission.

Procurement and combating corruption

Last year I said to this House that we will continually endeavour to increase the value which government receives for the money it spends.

Let me be frank. This is a difficult task with too many points of resistance! However, we have registered some progress. In the present system, procurement transactions take place at too many localities and the contracts are short term. Consequently there are hundreds of thousands of transactions from a multitude of centres. There is very little visibility of all these transactions. While our ablest civil servants have had great difficulty in optimising procurement, it has yielded rich pickings for those who seek to exploit it. There are also too many people who have a stake in keeping the system the way it is. Our solutions, hitherto, have not matched the size and complexity of the challenge. As much as I want, I cannot simply wave a magic wand to make these problems disappear. This is going to take a special effort from all of us in Government, assisted by people in business and broader society. And it will take time. But we are determined to make progress.

The process for setting up the Chief Procurement Office in the National Treasury has begun in earnest and I shall soon be able to announce the name of a Chief Procurement Officer. A project team seconded from state agencies and the private sector has identified four main streams of work, involving immediate remedial actions, improving the current system, standardising the

procurement of critical items across all government and the long-term modernisation of the entire system.

Among the first initiatives of the CPO will be to enhance the existing system of price referencing. This will set fair value prices for certain goods and services. Secondly, it will pilot procurement transformation programmes in the Departments of Health and Public Works, nationally and in the provinces.

National Treasury is currently scrutinising 76 business entities with contracts worth R8.4 billion which we believe have infringed the procurement rules, while SARS is currently auditing more than 300 business entities and scrutinising another 700 entities. The value of these contracts is estimated at over R10 billion. So far 216 cases have been finalised resulting in assessments amounting to over R480 million being raised. The Financial Intelligence Centre has referred over R6.5 billion for investigation linked to corrupt activities.

I fully support Minister Sisulu's call for appropriate curbs on officials doing business with government. I will complement her initiative by aligning the Public Finance Management Act with the provisions of the Public Service Act.

Worldwide, special measures are being taken to oversee the accounts of what have become known as "politically exposed persons" – public representatives and senior officials. I have asked that the FIC should explore how we might bring South Africa into line with these international anti-corruption and anti-money laundering standards.

Taxpayers, and indeed all South Africans are understandably impatient for tangible change. A recurring theme in the tips sent to me for this Budget was to ensure value for money. Peter Maibelo, aged 24, from Pretoria, summed it up as follows: *"Minister I won't be fancy with words or complicated ideas ... my advice for a healthy and sustainable fiscus is to brutally eradicate corruption, then we will be honoured to pay taxes."*

Mr Maibelo, I couldn't agree more. Rooting out corruption requires collective effort from all of us.

Conclusion

My sincere appreciation goes to President Zuma and Deputy President Motlanthe for their guidance and support.

My appreciation also goes to Colleagues of the Ministers' Committee on the Budget, for their continuous and vigorous engagement with the challenges that face us, and their bold and steadfast advice to Cabinet.

I wish to thank my Cabinet colleagues who collectively own this budget. Their support and understanding for tough measures is highly appreciated.

A heartfelt thank you to Deputy Minister Nene, whose vigilant participation and sound advice is invaluable to me.

My thanks to the MECs of Finance, who play a critical role as guardians of 43 per cent of our spending.

Our appreciation also goes to:

- Governor Gill Marcus and the Deputy Governor of the South African Reserve Bank, for their constructive management of monetary policy,
- Commissioner Oupa Magashula and the staff of the South African Revenue Service for their diligent contribution to fiscal stability – I hope better times return for them soon!
- The Financial and Fiscal Commission and its acting Chairperson, for their contributions,
- Mr Jabu Moleketi, Chair of the DBSA and its new CEO, Mr Patrick Dlamini, who are positioning the DBSA to make a greater contribution to infrastructure development,
- The Chair of the Land Bank, Mr Ngubane, and CEO Mr Phakamani Hadebe, for their illustrious service to the bank,

- The leadership of the Public Investment Corporation, the Financial Services Board, the Financial Intelligence Centre and the Government Pension Administration Agency,
- The managing director of NEDLAC, Mr Alistair Smith, and the constituency representatives for their engagements with the Treasury,
- The Honourable Thaba Mufamadi and Charel de Beer, who chair the Standing and Select Committees on Finance respectively, and the chairpersons of the the Appropriations Committees, the Honourable Elliot Sogoni and Tebogo Chaane, who ensure that Parliament remains a vibrant forum for engagement, accountability and public participation,
- Director-General Lungisa Fuzile (and Mrs Fuzile) for his professionalism, frankness and profound commitment to building credible institutions and advancing government's objectives,
- The management team and staff of the National Treasury, whose extraordinary contributions and caring for a better South Africa enhance our country's standing in international fora,
- My Chief of Staff, Dondo Mogajane, and the Ministry staff for their enthusiastic support,
- My very supportive family who make my contributions possible.

And finally, I must express sincere gratitude to South Africans from all parts of the country who offer words of encouragement – as well as critiques and concerns! This is what keeps us accountable and drives us to constantly improve.

The key pillars of this Budget are:

- Global growth is improving, though uncertainty remains.
- South Africa's economy must grow faster and more inclusively.

- Future growth is also dependent on private-sector investment in the economy.
- The National Development Plan will be implemented by government and budgets will be aligned to it.
- Government continues to invest significantly in infrastructure
- We are taking additional steps to create opportunities for young people.
- Reduced revenue results in less spending in the years ahead unless the economy grows.
- There are new opportunities to be seized in Africa and other emerging markets.
- We have committed to reviewing and assessing our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability.
- A new local government formula benefits rural municipalities.

Honourable Speaker, I table this budget in the hope that as a nation we will be able to rise above our sectional interest, and, as you said Mr President, prevail with greater maturity, pull together and take this country forward.

We have said that South Africa is changing. Let us work together to ensure that really, tomorrow, will be better than today.

In conclusion, let me remind this House of what former President Nelson Mandela said: "What counts in life is not the mere fact that we have lived. It is what difference we have made to the lives of others that will determine the significance of the life we lead..."

I thank you

Summary of the national budget

	2012/13		2013/14	2014/15	2015/16
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
R million					
REVENUE					
Estimate of revenue before tax proposals			875 378		
<u>Budget 2013/14 proposals:</u>					
Taxes on individuals and companies			-8 242		
Personal income tax			-7 382		
Adjustment in personal tax rate structure			-7 032		
Adjustment in monetary thresholds			-350		
Business income tax			-860		
Employment tax incentive			-500		
Small business corporations			-360		
Indirect Taxes			5 830		
Increase in general fuel levy			3 270		
Increase in excise duties on tobacco products			855		
Increase in alcoholic beverages			1 210		
Increase in incandescent bulb levy			50		
Increase in plastic bag levy			90		
Increase in CO ₂ vehicle emission tax			355		
Estimate of revenue after tax proposals	799 341	782 474	872 966	967 923	1 070 727
Percentage change from previous year			11.6%	10.9%	10.6%
EXPENDITURE					
Direct charges against the National Revenue Fund	419 926	424 615	462 363	495 591	530 698
Debt-service costs	89 388	88 325	99 741	108 718	118 163
Provincial equitable share	309 057	313 016	337 572	359 924	383 697
General fuel levy sharing with metros	9 040	9 040	9 613	10 190	10 659
Skills development levy and Setas	9 606	11 400	12 403	13 544	14 817
Other ¹⁾	2 835	2 835	3 032	3 214	3 362
Appropriated by vote	543 630	542 352	588 682	635 890	685 029
Current payments	155 803	158 366	168 867	179 234	188 386
Transfers and subsidies	371 010	369 489	402 652	435 813	476 102
Payments for capital assets	15 176	13 045	14 258	17 590	17 517
Payments for financial assets	1 641	1 451	2 905	3 252	3 024
Plus:					
Unallocated funds	30	-	30	-	-
Contingency reserve	5 780	-	4 000	6 500	10 000
Estimate of national expenditure	969 365	966 967	1 055 075	1 137 981	1 225 727
Percentage change from previous year			9.1%	7.9%	7.7%
2012 Budget estimate of expenditure		969 365	1 053 830	1 139 579	
Increase / decrease (-)		-2 398	1 245	-1 598	
Gross domestic product	3 301 374	3 209 142	3 520 268	3 880 406	4 270 848

1) Consists mainly of salaries of Members of Parliament, judges and magistrates.

2013 Budget Speech

Summary of the consolidated budget

R million	2012/13		2013/14	2014/15	2015/16
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
National budget revenue ¹⁾	799 341	782 474	872 966	967 923	1 070 727
Revenue of provinces, social security funds and public entities	105 489	105 375	114 273	124 613	130 368
Repayment of Gautrain loan ²⁾	-	-	-1 521	-1 430	-1 340
Consolidated budget revenue ³⁾	904 830	887 849	985 719	1 091 105	1 199 755
National budget expenditure ¹⁾	969 365	966 967	1 055 075	1 137 981	1 225 727
Expenditure of provinces, social security funds and public entities	88 956	88 924	94 315	106 359	108 384
Consolidated budget expenditure ³⁾	1 058 321	1 055 891	1 149 390	1 244 340	1 334 111
Consolidated budget balance	-153 491	-168 043	-163 671	-153 234	-134 357
<i>Percentage of GDP</i>	<i>-4.6%</i>	<i>-5.2%</i>	<i>-4.6%</i>	<i>-3.9%</i>	<i>-3.1%</i>
Extraordinary payments	-24	-2 584	-930	-	-
Extraordinary receipts	1 200	10 780	4 992	2 900	3 100
Consolidated borrowing requirement (net)	-152 315	-159 847	-159 609	-150 334	-131 257
FINANCING					
Domestic loans (net)	151 137	148 060	169 837	164 523	167 386
Foreign loans (net)	-7 673	-8 079	-3 318	3 062	8 854
Change in cash and other balances	8 851	19 866	-6 910	-17 251	-44 983
Total financing (net)	152 315	159 847	159 609	150 334	131 257

1) Transfers to provinces, social security funds and public entities presented as part of the national budget

2) Repayment of Gautrain loan, repaid by the Gauteng province to the National Revenue Fund, netted out in consolidation

3) Flows between national, provincial, social security funds and public entities are netted out

