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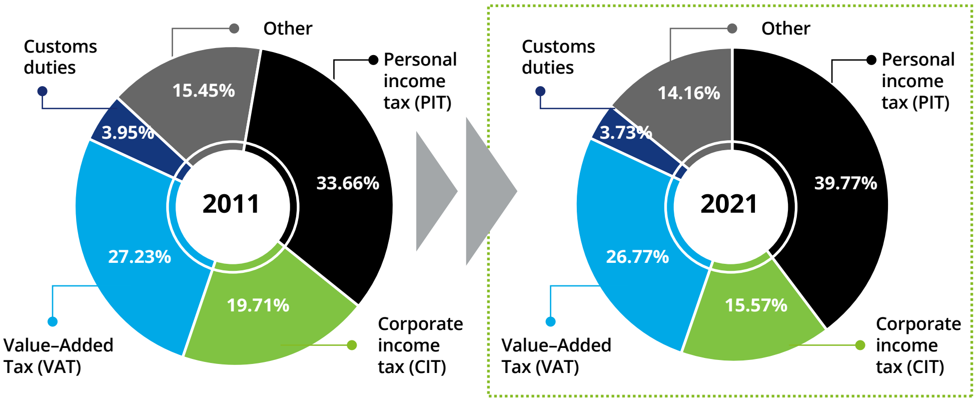
Tax in South Africa – A 10-year Trajectory

South Africa Budget 2021/22

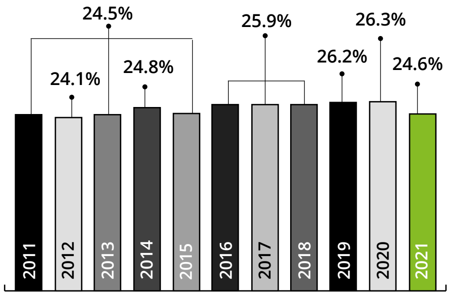
Sources of tax revenue

The overall mix between direct and indirect taxes has fluctuated over time. CIT is a significant but declining revenue source, while PIT is increasing.



Tax as a percentage of GDP

After reaching 26.3% in 2019/20, the tax-to-GDP ratio is forecast to decline to 24.6% in 2020/21. Although lower than the OECD average, South Africa's ratio is still relatively high compared to other developing countries.

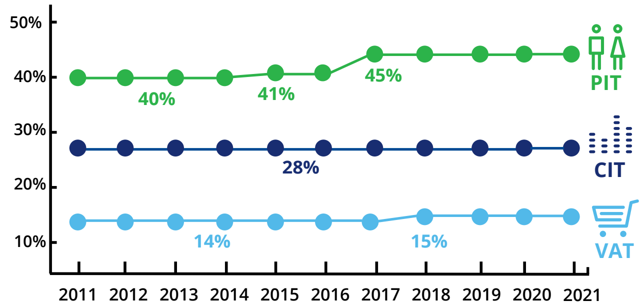


Tax rates

After a sizable jump in 2017, the maximum marginal tax rate for individuals has been left unchanged at 45%.

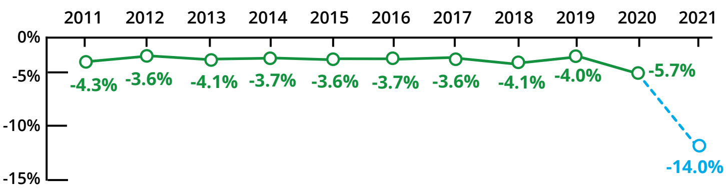
To make our tax system more attractive to investors, it is proposed that the corporate tax rate will be reduced from 28% to 27% for years of assessment commencing on or after 1 April 2022.

Although seen as regressive in nature, VAT is generally regarded as an efficient form of tax collection. The VAT rate remains unchanged at 15%, a rate that is relatively low by global standards.



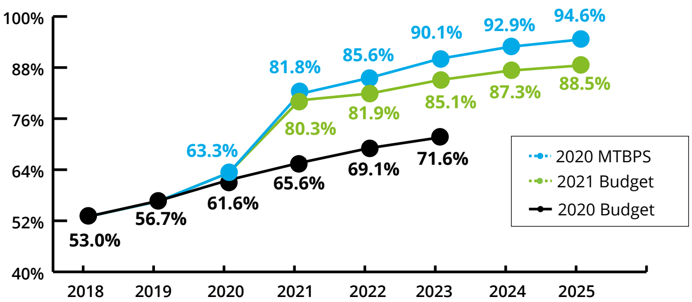
Budget deficit - percentage of GDP

The budget deficit is projected to be 14.0% of GDP in 2020/21, with an improvement to a deficit of 7.3% by 2022/23. Tax buoyancy (the ratio of tax revenue growth to nominal GDP growth) is expected to fall from 1.16 in 2019/20 to 1.07 in 2023/24.



Gross debt-to-GDP outlook

The gross debt-to-GDP outlook has improved slightly since the 2020 MTBPS and is now forecast to stabilise at 88.9% in 2025/26.



2021/22 Budget highlights

- This budget sets a positive tone as the better than predicted debt-to-GDP ratio is seen as a significant improvement to the framework presented in October and also as creating a sound platform for sustainable growth.
- The tax revenue shortfall has decreased by R99.6bn from the MTBPS projection and the shortfall is now projected to be R213.2bn.
- A shock to economic output in 2020 due to the COVID-19 pandemic saw GDP decline by -7.2%. A rebound in growth is expected in 2021, at 3.3%.
- In the wake of the pandemic, government continues to prioritise economic recovery and fiscal consolidation, together with structural reform implementation.
- With the vaccine rollout seen as pivotal to economic recovery, R1.3bn is allocated toward this in the current year; R9bn in the medium term; with a further R9bn if required.
- Government has chosen to postpone the R40bn in tax measures proposed in the MTBPS.
- Tax proposals tabled include a lowering of the corporate income tax rate to 27%, an increase in personal income tax brackets and rebates, and higher excise duties and fuel levies.
- The Budget remains focussed on social spending, including health, education and social grants. Yet, growth in debt-service costs over the next three years will continue to exceed spending growth on important functions like health. Improving the composition of spending, largely by reducing growth in the wage bill, is key.
- The country is on course to achieve a primary surplus in 2024/25.

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