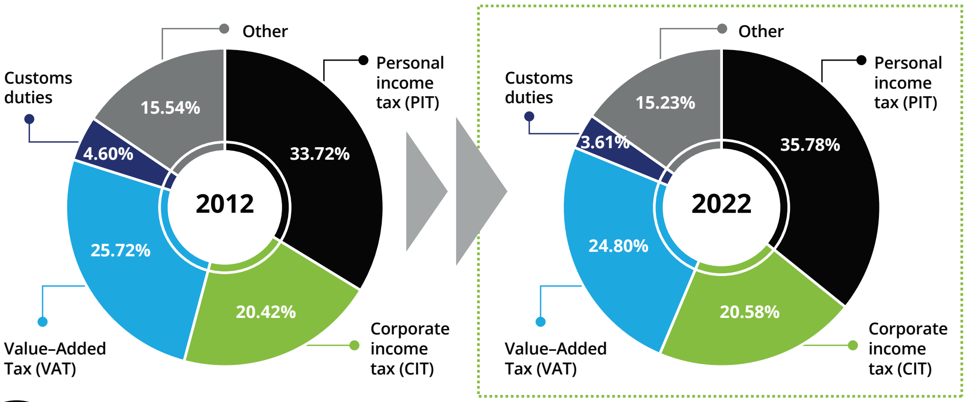
Tax in South Africa: A 10-year Trajectory

South Africa Budget 2022/23

Deloitte.

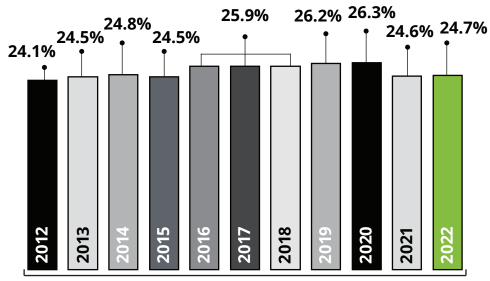
Sources of tax revenue

The overall mix between direct and indirect taxes has fluctuated over time. Overall, the contribution of CIT has been declining with PIT increasing. However, in 2022, the contribution of CIT has suddenly increased to 20.58% (15.57% in 2021) while PIT has decreased to 35.78% (39.77% in 2021), bringing the 2022 split closer to that of 2012.



Tax as a percentage of GDP

After reaching a high of 26.3% in 2019/20, the tax-to-GDP ratio is forecast to reduce to 24.7% in 2021/22. Although lower than the OECD average, South Africa's tax-to-GDP ratio is relatively high compared with other developing countries.

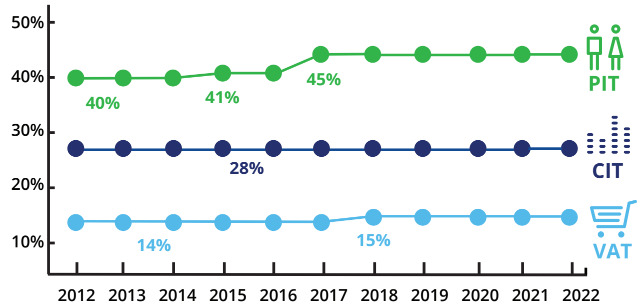


Tax rates

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

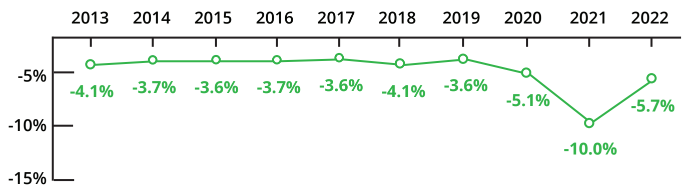
To promote economic growth and make South Africa more competitive, government has decided to introduce the reduction of the corporate tax rate for companies to 27% with effect from years of assessment ending on or after 31 March 2023.

Although 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.



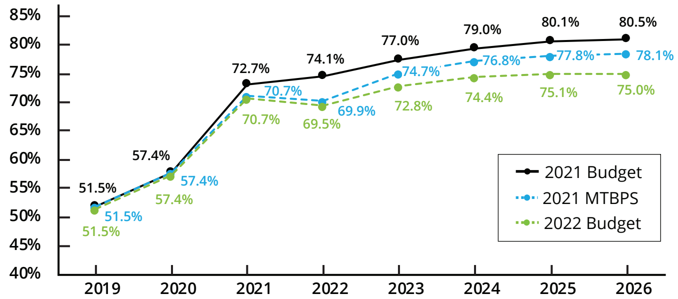
Budget deficit – percentage of GDP

The budget deficit is projected to be 5.7% of GDP in 2021/22, with an improvement to a deficit of 4.2% by 2024/25. Tax buoyancy (the ratio of tax revenue growth to nominal GDP growth) is expected to fall from 3.69 in 2020/21 to 1.06 in 2024/25.



Gross debt-to-GDP outlook

The gross debt-to-GDP outlook has improved slightly since the 2021 MTBPS and is now forecast to stabilise at 75.1% of GDP in 2024/25.



2022/23 Budget highlights

- Real GDP growth of 2.1% for South Africa is forecast for 2022, declining to a GDP growth rate of 1.7% in 2024.
- In line with what was indicated in the MTBPS, government continues to prioritise economic recovery and fiscal consolidation in the wake of the pandemic.
- While the budget remains focussed on social spending, including allocations to health, education and social grants, growth in debt-service costs are forecast to increase to 15.1% of total expenditure in 2021/22, making this a very significant expenditure item.
- Tax collection exceeded expectations in 2021/22, primarily due to higher commodity prices. This has contributed to gross debt-to-GDP being forecast to stabilise at 75.1% in 2024/25.
- As a result of improved revenue collections, government has proposed R5.2 billion in tax relief to help support the economic recovery.
- There will be significant increases in carbon taxes over the foreseeable future.
- South Africa's tax laws will be aligned with the OECD's Two-Pillar solution in 2023.

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