

Five budget speech highlights you may have missed

By [Rob Cooper](#)

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Finance Minister Pravin Gordhan did an admirable job of balancing South Africa's books in his 2016 Budget, by providing a sound framework for the next year.

Here are a few highlights I would like to reflect on from this year's Budget Speech:



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1. More incentive for employers to provide bursaries

One of the most welcomed budget proposals is an increase in the fringe benefit tax exemption threshold for bursaries provided by the employer to employees and their relatives. The income eligibility threshold for the employee (in the case of a bursary for his relative) is proposed to be increased from R250,000 to R400,000.

The qualifying bursary threshold is increased from R10,000 to R15,000 for basic education and from R30,000 to R40,000 for higher education.

With the 'Fees Must Fall' movement and continued unrest at South African university campuses highlighting the challenges many South Africans face in paying for their education, this is a positive development.

2. Employment Tax Incentive (ETI) up in the air

The 2016 Budget indicates that the ETI will be reviewed in the third quarter of 2016 with a view to extending its life for another year. However, indications are that the ETI has not been effective in addressing the crisis of youth unemployment. If the legislation is to be renewed, it needs substantial changes to make it more effective and to encourage wider participation by businesses. Areas of difficulty in the current legislation include:

- Putting the responsibility for minimum wage compliance into the ETI Act has compromised its simplicity and effectiveness.
- The three-step formula used to calculate the monthly incentive results in complicated and poorly understood 'grossing-up' calculations that the payroll must perform if a 'partial month' is worked.
- If employers claim the monthly incentive in a month in which they are inadvertently not tax compliant, penalties and interest can be the very unpleasant result. This risk is too high in the opinion of some employers.

Generally, employers are of the opinion that the administrative costs and risks outweigh the financial benefit of the incentive. I am hopeful that pragmatic changes to the ETI Act can address these challenges and improve its effectiveness as a way to boost youth employment rates.

3. National Minimum Wage still in the works

Minister Gordhan reiterated that we're making progress towards a minimum wage framework for South Africa. This remains a contentious issue, with labour and some economists arguing that this is critical in addressing inequality, and many other observers fearing that a minimum wage will lead to job losses.

Deputy President Cyril Rhamaphosa is currently investigating the impact and the practicalities of implementing it. Government seems to have made the decision to implement a national minimum wage; what is up for debate is the

base value at which the wage will be set and how it will cater for geographic and industry-specific nuances.

4. **National Health Insurance (NHI) makes slow progress**

Minister Gordhan promised more information about the funding of the NHI later this year; meanwhile, government continues to run a pilot for the scheme. NHI is a national priority, given the importance of improving the quality of public healthcare and extending the reach of the system into the rural areas.

NHI proposals have been on the table for eight years, and it is clear that it will be many more years before we have clear answers about how exactly it will work. The high costs of implementing the NHI are a major challenge, given South Africa's economic challenges, and the complexity of marrying the public and private healthcare systems is another barrier to implementation.

5. **Personal Income Tax: watch the fiscal drag**

Most observers expected to see some income tax hikes in this year's Budget, but Minister Gordhan left Personal Income Tax rates untouched. But it's worth bearing in mind that the personal income tax relief of R5.5bn granted in this year's budget is R7.6bn less than the R13.1bn that would have been required to account fully for fiscal drag.

Fiscal drag is the effect of inflation which pushes taxpayers into higher tax brackets even if remuneration stays the same. If your income is more than R406,401 a year, you are contributing a portion of what you would have received for fiscal relief back to the fiscus. Your earning power is going backwards unless your remuneration increases are well above inflation.

It's also worth noting that Minister Gordhan will need to increase tax revenues by about R15 billion per year for the next two years. If economic growth doesn't outpace the current expectations, it seems likely that tax hikes will be necessary to bridge the R30-billion shortfall.

ABOUT ROB COOPER

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