Budget 2012

Who will be happy and who will be unhappy?

- The **rating agencies** should be pleased, deficit and overall debt lower than expected;
- **personal taxpayers** will be happy with considerable tax relief;
- individual **shareholders** will be unhappy because dividend tax will increase from 10% to 15% (holders of preference shares will be particularly unhappy);
- members of **pension funds** will be happy as their funds are exempt from dividend tax (but was hit by the predecessor tax, STC);
- **savers** will be happy as pension contributions up to 22.5% of taxable income are now tax deductible (to rise to 27.5% next year if over age 45) subject to maximum of R200 000 p.a. (R250 000 from next year);
- **savers** will also be happy with an envisaged new range of savings products for short and medium term saving (as opposed to long term retirement savings) with a R30 000 a year tax deduction, subject to R500 000 cap over a tax payer's lifetime;
- those who make **capital gains** will be unhappy as those tax rates have been increased;
- **micro enterprises** get tax relief and a lesser administrative burden with various admin filings and tax payments reduced from 18 per year to 2;
- **Gauteng** motorists will be unhappy as Gauteng tolling will proceed, albeit at lower levels;
- so will all other **motorists**, given the 28c per litre increase in taxes on petrol;
- **smokers**, **drinkers** and **gamblers** will all have the privilege of a bigger contribution to the fiscus;
- **civil servants** will probably be unhappy with their 5% "cost-of-living" plus pay progression salary adjustments;
- and lastly, **merchant bankers and private equity** operators are probably unhappy with the intention to limit debt financing.

Where the burden falls (and who wins)

The burden falls largely on indirect taxes, which increase by R8.3 billion, mainly coming from the tax on petrol. Capital gains tax will render a further R2 billion.

Personal tax relief comes to R10.65 billion and the switch from STC to a dividend tax will cost almost R2 billion. Overall, the fiscus will be R2.3 bilion worse off (or taxpayers that amount better off!).

Pension funds will win hugely as they are exempt from dividend tax but were affected by STC.

Infrastructure

The minister himself called it "one of the central priorities of the 2012 Budget" and that is the way it looks. Total infrastructure spend over the next 3 years will amount to R845 billion or 7.9% of expected GDP. That is an increase of about 5% from the R803 billion (or 7.5% of GDP) envisaged last October in the mini-budget. Thus, the president's state of the nation speech two weeks ago, which was heavily focused on infrastructure, did not change the numbers that much.

What the President's speech might have changed are the numbers beyond the 3 years of this budget framework. The Budget Review lists 43 major projects costing in excess of R3.2 *trillion*. Infrastructure spend in future years can easily surpass the 8% of GDP mark.

In 2000 it was 4% of GDP and in 2007, when the ANC's Polokwane Conference took place, it was 6.3% of GDP.

In short, it looks as if infrastructure spending can again approach the levels it had before the World Cup. See the Table below:

Fiscal Years	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	3 yr total
Rands billion	83.6	130.2	193.0	245.5	178	226.6	262.3	284.6	297.6	844.5
% of GDP	4.6%	6.3%	8.5%	9.4%	6.5%	7.6%	7.9%	7.9%	7.4%	

The sharp fall off after 2009/10 was nearly a whopping 3% of GDP. At the same time there was a sharp decline in private sector capex as well, following the financial crisis of 2008 and recession of 2009. This "perfect storm" helps to explains why the construction sector has such a torrid time.

Where is the R845 billion of this 3 year budget period being spent? R300 billion will be spent in the energy sector (Eskom building power stations) and R262 billion in transport and logistics (roads, fuel pipeline from Durban to Gauteng, ports).

What the President's speech hopefully also changed, was the focus and determination to spend the money and spend it wisely. The minister outlined some 8 measures to achieve that, including the establishment of a Municipal Infrastructure Support Agency to focus on rural municipalities that lack infrastructure. Help might be on its way for Sannieshof and other collapsing small towns.

How will all this be funded?

The answer is with a combination of tax, borrowing and private capital.

The fiscus will take responsibility for public-service facilities like schools, courtrooms, hospitals and rural roads. State owned enterprises like Eskom, Transnet and the IDC will finance their investments from cash flow and borrowing on the capital market. Private sector players are involved in some sectors and will become more involved (e.g. in renewable energy infrastructure).

The minister has made the obvious but necessary point that SA has very deep and liquid capital markets, making it much easier to raise finance at good rates. It is one of the great competitive advantages of the country. In effect, these institutions help to overcome our domestic savings shortfall by mobilising the savings of others.

A tip of the hat is in order to those pioneers who established the capital market two generations ago.

Disappointment

The biggest disappointment in the budget is that the wage subsidy for young people, which was proposed so strongly last year, is still not being implemented. One got the impression from the minister's that it is stuck in NEDLAC. He did express the wish that it could be implemented soon.

What can go wrong?

Two things stand out that can go wrong.

The crisis in Europe could be worse than expected. In January the IMF warned: "The world recovery … is in danger of stalling. The epicentre of the danger is Europe, but the rest of the world is increasingly affected".

The minister has already downgraded his growth forecast for 2012 from 3.4% he had as recently as October last year, to 2.7% in this budget. It is worth remembering that the SA economy tripped twice since 1994 – in 1998 with the crisis in South East Asia and in 2009 with the financial crisis in the West. Global events on both occasions, can it happen a third time?

The second risk is that SA civil servants refuse to accept "5% plus pay progression" increase, go out on strike and the government capitulates. That could upset the budget numbers considerably. We will only know by June/July.