In the mini-budget yesterday Minister Manuel sacrificed R7 billion of income by abolishing RSC levies, which were introduced way back in the 1980s by Chris Heunis. True, Mr Manuel hopes to recover some of this lost income from other sources - most probably fuel levies. How much of the R7 billion he will simply forfeit and how much he will claw back from such other measures we will hear next February in the main budget.

But we can already draw the following conclusions. Firstly, fuel levies are consumption taxes. So effectively he is abolishing a business tax to be partly replaced by a consumption tax. Secondly, it is highly unlikely that he will recoup the full R7 billion. There will be some net reduction in the tax collected.

Let’s assume he puts 5c or so on a litre of petrol to partly compensate for the lost RSC levies. That will raise about R1.1 billion. Deduct that from the R7 billion and one looks at a potential nett decrease of about R6 billion.

This is no small cut: in February this year total personal income tax relief came to about R7 billion. Also in February, the 1% cut in the company tax rate cost R2 billion. So R6 billion is not small.

So What?

All RSC levies are paid by businesses where they are treated as an expense. Thus abolishing it will improve company profits. Labour and turnover intensive businesses will benefit most from this abolition. Even if the tax is partly compensated for from taxes on fuel, it means a shift from business taxes to consumption taxes – still good for business and shareholders. We can talk about a 2% to 3% cut in the company tax rate.

General Trends:

The other main features from the mini-budget are as follows.

- The main characteristic of the mini-budget is the substantial rise in government expenditure. In **real** terms (after inflation) it moves by **6.3% p.a.** over the 3 years of the MTEF period. Expenditure moves from 26% of GDP in 2005 to 28% in 2009. Make no mistake, this is whopping!
- The increased expenditure over the next 3 years, over and above what he budgeted in February, is R78 billion. Infrastructure will get R31 billion or about 40% of that. To put it in perspective: by 2009 (effectively Mr Mbeki’s last budget) public sector investment alone will be higher than total investment in the SA economy in 2000! If these huge capex increases do not sustain growth, nothing will.
- The remaining R47 billion will go to health, education and other social services. These will assist redistribution and development.

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- Can government spend all this extra money? The roll over from last year was R1.5 billion. No train smash. On capex, specifically, the actual expenditure against budget for the last two years was 96.5% and 99.9%. 94% is expected for the current year (and this after the budget was increased by 26%). I think most of the money will flow.
- This whopping 2% of GDP rise in expenditure is funded by a 1% increase in the tax load. Taxes will go from just under 25% of GDP to just under 26% of GDP and by a 1% rise in the deficit. These tax increases will be the result of higher collections and not higher rates – the benefit of a booming economy. Both of these ratios could be lowered again as a result of the upward revision of GDP numbers.
- In the past the minister has always worked with a 3% of GDP deficit. In practice of course, over the last few years, he always ended up with a lower figure. For the 3 years of this MTEF period he works with a deficit of 2%. That eliminates government dissaving by 2009 and takes care of one of our few criticism of the budget the last few years - difficult to have higher savings whilst government dissaves.
- The benefit of a lower deficit is seen in another way: debt service costs will drift lower from 3.5% of GDP in 2005 to 2.8% in 2009. In the past year alone, R1.3 billion was saved on interest.

So What?

The Mbeki strategy of growth first and then redistribution from the proceeds is now really coming into its own. Huge spending on redistribution and development; equally huge spending on those items that will give growth: infrastructure and intelligent tax cuts. The result is an economy that will keep on improving its growth rate, release more resources, enabling more development and helping to push SA to modernity. Wonder where the lame duck president that we are supposed to have is?!

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