

Budget 2024 Highlights

**Morningstar Investment Management
South Africa**
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For Financial Advisors and their Clients

On 21 February 2024, Finance Minister Enoch Godongwana delivered the annual budget speech, providing an update on South Africa's finances.

Finance Minister Godongwana faced a challenging budget amid slow economic growth, elevated inflation and interest rates placing strain on South African households, service disruptions, and constrained tax revenue. The additional tough task was balancing spending pressures with election considerations, while simultaneously addressing the challenge of rising debt levels.

Gold and Foreign Exchange Contingency Reserve Account (GFECRA)

The gold and foreign exchange contingency reserve account (GFECRA) took centre stage in this year's budget, as the National Treasury outlined a proposal to access the reserve account. The introduction of a reform to the gold and foreign exchange contingency reserve account will be used to reduce government borrowing and improve the South African Reserve Bank's equity position.

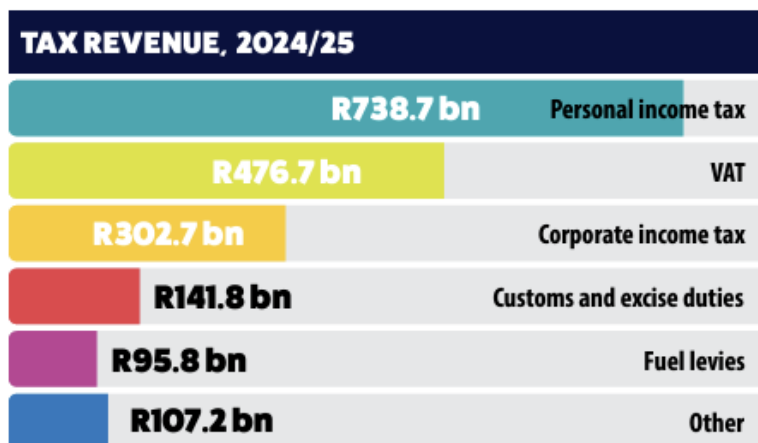
The GFECRA is an account that captures gains and losses on the foreign currency reserve transactions as well as protecting the central bank from currency volatility. The GFECRA has grown to R500 billion. This move will lead to the government reigning in debt, finance the public sector wage increase and keep the budget deficit at 4.9%.

Some key aspects to consider that have affected spending potential, revenue collection and therefore, economic growth:

- Commodity prices have come down significantly in the recent tax year, reducing company profits in the resource sector and placing pressure on government tax collections.
- Prolonged power cuts and the deterioration of port and rail infrastructure continue to hinder economic growth.
- Locally and globally, economic growth has continued to be subdued. Low economic growth leads to lower tax revenues and increased requests for fiscal support.
- Unemployment remains high. Although the unemployment rate moderated to 31.9% in the third quarter of 2023 (its lowest level in three years), joblessness remains extremely high.
- Rising borrowing costs due to increased interest rates (to tackle elevated inflation) continue to place the consumer under pressure, constraining demand and therefore spending.
- While inflation has decreased to 5.3% year-on-year to the end of January 2024, it remains close to the upper end of the South African Reserve Bank's target range, placing increased pressure on low-income tax bracket earners.
- The slow implementation of structural reforms has lowered business confidence.
- The emigration of highly skilled workers has continued this year.

Revenue, deficits, and debt to GDP according to the 2024 budget

The weak economy, decline in corporate profits and the decline in revenue from taxes on mining have brought about a sharp deterioration in tax revenue for 2023/24.



Source: National Treasury "Budget highlights". Data as published on 21 February 2024. For illustrative purposes.

- Tax revenue collections for 2023/24 are expected to total R1.73 trillion. This is R56.1 billion lower than the 2023 budget estimate, and R0.7 billion lower than the 2023 MTBPS estimate.
- Over the medium term, revenue projections are R45.6 billion higher than the estimates of the 2023 MTBPS.
- Revenue from corporate tax suffered on the back of declining mining tax revenue caused by slowing commodity prices.
- Higher revenue collection from personal income tax has come in above expectations as earnings and employment recovered from the COVID-19 pandemic. In particular, tax from the finance sector drove strong growth in tax revenue collections.
- VAT refund payments were higher than expected due to the increased costs of doing business (including using more expensive road transport due to the inefficiencies of the rail network).
- Government debt has reached R5.21 trillion and is projected to rise to R6.29 trillion over the medium term.
- Government's gross borrowing requirement is expected to decrease from R553.1 billion in 2023/2024 to R428.5 billion in 2026/27 given the use of the GFECTRA to reduce borrowing in the medium term.
- Similar to Eskom, the government will provide Transnet with a major debt relief arrangement of R47 billion to support the entity's recovery plan and meet its immediate debt obligations, consisting of R168 billion in capital and R86 billion in interest. This debt relief facility has certain conditions attached, which require Transnet to focus on its core activities.
- Debt-service costs are expected to rise to 5.2% as a share of GDP.
- The consolidated budget deficit is projected to narrow from 4.9% of GDP in 2023/24 to 3.3% by the end of the 2024 medium-term expenditure framework (MTEF) period.
- The debt ratio will stabilise at 75.3% of GDP by 2025/26.

Below is a quick overview of some of the key updates announced in the budget speech:

Corporate income tax	The rate of company income tax will remain at a level of 27%.																												
Personal income tax	Personal income tax brackets and rebates will not be adjusted for inflation. This will mean that the annual tax-free threshold for a person under the age of 65 will remain at R95 750. INCOME TAX: INDIVIDUALS AND TRUSTS Tax rates from 1 March 2024 to 28 February 2025: Individuals and special trusts <table> <tr> <th>Taxable Income (R)</th><th>Rate of Tax</th></tr> <tr> <td>1 – 237 100</td><td>18% of taxable income</td></tr> <tr> <td>237 101 – 370 500</td><td>42 678 + 26% of taxable income above 237 100</td></tr> <tr> <td>370 501 – 512 800</td><td>77 362 + 31% of taxable income above 370 500</td></tr> <tr> <td>512 801 – 673 000</td><td>121 475 + 36% of taxable income above 512 800</td></tr> <tr> <td>673 001 – 857 900</td><td>179 147 + 39% of taxable income above 673 000</td></tr> <tr> <td>857 901 – 1 817 000</td><td>251 258 + 41% of taxable income above 857 900</td></tr> <tr> <td>1 817 001 and above</td><td>644 489 + 45% of taxable income above 1 817 000</td></tr> </table> Rebates <table> <tr> <td>Primary</td><td>R17 235</td></tr> <tr> <td>Secondary (Persons 65 years and older)</td><td>R9 444</td></tr> <tr> <td>Tertiary (Persons 75 years and older)</td><td>R3 145</td></tr> </table> Age <table> <tr> <td>Below age 65</td><td>Tax threshold R95 750</td></tr> <tr> <td>Age 65 to below 75</td><td>R148 217</td></tr> <tr> <td>Age 75 and above</td><td>R165 689</td></tr> </table> Source: Treasury "Budget Guide" published 21 February 2024.	Taxable Income (R)	Rate of Tax	1 – 237 100	18% of taxable income	237 101 – 370 500	42 678 + 26% of taxable income above 237 100	370 501 – 512 800	77 362 + 31% of taxable income above 370 500	512 801 – 673 000	121 475 + 36% of taxable income above 512 800	673 001 – 857 900	179 147 + 39% of taxable income above 673 000	857 901 – 1 817 000	251 258 + 41% of taxable income above 857 900	1 817 001 and above	644 489 + 45% of taxable income above 1 817 000	Primary	R17 235	Secondary (Persons 65 years and older)	R9 444	Tertiary (Persons 75 years and older)	R3 145	Below age 65	Tax threshold R95 750	Age 65 to below 75	R148 217	Age 75 and above	R165 689
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Tax on interest income	There will be no changes to the tax-free portion of interest income (R23,800 for those under 65 and R34,500 for those over 65).																												
VAT	No change and remains at 15%.																												
Tax-free savings account	No changes were noted regarding the annual limit (R36 000) and lifetime limit (R500 000) for investments in tax-free savings accounts.																												
Capital Gains Tax	In terms of capital gains tax (CGT), the inclusion rate remains at 40%, the annual exclusion remains at R40,000 and the exclusion for the sale of a primary residence remains at R2 million.																												
Transfer duty on property	The purchase amount free of transfer duty remains at R1.1 million.																												
Dividends tax	No change - Dividends received by individuals from South African companies are generally exempt from income tax, but dividends tax, at a rate of 20%, is withheld by the entities paying the dividends to the individuals.																												
Estate duty tax	No change - Estate duty is levied at a rate of 20%, on the first R30 million, and at a rate of 25% above R30 million.																												

Rebates and grants:

Medical rebate	Medical tax credits remain at R364 per month for the first two members, and R246 per month for additional members.
Social grants	Social grants will receive inflation-linked increases. Old age and disability grants: increase by R90 on 1 April 2024 and a further R10 on 1 October 2024. The foster care grant will increase by R50 on 1 April 2024, and the child support grant will rise by R20 on 1 April 2024.

Levies, duties, and charges:

Excise duties and tax	Excise duties on alcoholic beverages will increase by between 6.7% and 7.2% and on tobacco products between 4.7% and 8.2%. Treasury is also tabling an increase of the excise duty on electronic nicotine and non-nicotine delivery systems, known as vapes, to R3.04 per millilitre.
Fuel levy	No changes to the general fuel levy and the road accident levy.
Carbon tax rate	The carbon fuel levy rate will increase to 11c per litre for petrol and 14c per litre for diesel, with effect from 3 April 2024. Effective 1 January 2024, the carbon tax rate increased from R159 to R190 per tonne of carbon dioxide equivalent.
Sugar tax	No changes to the health promotion levy for 2023/24 and 2024/25 were noted in the budget speech.

Global minimum corporate tax

Global minimum corporate tax aims to limit the race to the bottom of effective corporate tax rates for large multinationals, with countries competing to attract income by offering low tax rates and tax incentives. Implementing the minimum tax in South Africa will bolster the corporate tax base.

In an attempt to close the R15 billion rand revenue shortfall and alleviate immediate fiscal pressures, South Africa's National Treasury will be implementing a global minimum corporate tax starting 1 January 2024. In line with global peers, top-up taxes will be imposed on profits reported by qualifying South African multinationals with annual revenue exceeding €750 million,

with effective tax rates below 15%. This reform is likely to yield an additional R8 billion in corporate taxes.

Expansion of the renewable energy tax incentive

To promote further investments in renewable energy, this budget proposed an increase in the limit for renewable energy projects that can qualify for the carbon offsets regime, from 15 megawatts to 30 megawatts.

The solar rooftop tax incentive announced in the 2023 Budget has promoted the installation of solar panels that are now generating 5 200 MW of electricity for households and businesses.

New energy vehicles incentive

To encourage private investment in electric vehicles, government will introduce an investment allowance for new investments beginning 1 March 2026. This will allow producers of electric vehicles to claim 150% of qualifying investment spending on electric and hydrogen-powered vehicles in the first year. Government is also reprioritizing R964 million over the medium term to support the transition to electric cars.

Retirement fund taxation and reform on the cards

In 2024, South Africa will see another major change to our retirement system. Although known as the “Two Pot system”, in reality, and for most, it will be a new three pot system. All retirement savings invested before 1 September 2024 will vest in a vested pot (pot 1), while all new contributions after 1 September 2024 will be allocated between a savings pot (pot 2) and a retirement pot (pot 3). Investors aged 55 and older as of 1 September 2024 will only have one pot - if you so choose.

In conclusion

In the words of Minister Godongwana – the Treasury’s aim for the budget is to continue:

1. Supporting economic growth
2. Reduce the government’s debt and cost of debt
3. Allocate more funds for core services, provide for the social wage and preserve infrastructure budgets.

South Africa has experienced multiple shocks in recent years, and with the election in mind, the National Treasury had a tough task of presenting a balanced budget. In response to a struggling consumer, Treasury tabled no hikes to income taxes, VAT or fuel and accident levies. Instead, Treasury has decided to dip into the contingency reserves over the medium term to reduce its debt load.

While the budget speech provided no surprises other than the use of the contingency reserve to reduce debt, the market reaction was largely positive with the 10-year SA treasury yield moving lower and the rand firming slightly.

Given that markets are forward-looking, the muted market moves suggest that a lot of the bad news is priced in and that the reduction in government debt is seen as a net positive. While the budget is net positive in the short term (given the reduction in the government's debt trajectory), caution is still warranted, as dipping into contingency reserves may leave the country more vulnerable to future exogenous shocks. ■■■

Useful links and resources:

- [Budget 2024 Highlights](#)
- [Budget 2024 Tax Guide](#)

Risk Warnings

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