

SOUTH AFRICA'S FISCAL CLIFF: A DIFFERENT MEANING TO A WELL-KNOWN CONCEPT

*ERSA public economics workgroup meeting
16 and 17 May 2013*

Prof. Jannie Rossouw, Fanie Joubert & Adèle Breytenbach

INTRODUCTORY SUMMARY

- *The paper analyses some aspects of the South African government's income and expenditure in the 2012/13-fiscal year and expenditure trends since 2008.*
- *The analysis of tax revenue shows that a relatively small number of individuals pay personal tax owing to the income tax threshold of R 67 111 per annum.*
- *Value added tax (VAT) is paid by all consumers.*
- *Government spending on social assistance has been increasing over time as a percentage of total government income.*

INTRODUCTORY SUMMARY

- *At the same time the government's compensation account increased steeply.*
- *Government income is examined to determine:*
 - *what the expected growth over the next few years will be; and*
 - *to what extent it can be structurally increased once off.*
- *Social assistance payments and government compensation are at a level where any further real increases are unsustainable and unaffordable.*
- *South Africa faces a fiscal cliff in the long run if current expenditure trends continue.*

SOCIAL EXPENDITURE

- *The South African government budgeted approximately R112,0 billion in the 2012/13 fiscal year to spend on social development and assistance.*
- *It amounts to some 11,5 percent of total government spending.*
- *Social expenditure is divided into five subcategories, namely*
 - *administration;*
 - *social assistance;*
 - *social protection policy;*
 - *welfare; and*
 - *integrated service delivery.*
- *The main expenditure is, however, social assistance, which amounts to R104,9 billion.*
- *The range of grants per category is analysed in Tabel 1 below.*

TABLE 1: SOCIAL GRANT: AMOUNT AND EXPENDITURE PER PROGRAMME: 2012/13

A	B	C	D	E
Category	Amount	Total Expenditure	Cost per item	Cost per item
	2012/13	2012/13	Annually*	Monthly**
		(R mil.)	R	R
Old age	2 700 000	39 323.1	14 564.1	1 213.7
War veterans	703	12.9	18 349.9	1 529.2
Disability	1 200 000	19 152.4	15 960.3	1 330.0
Foster care	671 307	5 951.8	8 866.0	738.8
Care dependency	133 915	1 856.9	13 866.3	1 155.5
Child support	11 300 000	38 237.3	3 383.8	282.0
Grant-in-aid	71 134	188.1	2 644.3	220.4
Social relief	n/b	165.3	n/b	n/b
Total	16 077 059	104 887.8	6 524.1	543.7

Source: Estimates of National Expenditure 2012, 415 en 421 and own calculations, as in Joubert en Rossouw 2013

* (column C x 1000000) / column B)

** (column D/12)

COMPENSATION ACCOUNT OF THE SOUTH AFRICAN GOVERNMENT

- *Between 2008 and 2012 total employment in public service (central and provincial governments) increased by 13,0 per cent.*
- *Employment grew by 9,2 per cent for central government and 14,6 per cent for provincial governments over this period.*
- *Public service compensation grew by 76,1 per cent from 31 March 2008 to 31 March 2012 (15,2 per cent per annum).*
- *The central government's compensation account increased by 13,4 per cent per annum over this period, while the provincial governments' compensation accounts rose by 16,0 per cent per annum.*

**TABLE 2: PUBLIC SERVICE EMPLOYMENT,
31 MARCH 2008 TO 31 MARCH 2012**

	Central government	Provincial government	Total
31/03/2008	405 805	938 173	1 343 978
31/03/2009	418 879	967 740	1 386 619
31/03/2010	410 051	1 006 793	1 416 844
31/03/2011	427 281	1 047 990	1 475 271
31/03/2012	443 199	1 075 515	1 518 714

Sources: Breytenbach and Rossouw, 2013, SA Reserwebank, Statistics SA [S.a.]

**TABLE 3: PUBLIC SERVICE COMPENSATION,
31 MARCH 2008 TO 31 MARCH 2012**

	Central government	Provincial government	Total
	R billion	R billion	R billion
31/03/2008	56,82	120,57	177,39
31/03/2009	64,61	146,05	210,66
31/03/2010	71,05	171,51	242,56
31/03/2011	80,90	195,26	276,16
31/03/2012	93,86	218,56	312,42

Sources: SA Reserwebank, Statistics SA [S.a.], own calculations

COMPENSATION ACCOUNT OF THE SOUTH AFRICAN GOVERNMENT

The analysis by Breytenbach and Rossouw 2013 shows that the increase in the government's compensation account is attributable to:

- *inflation;*
- *structural changes in public service compensation and in particular larger compensation increases for senior personnel;*
- *growth in public service employment on national and provincial levels; and*
- *increases in compensation due to notch increases, postlevel increases and promotions (and senior appointments from outside due to an expansion in the number of government departments).*

TABLE 4: ANALYSIS OF SOCIAL EXPENDITURE AND GOVERNMENT COMPENSATION SINCE 2008

	Social expenditure	Government compensation	Social expenditure and government compensation combined
	(%)	(%)	(%)
Total nominal growth: 2008* to 2012**	48,3	76,1	68,2
Average nominal growth per year	9,6	15,2	13,6
Average real growth per year	3,7	9,3	7,7
2008-expenditure as percentage of total income in 2008	12,6	31,7	44,3
2012-expenditure as percentage of total income in 2012	14,2	42,2	56,4

*2007/08 fiscal year

**2011/12 fiscal year

Source: Estimates of National Expenditure 2012:421-422 as used in Joubert and Rossouw 2013, Breytenbach and Rossouw 2013, SA Reserwebank, Statistics SA [S.a.], own calculations.

TABLE 5: GOVERNMENT INCOME BY INCOME SOURCE 2012/13 – FISCAL YEAR

Tax Revenue (Income source)	Amount (R billion)	%
Personal Income Tax	276,8	34,0
Value Added Tax	215,5	26,5
Corporate Income Tax (Including secondary tax)	161,1	19,8
Excise Duties*	30,5	3,7
Fuel Levies	40,5	5,0
Customs Duties	37,6	4,6
Other** (e.g. Dividend tax, estate tax, gift tax, etc.)	52,1	6,4
Subtotal	814,1	100,0
Non-tax revenue	14,5	
<u>Less: SACU-payments</u> <small>Specific plus/minus value excise duties</small>	-42,2	
Total <small>** Balancing Item</small>	786,4	

Source: Budget Review 2013:150; Minister of Finance, Mr Pravin Gordhan's press conference on 2 April 2013 in Pretoria regarding SARS's tax collection results for the 2012/13 fiscal year.

TABLE 6: ESTIMATE OF NUMBER OF INDIVIDUAL TAXPAYERS AND THEIR TAXABLE INCOME BY INCOME CATEGORY, 2012/13 – TAX YEAR

Taxable category	Number of individuals mil.	(%)	Taxable Income R bn	(%)	Tax payable R bn	(%)
Under R60 000	4,9		99,9		0,0	
R60 001 tot R160 000	1,8	29,0%	187,0	12,1%	12,6	4,3%
R160 001 tot R260 000	2,7	43,9%	563,2	36,3%	78,4	26,5%
R260 001 tot R600 001	1,4	22,6%	471,9	30,4%	94,6	32,0%
R600 001 tot R1 000 000	0,1	2,8%	130,6	8,4%	38,4	13,0%
> R1 000 001	0,1	1,7%	198,8	12,8%	71,8	24,3%
Total	6,1	100,0%	1551,5	100,0%	295,8	100,0%

Source: 2012 Budget Review, 50

PROPOSALS FOR SOLVING THE PROBLEM

- *Personal income tax can structurally be increased by adding two additional marginal tax brackets.*
- *The two additional notches will subject 102 050 taxpayers (about 1,7 per cent of taxpayers) to higher personal income tax.*
- *According to available data (2011 Tax Statistics: 34) for 2010 the ratio of number of taxpayers in the taxable income brackets for R1 000 0001 - R2 000 000 and R2 000 001 +, is approximately 80:20 (i.e. 80 per cent between R1 000 0001 - R2 000 000 and 20 per cent for R 2 000 001 +).*
- *In this group, 50 per cent of the income tax are paid by people with a taxable income between R1 000 0001 - R2 000 000 and 50 per cent by those with a taxable income above R2 000 001.*

TABLE 7: MARGINAL TAX RATE STRUCTURE 2013/14 – TAX YEAR, WITH TWO PROPOSED EXTRA BRACKETS

Taxable Income (R)	Rate of Tax (R)
0 - 165 600	18% of taxable income
165 601 – 258 750	R29 808 + 25% of taxable income above R165 600
258 751 – 358 110	R53 096 + 30% of taxable income above R258 750
358 111 – 500 940	R82 904 + 35% of taxable income above R358 110
500 941 – 638 600	R132 894 + 38% of taxable income above R500 940
638 601 and above	R185 205 + 40% of taxable income above R638 600
1 000 001 – 2 000 000	R332 140 + 45% of taxable income above R 1000 000
2 000 001 and above	R782 140 + 50% of taxable income above R2 000 000

Tax Rebates

Primary	R12 080
Secondary	R6 750 (persons 65 and older)
Tertiary	R2 250 (persons 75 and older)

Source: National Treasury, own calculations

TABLE 8: ADDITIONAL REVENUE DUE TO THE ADJUSTED MARGINAL TAX RATE STRUCTURE

Category	Taxable income, R1 000 000 - 2 000 000	Taxable income, R2 000 001+	Total (R billion)
Estimated 2012/13 contribution (R bil.)	R35,9*	R35,9*	<u>R71,8*</u>
At 45%: R1 000 000 – 2 000 000 (R bil.)	$5/40 = 12,5\%$ $12,5\% \times R9,7^{**}$ $= R1,2$	$5/40 = 12,5\%$ $12,5\% \times R8,2^{**}$ $= R1,0$	R2,2
At 50%: R2 000 001+ (R bil.)	n/a	$10/40 = 25,0\%$ $25,0\% \times R21,3^{***}$ $= R5,3$	R5,3
Additional Income (R bil.)	R1,2	R6,3	R7,5

* Estimated contribution of taxpayers with taxable income > R1000 000 is R71, 8 bn. This is divided 50:50 between the two taxable income groups.

** Amount paid by this group on taxable income more than R1000 000.

*** Amount paid by this group on taxable income more than R2000 000.

Sources: 2011 Tax Statistics, own calculations

TABLE 9: ADJUSTED GOVERNMENT REVENUE BY REVENUE SOURCE, 2013/14

Revenue/income source	Amount before adjustment (R billion)	Proposed adjustments	Additional Income	Amount after adjustment (R billion)
Personal income tax	276,8	Marginal rate adjustments	7,5	284,3
Value-added tax (VAT)	215,5	Rate after 15%	15,4	230,9
Corporate income tax	161,1	Rate after 31%	17,3	178,4
Excise duties*	30,5	10 percent extra	3,1	33,6
Fuel levies	40,5	10 percent extra	4,1	44,6
Customs duties	37,6	Not allowed (WTO)	0,0	37,6
Other** (e.g. Dividend tax, estate tax, gift tax and non-tax revenue)	52,1	Assumed zero due to assumption of neutral tax	0,0	52,1
Subtotal	814,1	N/a	47,4	861,5
Non-tax revenue	14,5	N/a	N/a	14,5
SACU	(42,2)	N/a	N/a	(42,2)
Total	786,4	N/a	47,4	833,8

*Specific plus Ad valorem excise duties.

**Balancing item

Source: Budget Review 2012, 150

FINAL REMARKS AND CONCLUSIONS

- *An analysis of government's income sources show that personal income tax, corporate income tax and VAT represent 80 percent of total government income.*
- *Any efforts to increase government's income above the inflation rate and real growth rate of the economy must, therefore, focus primarily on these three sources.*
- *Social assistance and government expenditure for remuneration has increased sharply since 2008.*
- *In the 2012/13 fiscal year these two expenditure items accounted for 56,4 per cent of government income.*
- *If current trends continue, these two expenditure items will absorb all government income by 2026.*

FINAL REMARKS AND CONCLUSIONS

- Possibilities to increase government income above the normal projected real growth of
 - 4,0 per cent (during the years 2012-2017);
 - 3,8 per cent (2018-2030); and
 - 2,7 per cent (2031-2050), to make provision for growing expenses, show that these changes can increase government income structurally (once off) by R47,4 billion (6,0 per cent).
- This implies that social assistance payments and government compensation will by 2028, rather than 2026 as previously calculated, absorb all government revenue.
- Increasing the maximum marginal tax rate to 72 per cent on income above R2 million will raise an additional R17,04 billion per annum. This will extend the fiscal cliff by one year to 2029.
- Consequently real growth in social assistance and government compensation should be revised.

QUESTIONS/DISCUSSION

References:

- 2011 Tax Statistics. A joint publication between National Treasury and the South African Revenue Service. <http://www.treasury.gov.za/publications/tax%20statistics/> [11 Julie 2012].
- 2012 Budget speech. Minister of Finance (Pravin Gordhan). 22 February 2012. <http://www.treasury.gov.za/documents/national%20budget/2012/default.aspx> [11 Julie 2012].
- 2013 Budget speech. Minister of Finance (Pravin Gordhan). 27 February 2013. <http://www.treasury.gov.za/documents/national%20budget/2012/default.aspx> [19 April 2013].
- Breytenbach, A. en Rossouw, J. 2013. 'n Ontleding van vergoedingsneigings in die Suid-Afrikaanse staatsdiens, 2005 tot 2012. Artikel ingedien vir keuring by die Tydskrif vir Geesteswetenskappe.
- Budget 2012 Highlights. 2012. National Treasury <http://www.treasury.gov.za/documents/national%20budget/2012/guides/Budget%20Highlights%202012.pdf> [15 Junie 2012].
- Budget Review 2012. National Treasury <http://www.treasury.gov.za/documents/national%20budget/2012/review/FullReview.pdf> [15 Junie 2012].
- Department of Social Development. 2007. Reform of Retirement Provisions. Feasibility Studies. September 2007. http://uscdn.creamermedia.co.za/assets/articles/attachments/07110_retirementprovisions.pdf [15 Junie 2012].
- Department of Social Development. 2011. Annual Performance Plan 2011/12. <http://www.dsd.gov.za> [15 Junie 2012].
- Estimates of National Expenditure 2012. 22 Februarie 2012. National Treasury. Republic of South Africa. <http://www.treasury.gov.za/documents/national%20budget/2012/default.aspx> [11 Julie 2012].
- Financial Mail. Toll fees in numbers. Razina Munchi. 1 Maart 2012. <http://www.fm.co.za/Article.aspx?id=166348> [15 Junie 2012].
- Financial Planning Institute (FPI). 2007. Social Security & Retirement Fund Reform in South Africa. The Financial Planning Institute of Southern Africa's Position Paper. November 2007.
- Joubert, F. en Rossouw, J. 2013. Lewenstandaard: 'n ekonomiese perspektief op lewensgehalte in Suid-Afrika. Tydskrif vir Geesteswetenskappe. Jaargang 53:1. Maart.
- Liberty. 2012. <http://www.liberty.co.za/our-products/provide-for-my-retirement/Pages/pre-retirement-planning/take-charge-of-your-own-retirement-planning.aspx> [15 Junie 2012].
- Mail & Guardian. 2012. Bargaining with independence. Kevin Davie. 5 Mei 2012. <http://mg.co.za/article/2012-05-04-bargaining-with-independence/> [15 Junie 2012].

QUESTIONS/DISCUSSION

References:

- Mohr, P., Fourie, L., en medewerkers. 2008. *Ekonomie vir Suid-Afrikaanse studente*. 4de uitgawe. Van Schaik uitgewers.
- Momentum/Unisa. 2011. *The Momentum household net wealth report: Q4 2011*. Study conducted in collaboration with UNISA's Personal Finance Research Unit and the Bureau of Market Research.
- National Treasury. 2013. *2013 Budget Review*. National Treasury: Pretoria
- OECD. 2012. *Economic Outlook*. Volume 2012/1. OECD: Paris
- Old Mutual. 2011. *Old Mutual Retirement Monitor 2011 – Insights into the retirement provisions of working South Africans*. <http://www.oldmutual.co.za/RetirementMonitor> [15 Junie 2012].
- Rossouw, J. [S.a.]. *ESSA Part presidents from 1964 to 1987: The issues remain the same*. Online at http://www.essa.org.za/Memory_lane_revisited.pdf. [Accessed on 18 February 2013]
- Statistics South Africa (a). 2011. *Quarterly Labour Force Survey*. Quarter 4, 2011. Statistical release P0211. <http://www.statssa.gov.za/publications/statsdownload.asp?PPN=P0211&SCH=5153> [11 Julie 2012].
- Statistics South Africa (b). 2011. *Mid-year population estimates* Statistical release P0302. <http://www.statssa.gov.za/publications/statsdownload.asp?PPN=P0302&SCH=4986> [11 Julie 2012].
- Social Assistance Act, 2004. Act 13 of 2004. <http://www.info.gov.za/view/DownloadFileAction?id=67950> [5 Februarie 2013].
- South African Institute of Race Relations (SAIRR) (a). 2011. *Employment and Incomes*. 2010/2011 South African Survey. <http://www.sairr.org.za/services/publications/south-africa-survey/south-africa-survey-online-2010-2011/employment-and-incomes> [15 Junie 2012].
- South African Institute of Race Relations (SAIRR) (b). 2011. *Demographics*. 2010/2011 South African Survey. <http://www.sairr.org.za/services/publications/south-africa-survey/south-africa-survey-online-2010-2011/demographics> [15 Junie 2012].
- SA Reserve Bank. 2012. *Quarterly Bulletin*. December. SA Reserve Bank: Pretoria
- Strauss, D., Rossouw, J. en Fourie, J. (2009) *Die implikasies van 'n regstaat vir ontwikkelende lande*. Tydskrif vir Geesteswetenskappe, Jaargang 49:2: Junie.
- WTO webbladsy. Aanlyn by http://www.wto.org/english/thewto_e/whatis_e/who_we_are_e.htm [Internettoegang op 18 Januarie 2013]

HOW BIG IS THE PROBLEM?

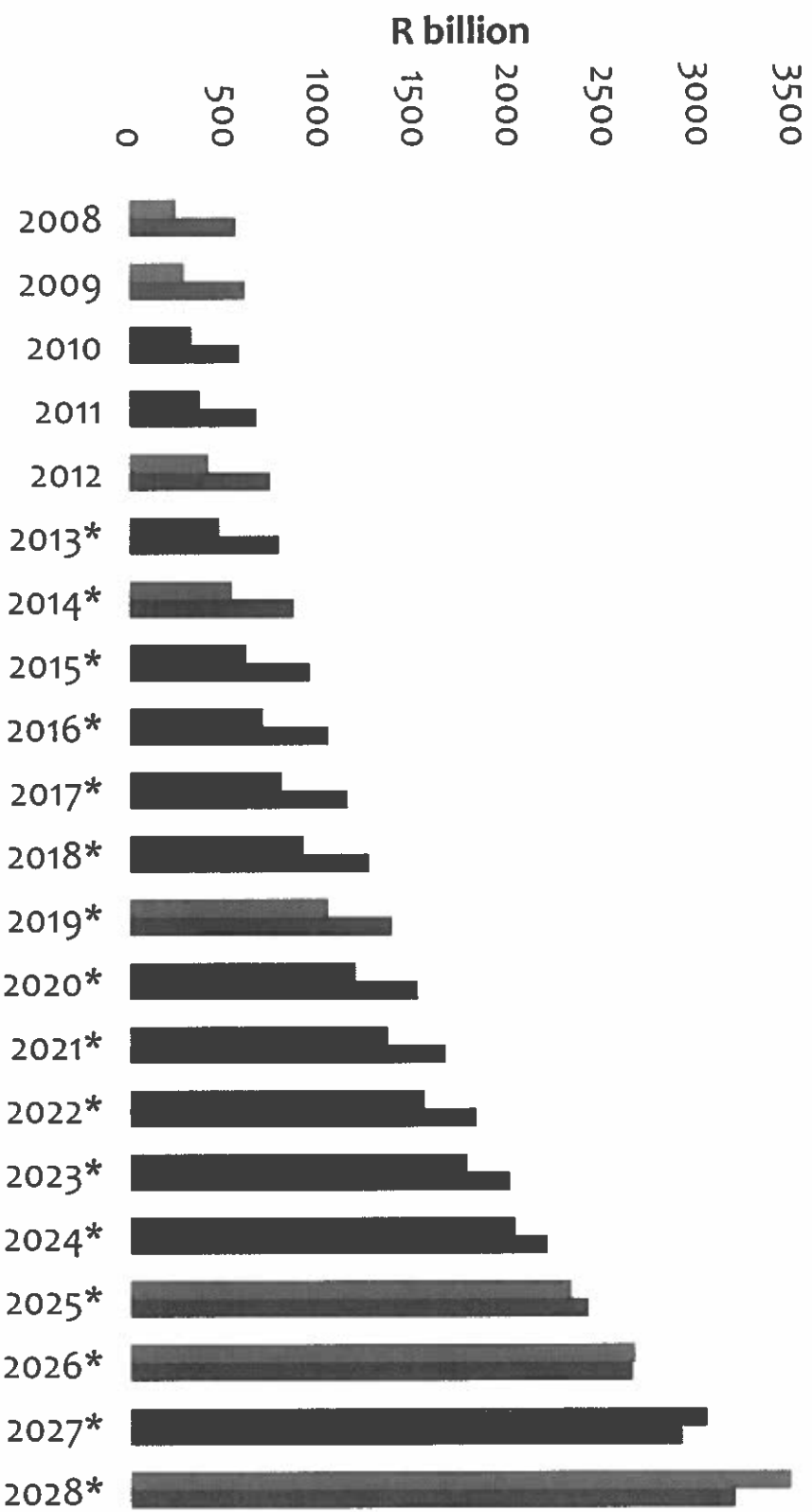


Figure 1: Social expenditure and salaries to government expenditure

*Estimates

Sources: Estimates of National Expenditure 2012:421-522 as used in Joubert and Rossouw 2013, Breytenbach and Rossouw 2013, SA Reserwebank, Statistics SA [S.a.], own calculationsF