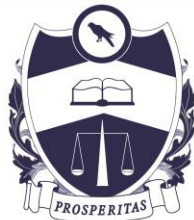


2011 Budget Speech

Presented by: Mike Schussler

*on behalf of
SAIT and ACCA*



The South African Institute of Tax Practitioners



ACCA

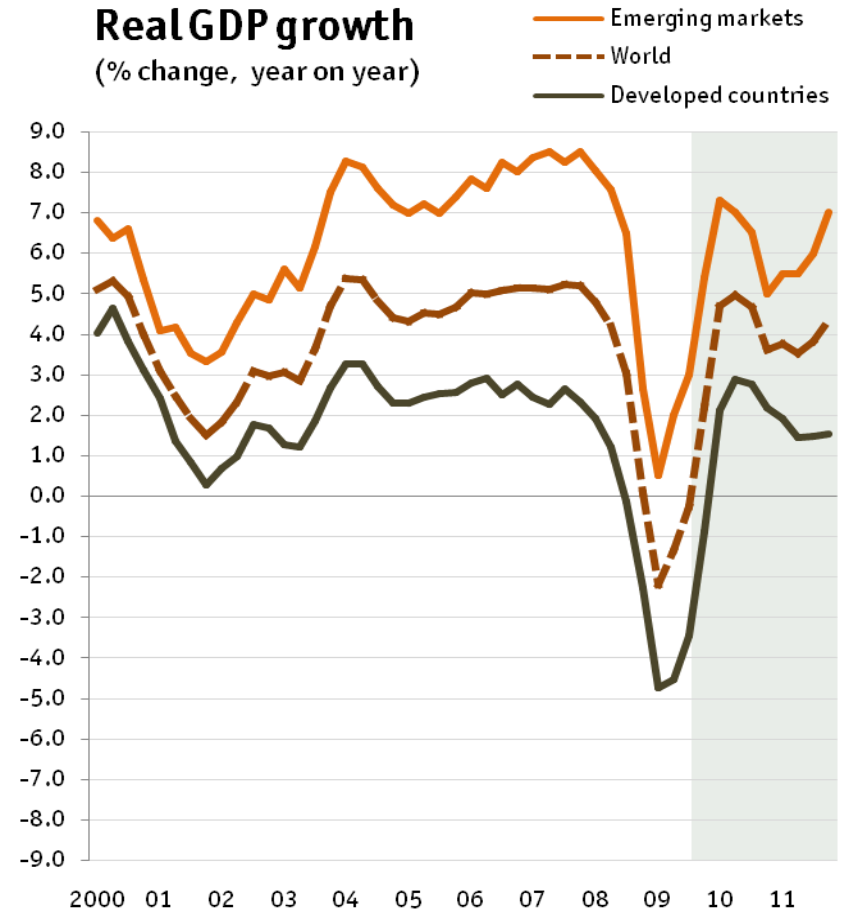
Budget 2011

- New world Background.
- SA economy and JOBS.
 - Number of workers
 - Employers and self employed.
- Revenue
 - Getting bigger.
 - Why we can not tax more.
- Expenditure.
 - More social and education.
- Deficit.
- Tax simplification and job creation.

Emerging market economic outlook

- » Chinese growth has been supported by massive stimulus, but this has aggravated existing imbalances
- » India is growing strongly on the back of robust domestic demand. However, fiscal pressures remain
- » Brazil has been hit less than expected by the crisis, and has recovered rapidly on solid domestic consumption
- » Russia's recovery is supported by the rise in oil prices over the past year

Real GDP growth
(% change, year on year)



Source: Economist Intelligence Unit, *Global Forecasting Service*.

US

Western Europe

Japan

Emerging markets

Oil

Non-oil commodities

Monetary policy

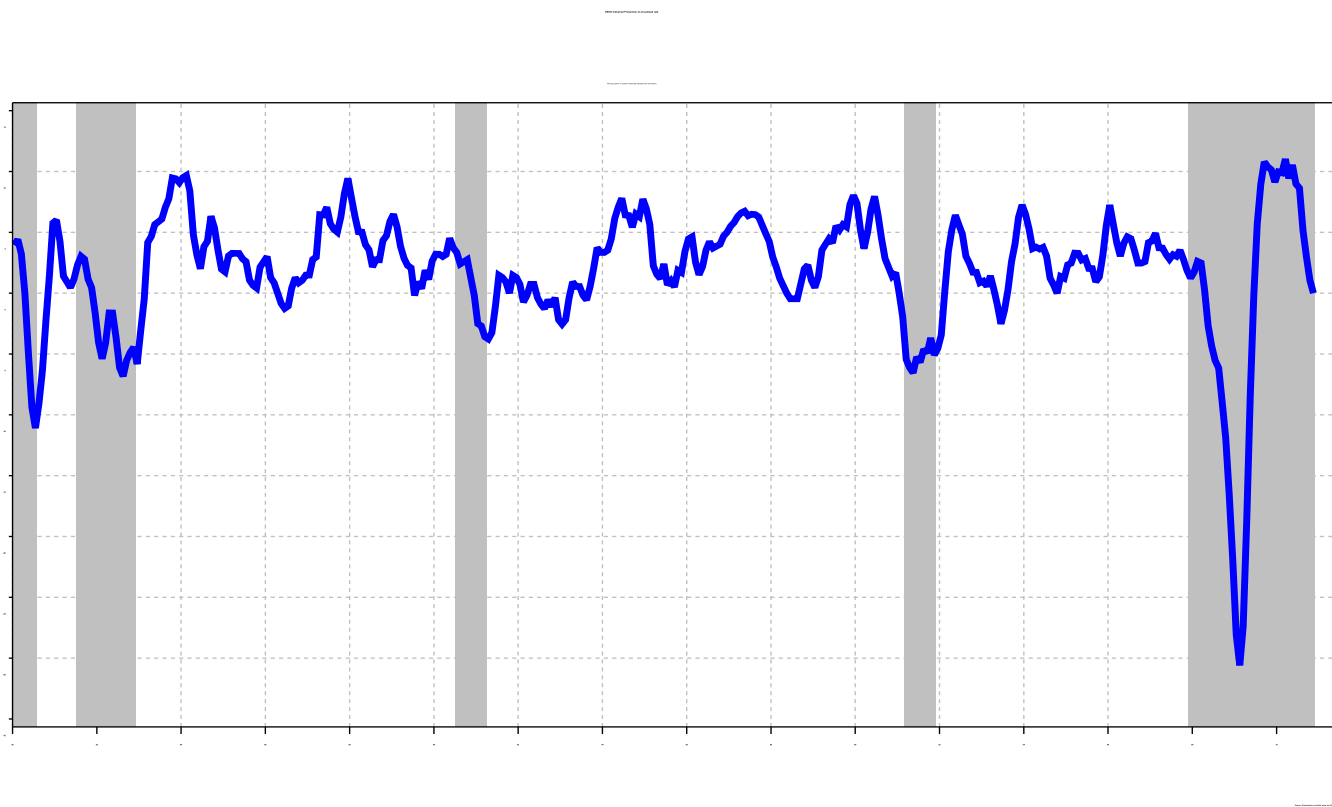
Currency

Forecast risks

Forecast risks (cont.)

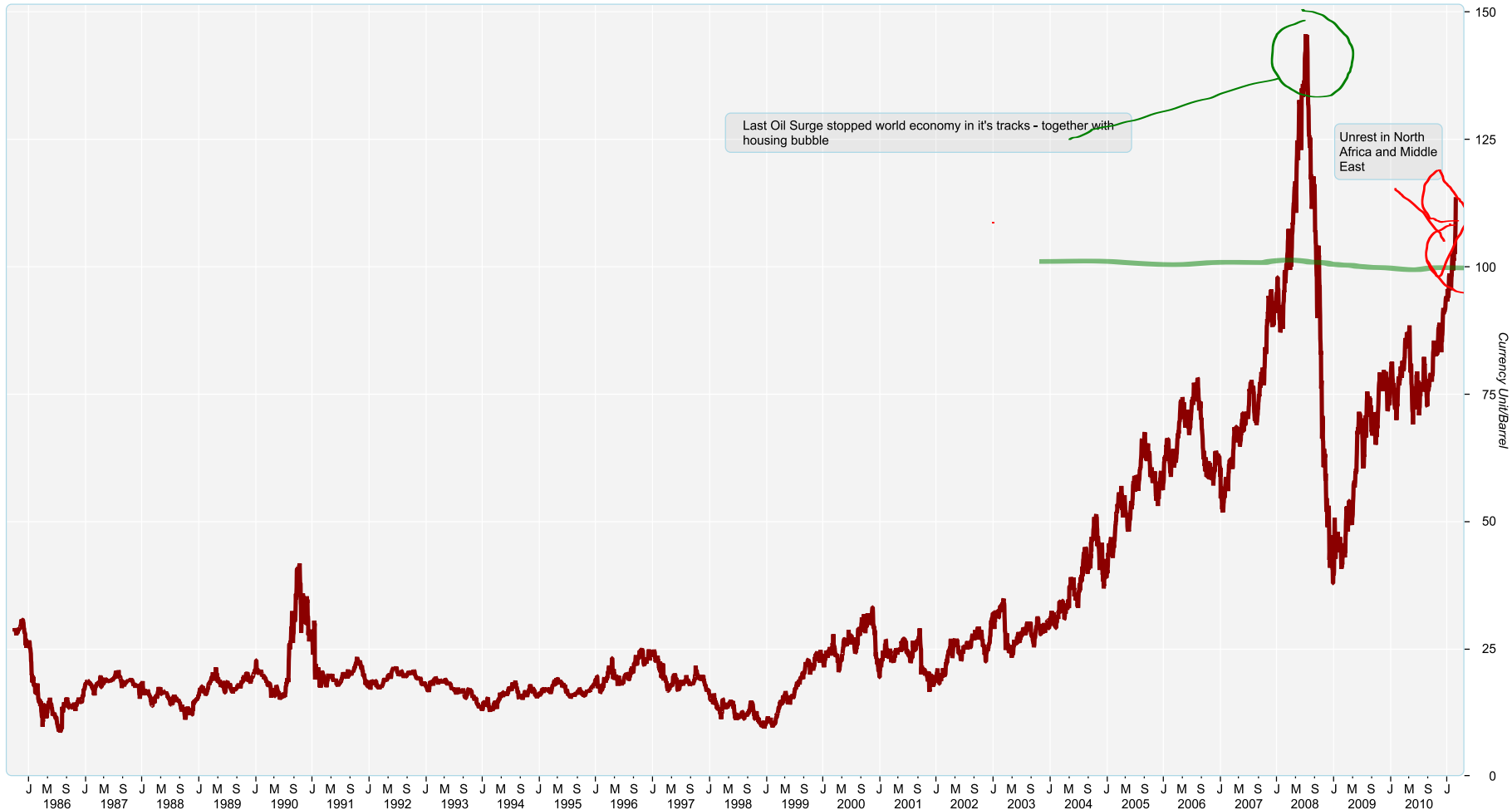
Summary

Developed world still fragile



The return of the oil price.

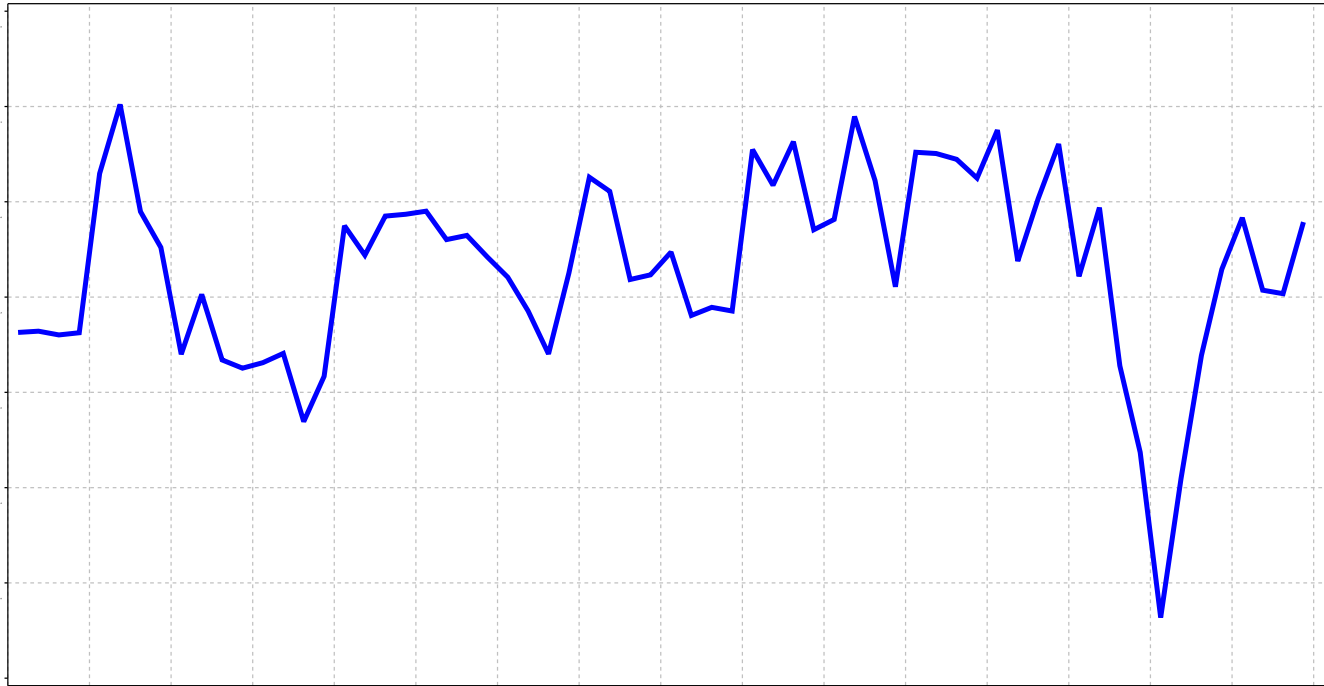
Crude Oil, Brent, Global Spot, ICE, Close, USD



South Africa background to the budget.

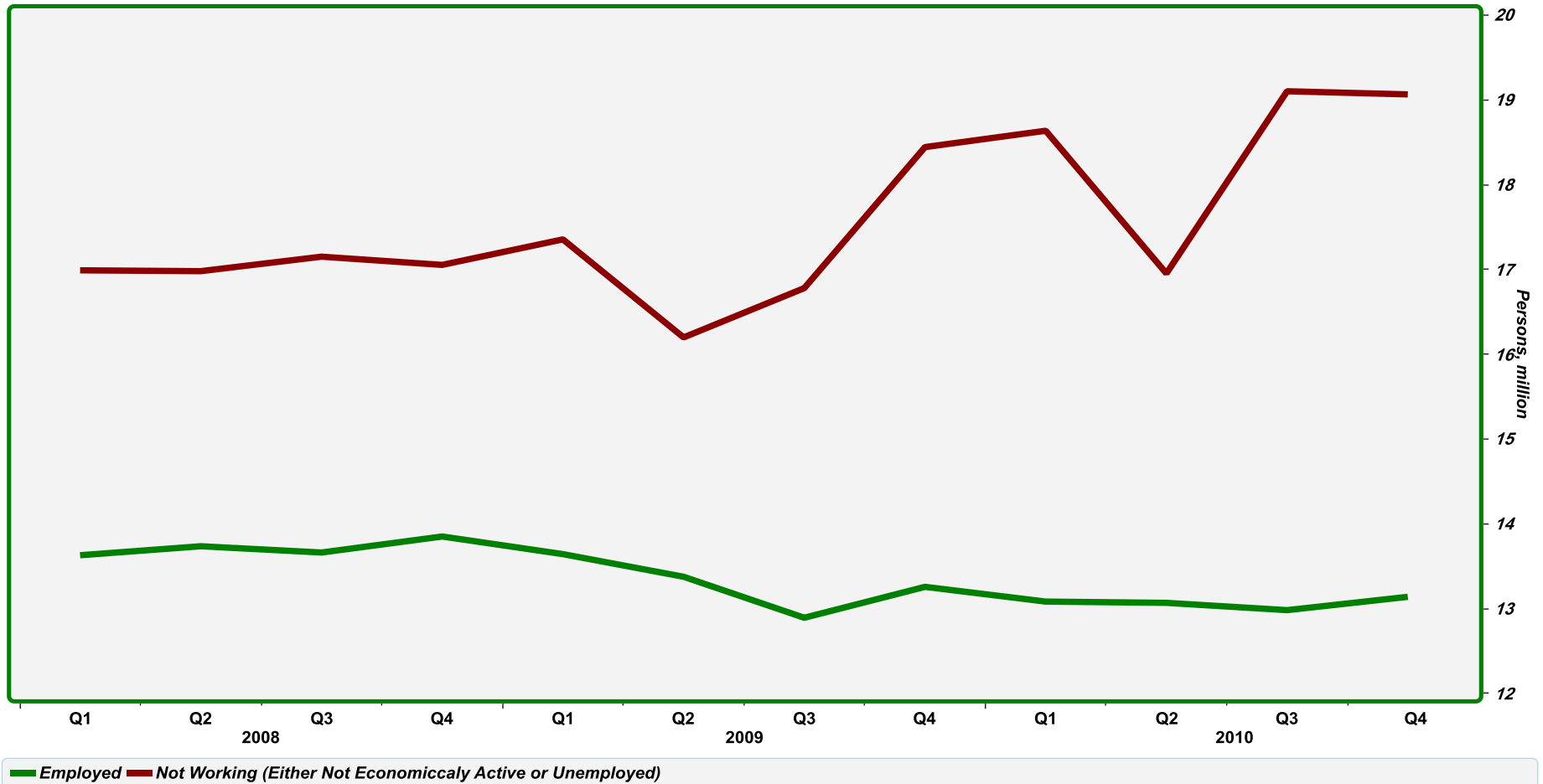
Or why jobs are important to South Africans.

SA quarter on quarter GDP growth



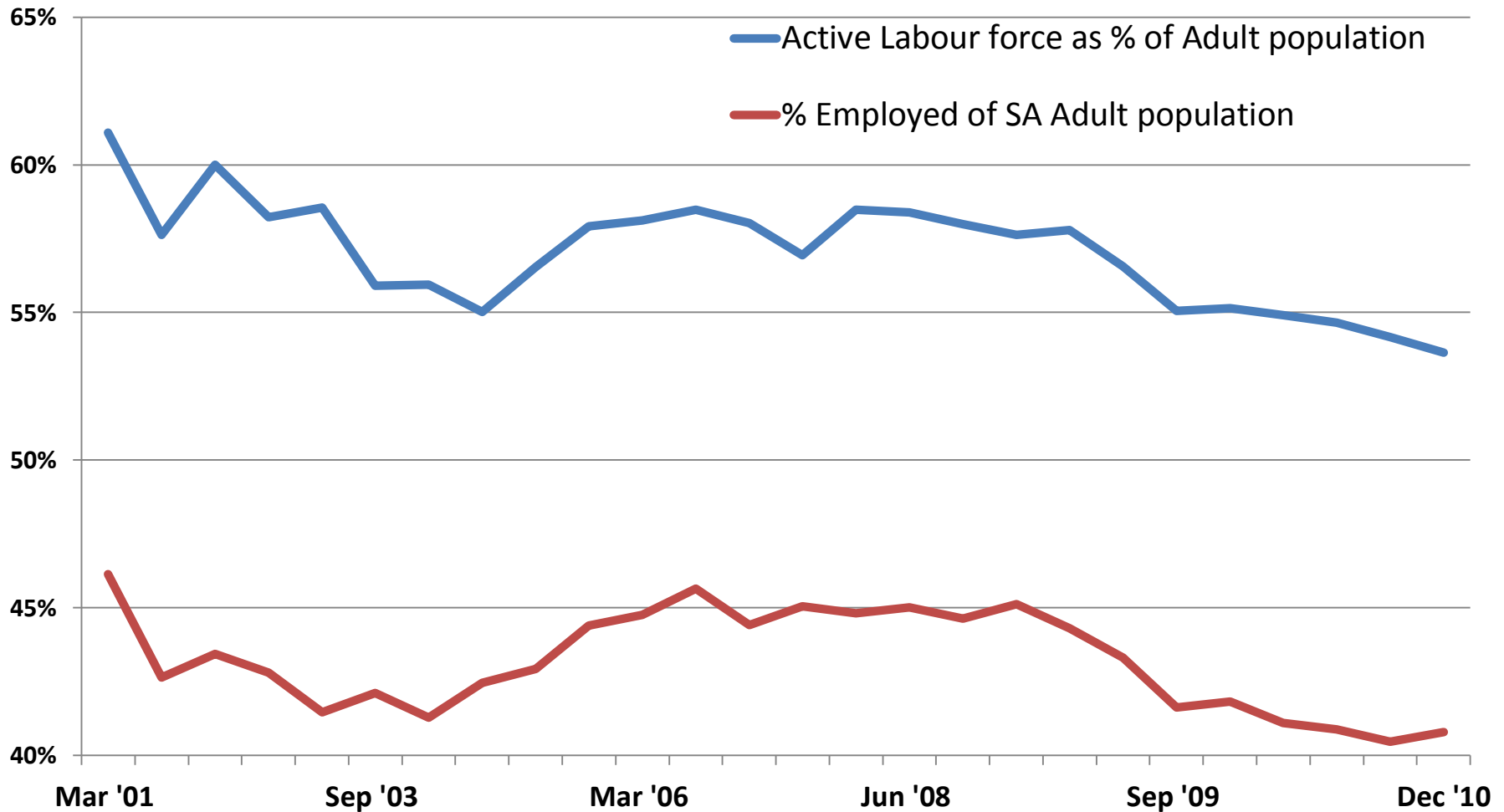
Only around 41% of all Adults are employed in South Africa.

Working and non working adults in millions



Our active labour force is declining.

In the bottom 12 of 189 countries around the world.



GDP growth needed for job targets.

Without any real increase for current workers and keeping current productivity.

Minimum growth rates needed For 5 million jobs in 10 years

Minimum growth rates needed For 9 million jobs in 10 years – Normal emerging market country rate

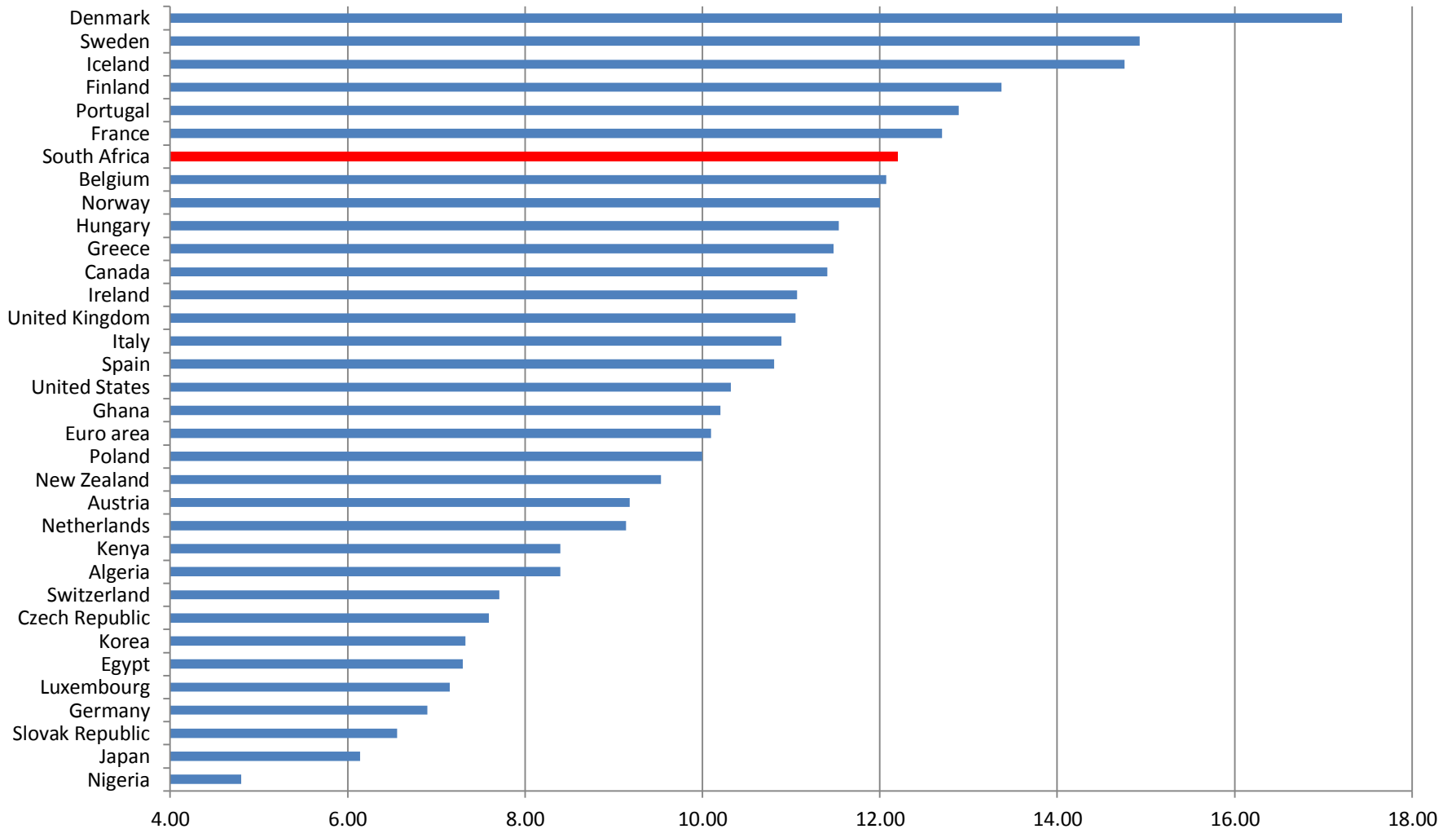
Remember no one gets richer we just add more people at current rates with current technology.

- Private sector 4.9%
- Government rate 6.5%
- Motor subsidy rate 13.3%

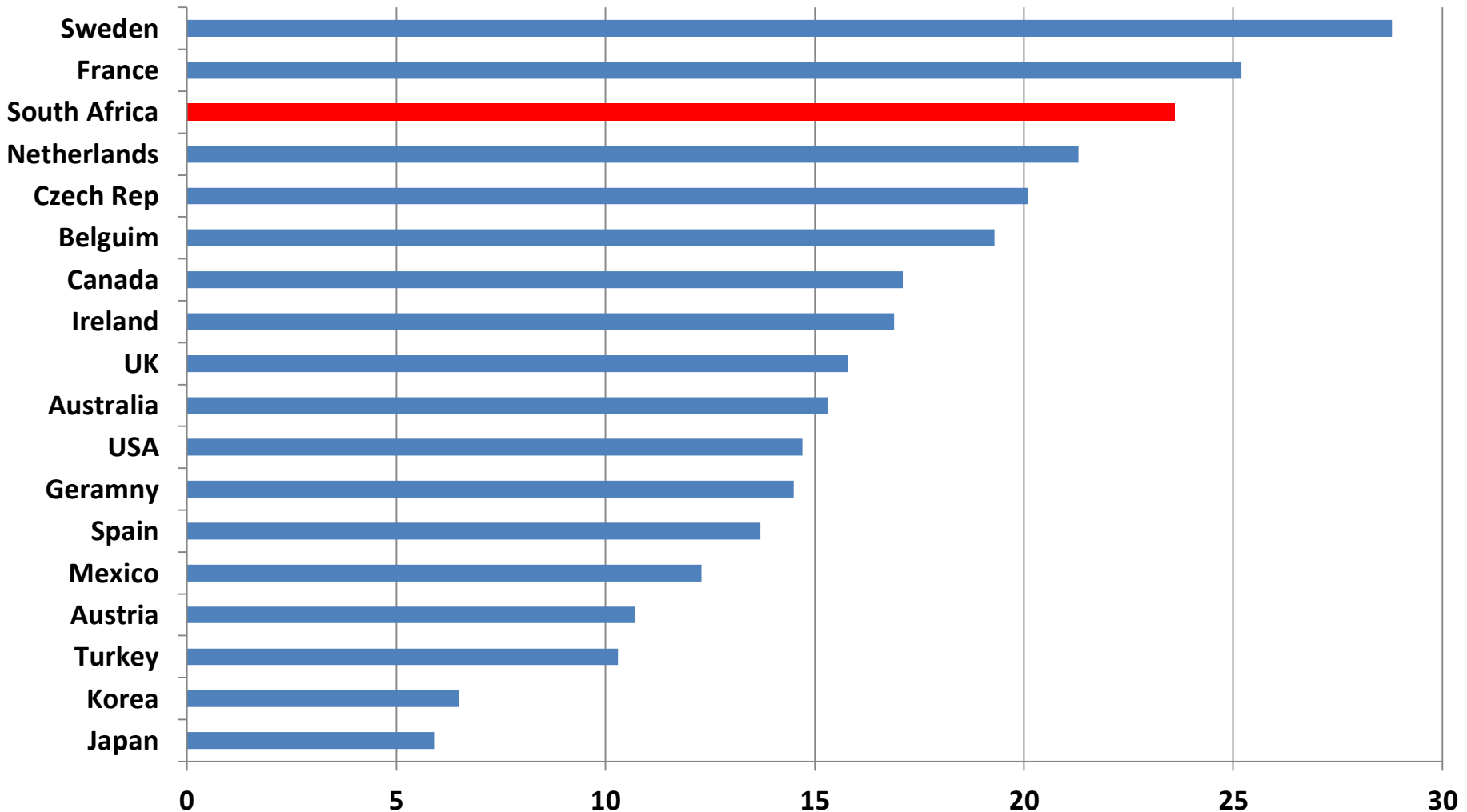
- Private sector rates 7.7%
- Government rate 10.1%
- Motor subsidy rate 18.8%

To make current workers feel part of this one probably needs to add at least 2% probably more like 3%

Government wages as percentage of GDP – 2008 or later



Percentage of formal employment by the total public sector (including SOE's)



Adult categories: Annualised growth rate from 2000

Unemployed	-0.1%
Labour force	0.5%
Employed	0.7%
Polulation	1.5%
Not Economically Active	2.7%

Where the job growth is.

- Government has grown jobs with 15% over the last four years.
 - Government employees have less risk in their jobs (government generally does not go bust) but get paid a healthy premium over the private sector.
- The private sector has decreased employees with 2,6% over the last four years.
 - The great recession played a massive role here.

Where the jobs are.

- Formal Sector (non agriculture).
 - Government has 1,8 million
 - Private sector has 6,3 million
- Domestic workers.
 - 1 million
- Informal sector.
 - 2,5 million
- The rest of 13 million are in formal and informal agriculture.

Employers numbers. Mid 2010

- 1,77 million people are employers
- 1,12 million people employ themselves only.
- 100 000 employers employ one other person.
- 250 000 employers employ between 2 and 3 other people.
- 301 000 employers employ 4 or more people.
 - Combined they employ nearly 7 million people or more than 85% of the formal sector.

The 1,12 million self employed.

- There were 2,2 million self employed in 2000 and 1,7 million in 2006
- Median earnings are R1820 per month overall and an estimated median R7000 in formal sector.
 - Average earnings in formal sector higher at around R11 500 per month.
 - They work long hours – likely at around 60 or so a week – 50% more than the employed.

The 301 000 employers.

Using 2009 tax statistics and LFS figures.

- Less than 1% of adult population.
- Pay 90% of all company taxes.
- Pay 84% of Personal income taxes via their employees.
- Average firm size down to 12 people in size down from 34 in the 1980's (UIF).
- The 301 000 is down from 320 000 in 2002.
 - This is around a 6% decline.

South Africa needs more employers

- 1% of the adult population is a very low number for employers world wide.
- SA needs to ask how we can make life easier for employers.
- Maybe we should start with an attitude that we need private firms more than anything.
 - China put it differently then it said it is glorious to be rich.
 - SA should ask what firms need and what they want.

Who needs this red tape?

- Why does CIPRO collect annual data from companies and ask at least R400.
 - Remember firms have to pay an accountant to do the forms so it is hassles both for accountants and employers.
- Why are there not automatic inflation adjustments for small companies business tax thresholds.
 - Both the turnover of R14 million and the R300 000 have not moved in years.

More hassles for companies.

- SETA collections start from R500 000 in employee payments a year.
 - For a small firm with say 10 people who can not make use of the training at a SETA this is just a tax.
- Many local governments collect 3,5 times more in property rates from businesses than natural persons.
 - Does local government do more for small businesses.
 - Businesses pay more in electricity, refuse removal, water etc from local government.
 - Perhaps local government must be forced to hold regular meetings with business and include them in all LED plans.

Other laws that take time why?

- For small companies of say a R20 million turnover. They spend a lot of time on:
 - FICA
 - RICA
 - King 3.
 - While the laws have good basis many are misusing it from sales or to keep hosting web sites etc.

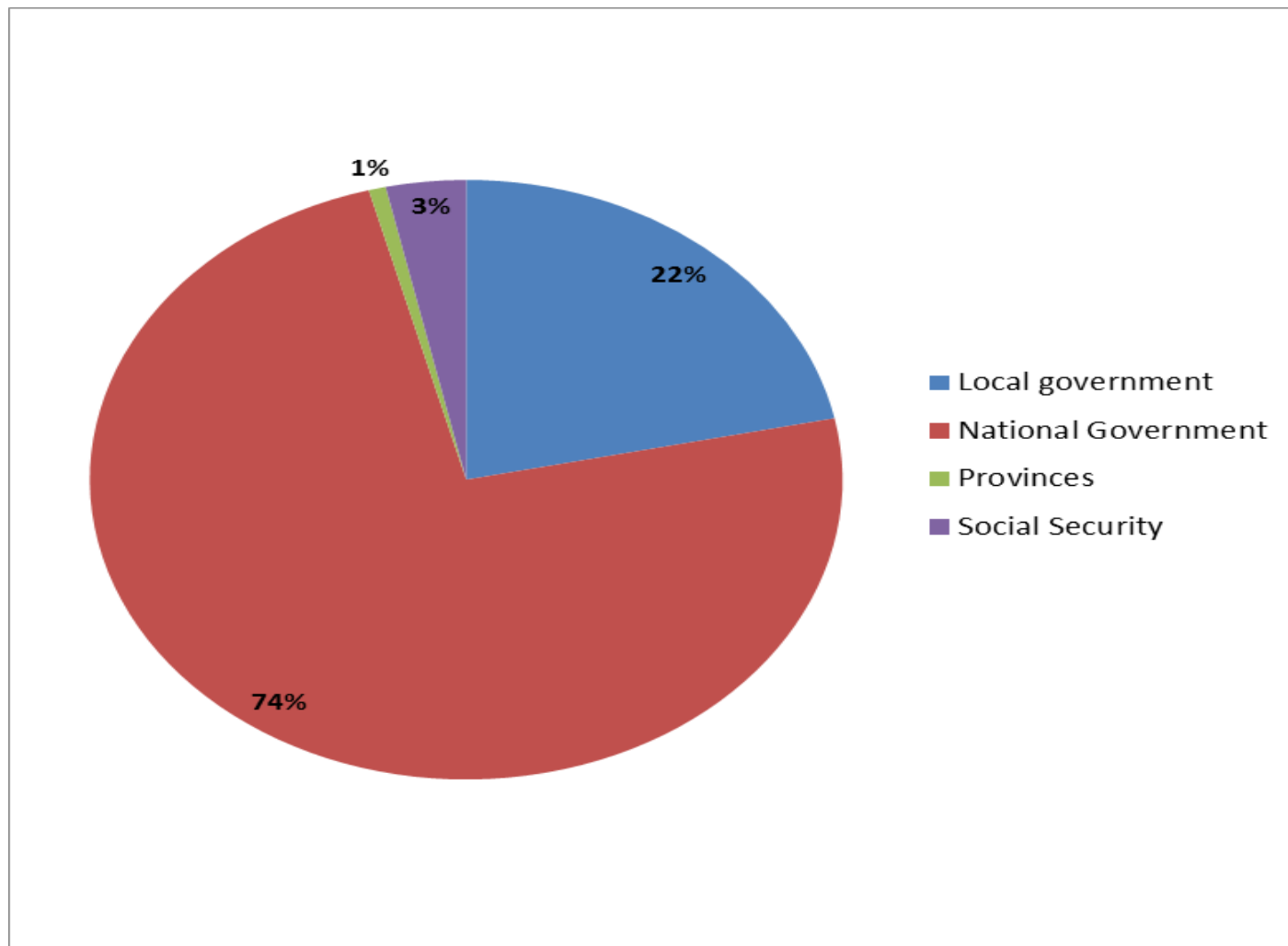
Includes provincial, Municipal, and Social Security funds.

SA CONSOLIDATED GOVERNMENT REVENUE

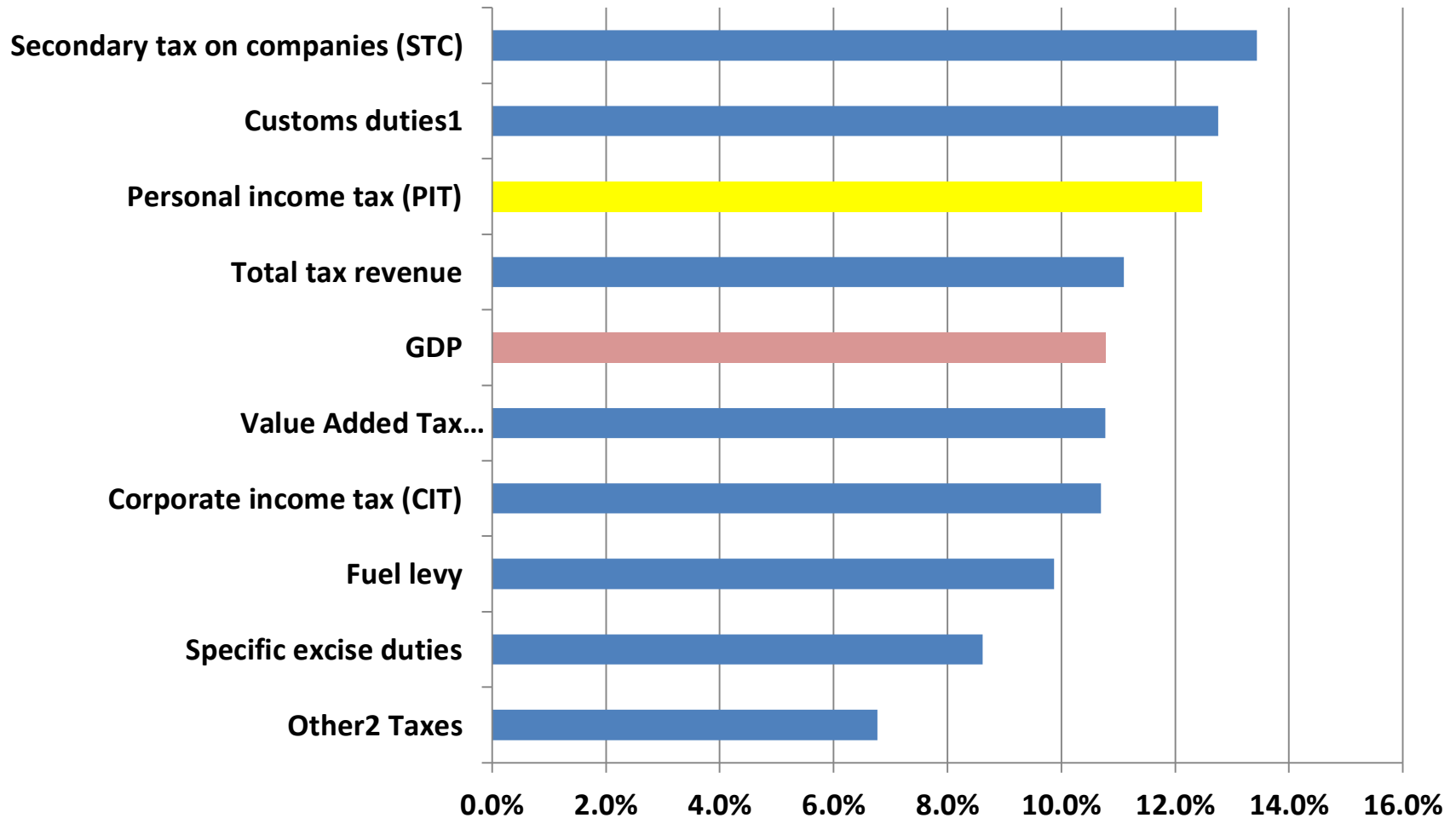
The really big picture.

- Including local government charges for services we have a R1 trillion income for all government revenue. (Estimate of R1040 – R1050 billion)
 - Today government makes up around 36% of GDP.
 - This excludes State Owned Enterprises.
 - We need an efficient government because if government fails we all fail.

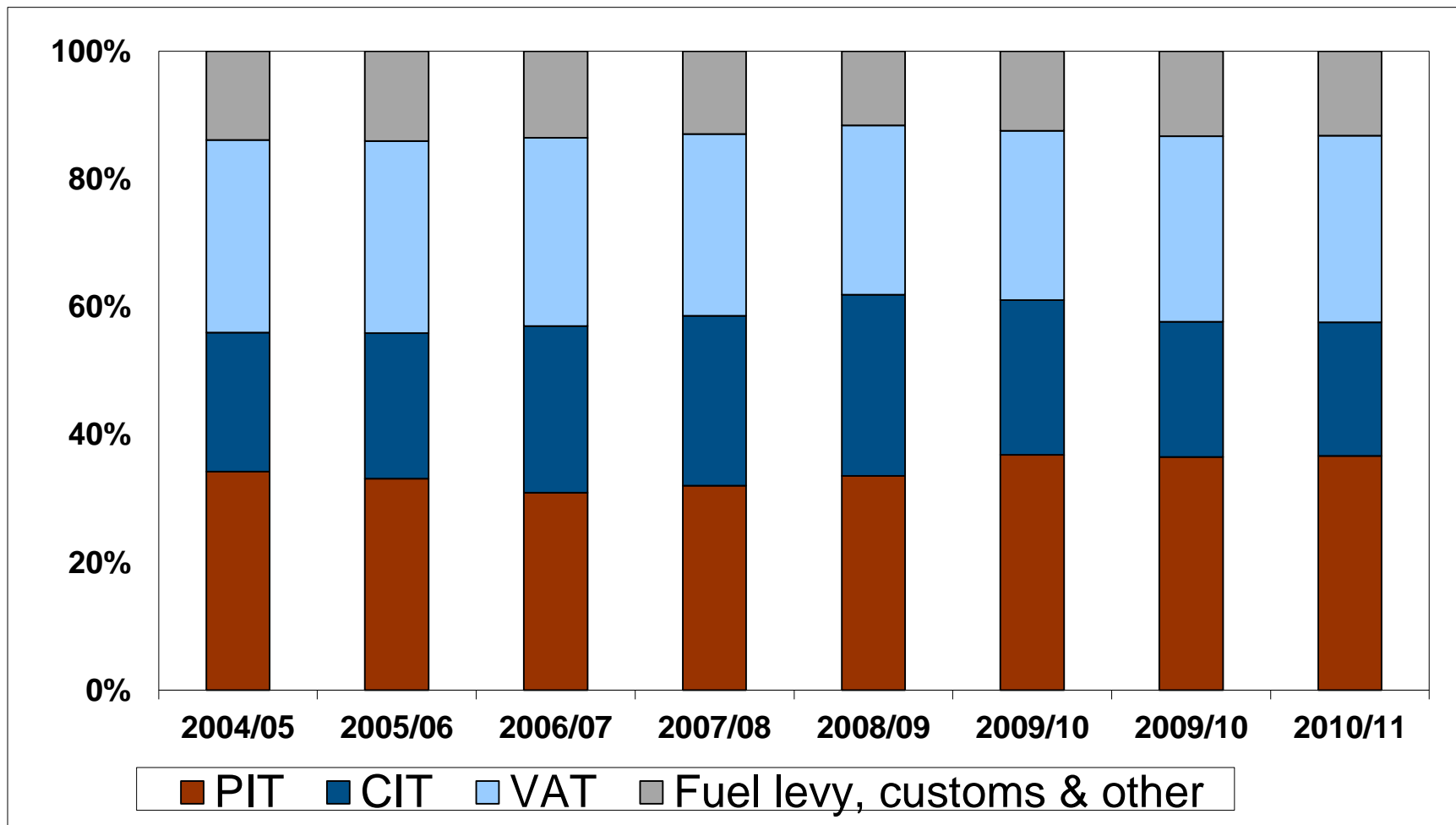
Who collects what in revenue.



Annualised growth rates since 2004 to 2012 adapted from budget and tax stats.

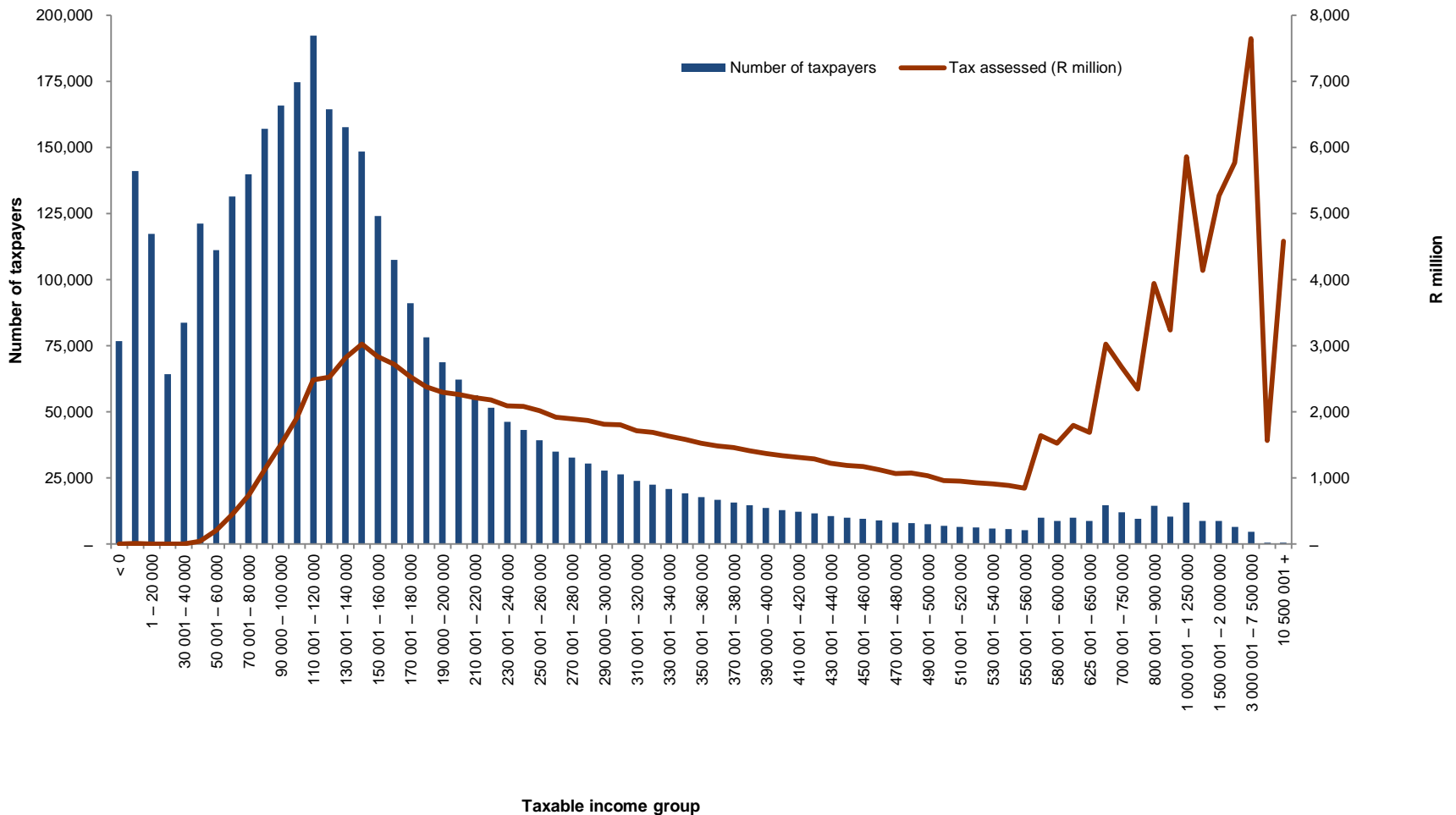


National government tax income – where it comes from.

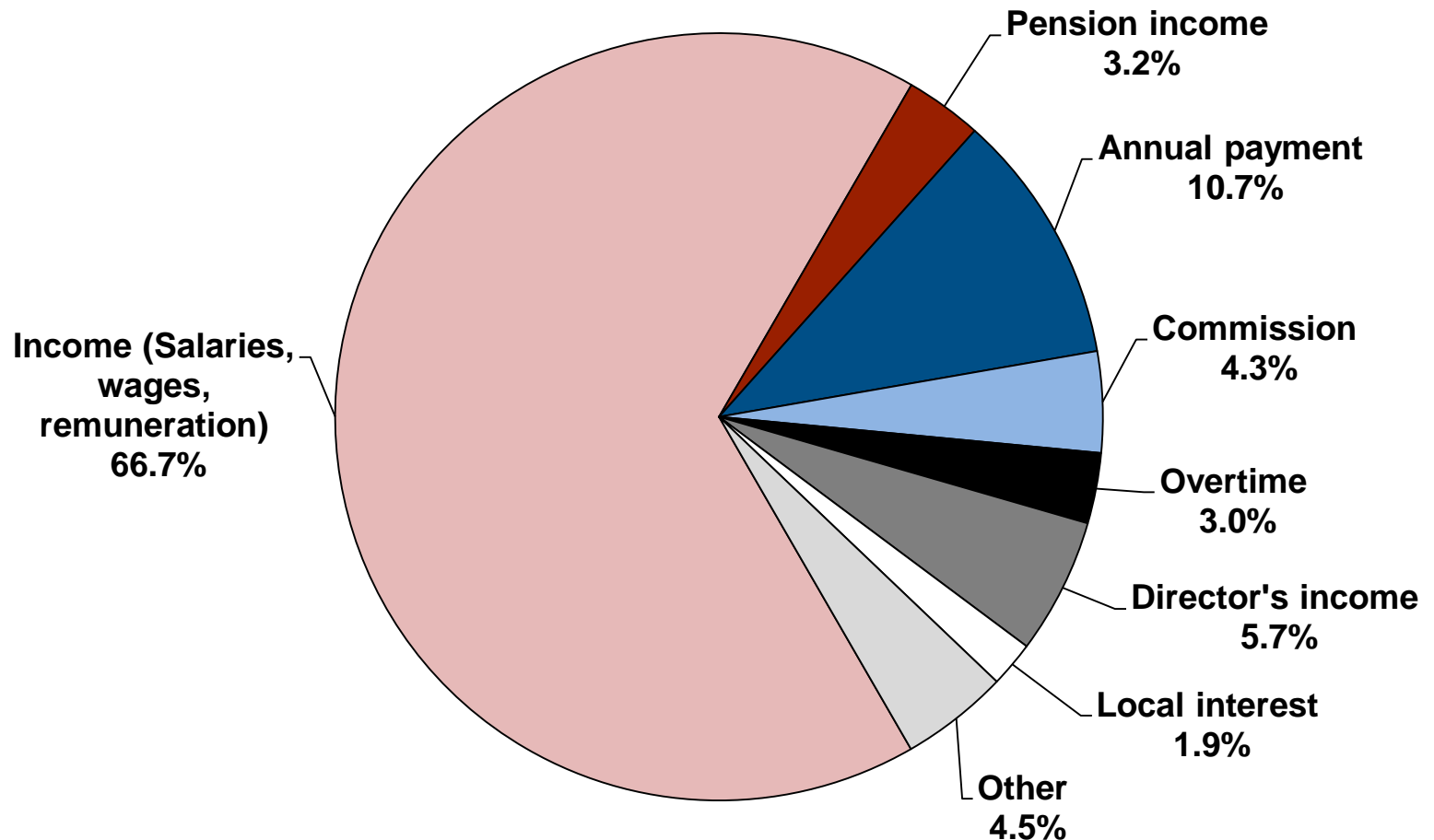


Tax income from individuals.

A few pay the most.



Where the individual money comes from.

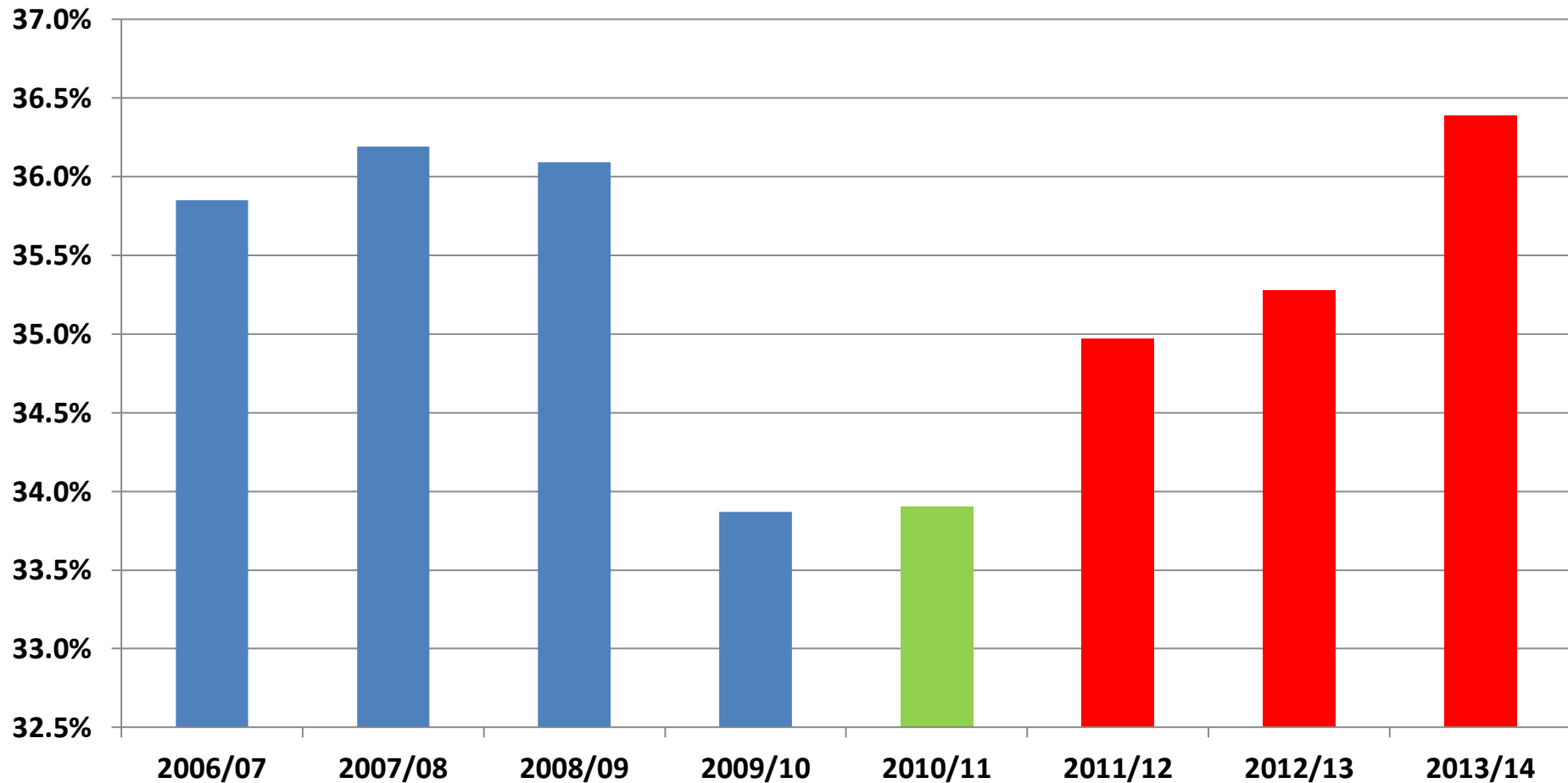


Profile of individual tax payers.

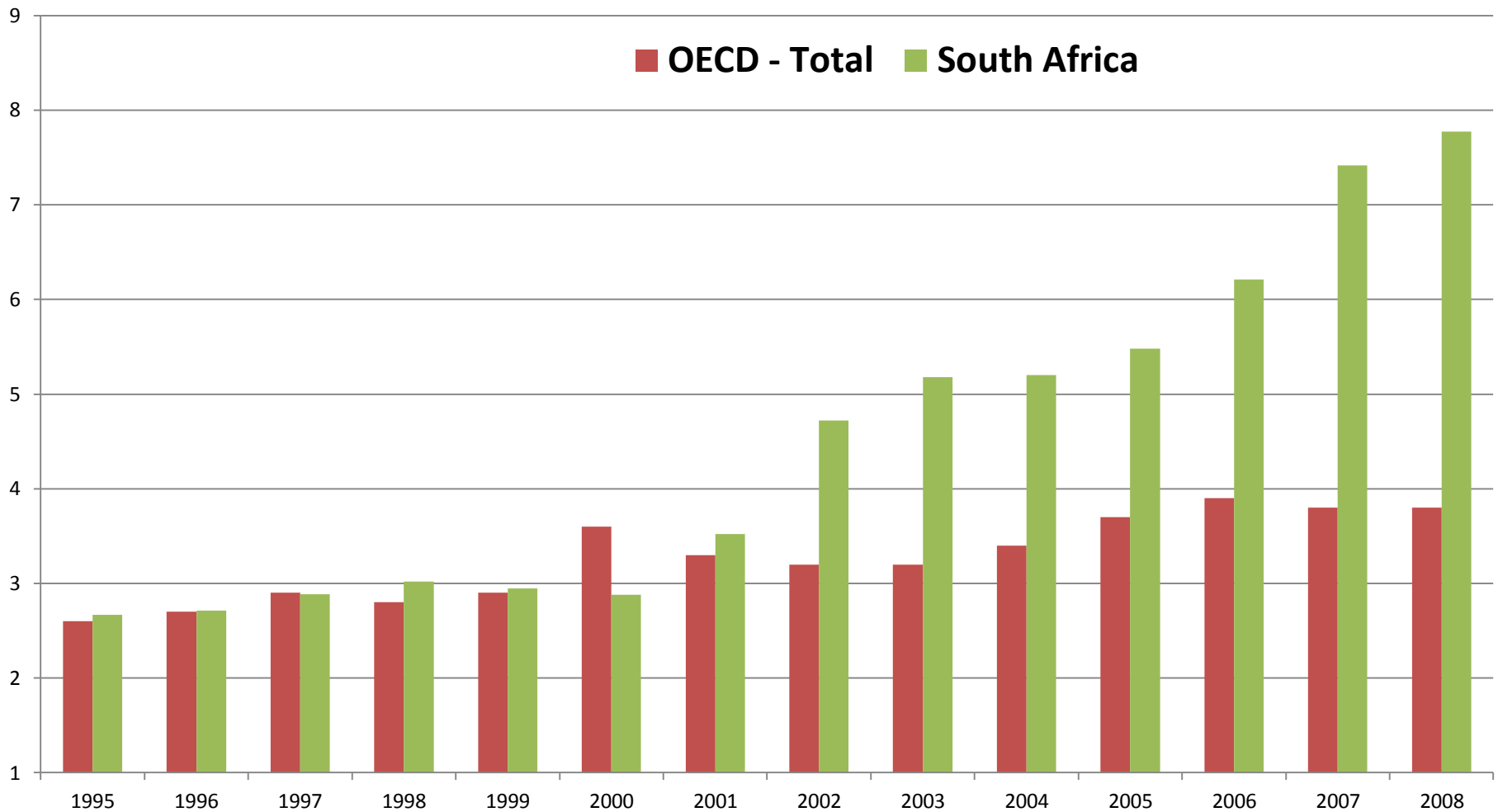
- Of the 13 million people working in SA, about 5,9 million are registered for tax.
- Of the 5,9 million registered only 5,1 million are liable to submit returns while only an estimated 4.6 million are actually liable for tax.
- Only about 2,1 million tax payers earn more than R150 000 per year (2009).
 - They pay 90% of all personal income tax.

All Revenue at all levels of government as % of GDP

Government plus local government service revenue



Comparing Corporate tax income as % of GDP.



Personal income tax as % of GDP



Remember for firms; paying taxes is not all they do there are other compliance costs

- They pay for accounting, bookkeeping etc.
 - While these are needed South Africa must try to simplify taxes.
- They need to keep paperwork for years.
- They spend their own time on taxes.
- In order to comply with taxes companies have to comply with FICA, Rica, and a host of other laws.

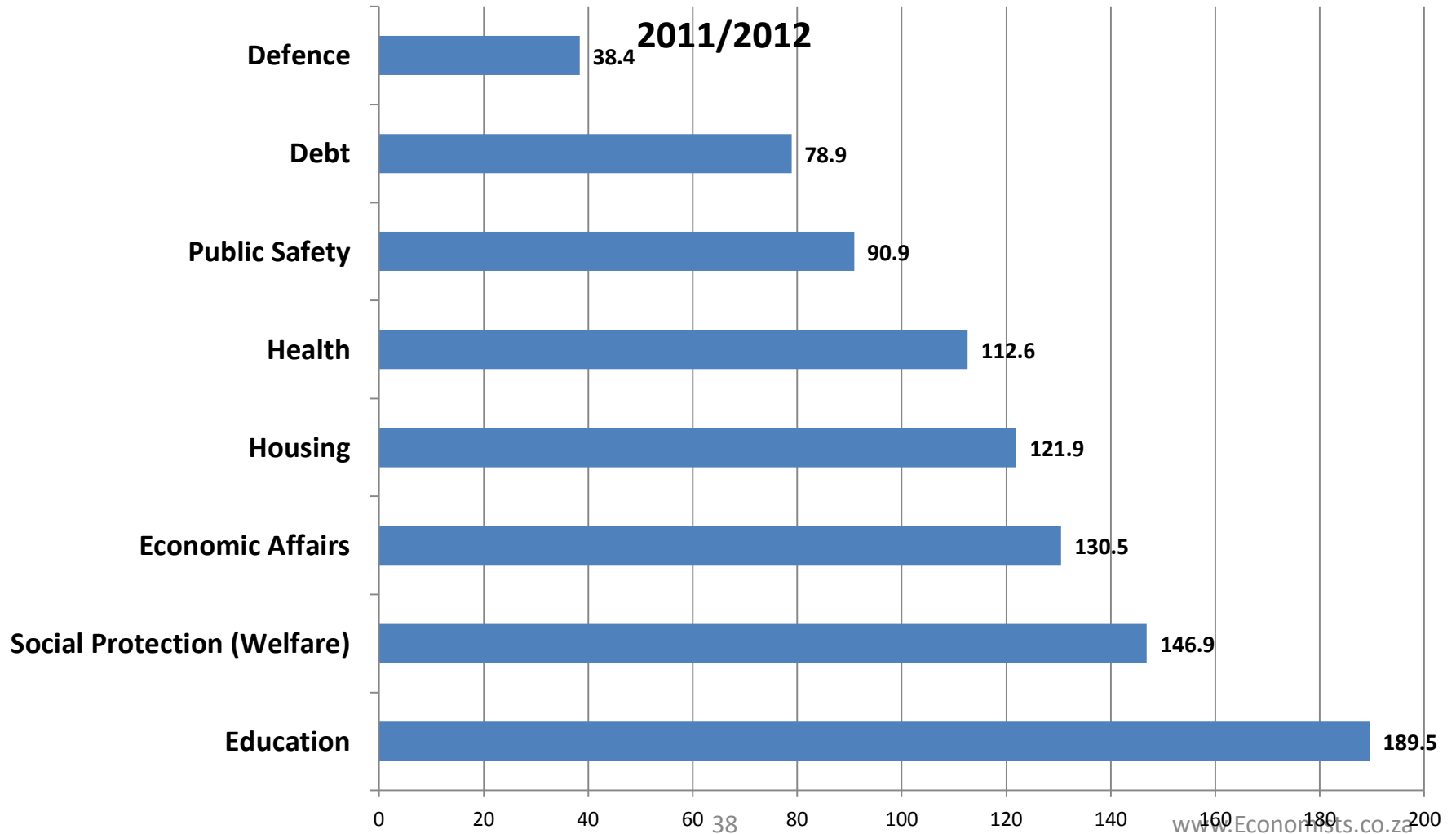
Includes money from government to provinces as well as tax income of municipalities.

CONSOLIDATED GOVERNMENT EXPENDITURE

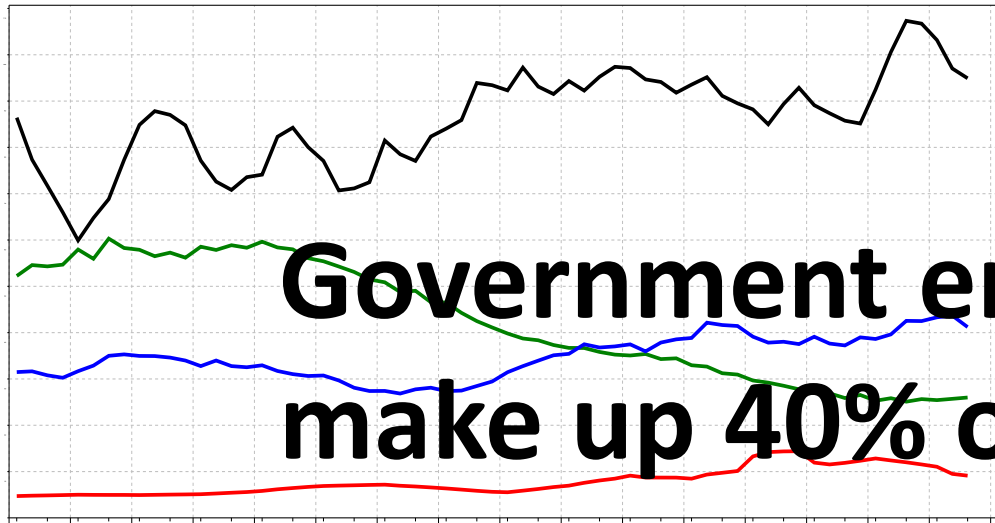
Government expenditure

- Total general government expenditure to be R977 billion for the 2011/12 fiscal year.
- Including local government services such as electricity and water total government expenditure will be over R1140 billion.
- The biggest government spending is on education.

Big Items national government will spend on this year in billions of Rand.



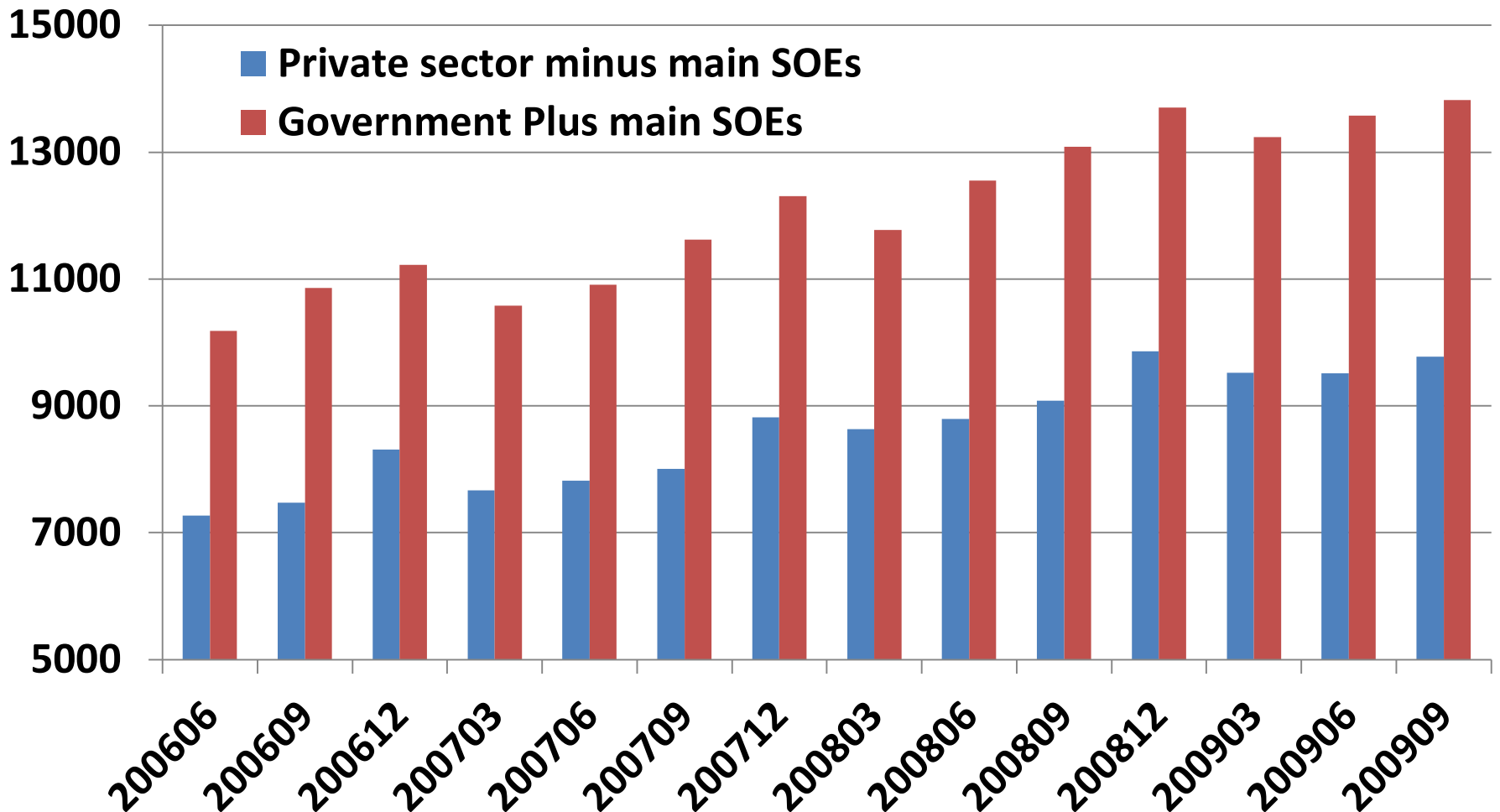
Government spending trends. Economic classification



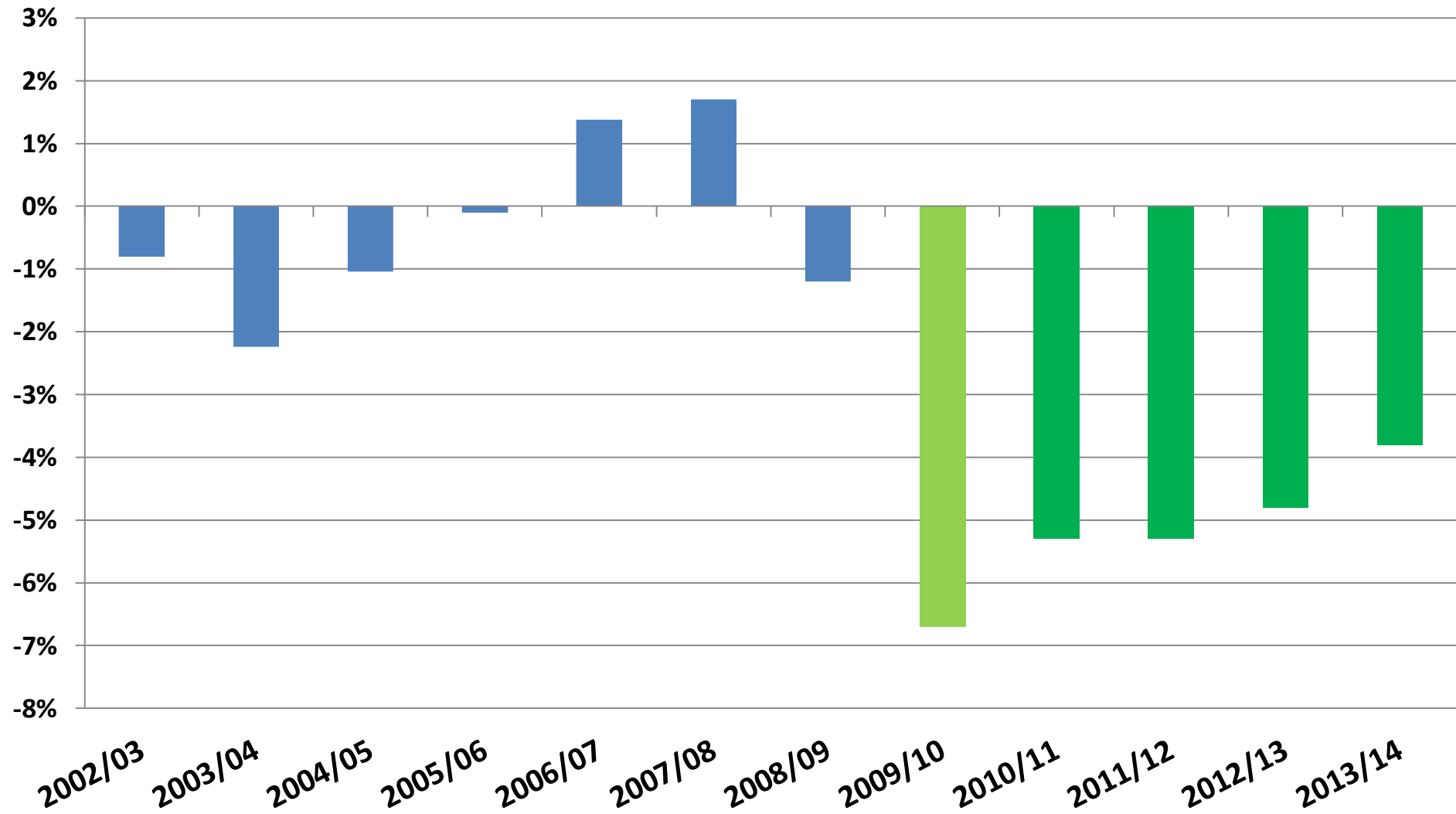
**Government employees
make up 40% of all
government expenditure
way off the chart.**

Who gets the highest salary?

Average monthly salaries in private sector and government (including main SOE's)



Budget balance as % of GDP



Tax simplification and job creation

- In 2005 the then Minister of Finance, Trevor Manuel, said that a rewrite of the Income Tax Act was on the cards
- This led to the Tax Administration Bill
 - Easy to understand
 - Eliminates overlaps and inconsistencies
- However we need to go further

Tax simplification and job creation

- Build consensus amongst small businesses, tax professionals, academics and government as to how tax simplification could best be addressed in South Africa
- United Kingdom (UK) recently established the Office of Tax Simplification
- Conduct a review and make recommendations on how to simplify the tax system, ease administration and reduce uncertainty for small businesses.

Tax simplification and job creation

- Identify the areas of the tax system that cause the most day-to-day complexity and uncertainty for small businesses;
- Provide independent advice on to simplify the tax system; and
- Consider the impact of any simplification in these areas on different business sectors, specifically the small business sector.

Tax simplification and job creation

- A South African office of tax simplification should consider the following:
 - How can tax law be simplified? Do we change the content of tax law or focus on redrafting?
 - The administrative burden of tax compliance. Compliance costs are the costs which are imposed on a taxpayer when he or she attempts to comply with a given tax.
 - Identifying tax reliefs that can be repealed, modified, streamlined or delivered in a different way so as to make the tax system simpler.
 - Is there a way out of the tax labyrinth for small businesses?

Thank you.

- All data supplied by economists.co.za



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