

Budget 2023 Highlights

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South Africa
February 2023



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For Financial Advisors and their Clients

On 22 February 2023, Finance Minister Enoch Godongwana delivered the annual budget speech, providing an update on South Africa's finances.

Minister Godongwana had a challenging balancing act as the country continues to face a combination of headwinds including sluggish economic growth, a high unemployment rate, rising debt levels, and frequent power outages.

Eskom and energy in the spotlight

The electricity crisis and its impact on economic growth took centre stage in this year's annual budget. The 2023 budget was geared towards reassuring foreign investors, providing support to a struggling consumer base (as inflation has moved higher), reducing unemployment, and simultaneously striving to stimulate economic growth.

According to Minister Godongwana, "The lack of a reliable electricity supply is the biggest economic constraint."

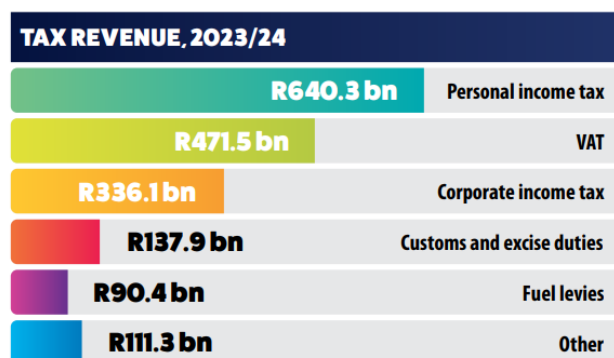
The government will provide Eskom with a major debt relief arrangement of R254 billion over the next three years, consisting of R168 billion in capital and R86 billion in interest. The Eskom Debt Relief Bill will be used to affect this balance sheet transaction. The aim is to strengthen the utility's balance sheet so it can restructure and make the necessary investments and maintenance to ensure a secure electricity supply. It was refreshing to see the reins being pulled tighter for Eskom, with the relief being accompanied by strict conditions.

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

- Prolonged power cuts and the deterioration of port and rail infrastructure continue to hinder economic growth.
- Locally and globally, economic growth has slowed. Low economic growth leads to lower tax revenues and increased requests for fiscal support.
- Unemployment remains high.
- Rising borrowing costs (to tackle elevated inflation) place the consumer under pressure.
- Inflation has increased to 6.9% – placing increased pressure on low-income bracket tax earners.
- The slow implementation of structural reforms has lowered business confidence.
- The emigration of highly skilled workers has continued.

Revenue, deficits, and debt to GDP according to the 2023 budget

As highlighted by Minister Godongwana, South Africa is reaping the benefits of a more efficient and effective tax administration system, that is building trust to increase voluntary compliance and boost revenue collections. New initiatives will provide tax relief of R13 billion.



Source: National Treasury "Budget highlights". Data as published on 22 February 2023. For illustrative purposes.

- Tax revenue collections for 2022/23 are expected to total R1.69 trillion. This exceeds the 2022 Budget estimate by R93.7 billion, and the 2022 MTBPS estimate by R10.3 billion.
- Over the medium term, revenue projections are R6 billion higher than the estimates of the 2022 MTBPS.
- Income and profits proved to be more resilient than anticipated, with collections from mining remaining robust due to elevated (although declining) commodity prices.
- Higher revenue collection from personal income tax (on the back of a recovery in earnings and employment levels).
- Value-added-tax refund payments offset robust growth in import VAT.
- Government debt has reached R4.73 trillion and is projected to rise to R5.84 trillion over the medium term.
- Debt-service costs will rise from R307.2 billion in 2022/23 to R397.1 billion in 2025/26.
- The consolidated budget deficit is projected to narrow from 4.2% of GDP in 2022/23, to 3.2% of GDP by 2024/25.
- The debt ratio will stabilise at 73.6% of GDP by 2025/26 (which is 3.6% higher than projected in the MTBPS – due to the Eskom debt relief).

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

Corporate income tax	As announced in the 2021 Budget, the corporate income tax rate will be reduced from 28% to 27%, for companies with years of assessment ending on or after 31 March 2023.
Personal income tax	Personal income tax brackets and rebates will be fully adjusted for inflation. The adjustments will mean that the annual tax-free threshold for a person under the age of 65, will increase from R91 250 to R95 750.

	2022/23		2023/24	
	Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
	R0 - R226 000	18% of each R1	R0 - R237 100	18% of each R1
	R226 001 - R353 100	R40 680 + 26% of the amount above R226 000	R237 101 - R370 500	R42 678 + 26% of the amount above R237 100
	R353 101 - R488 700	R73 726 + 31% of the amount above R353 100	R370 501 - R512 800	R77 362 + 31% of the amount above R370 500
	R488 701 - R641 400	R115 762 + 36% of the amount above R488 700	R512 801 - R673 000	R121 475 + 36% of the amount above R512 800
	R641 401 - R817 600	R170 734 + 39% of the amount above R641 400	R673 001 - R857 900	R179 147 + 39% of the amount above R673 000
	R817 601 - R1 731 600	R239 452 + 41% of the amount above R817 600	R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900
	R1 731 601 and above	R614 192 + 45% of the amount above R1 731 600	R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000
	Rebates		Rebates	
	Primary	R16 425	Primary	R17 235
	Secondary	R9 000	Secondary	R9 444
	Tertiary	R2 997	Tertiary	R3 145
	Tax threshold		Tax threshold	
	Below age 65	R91 250	Below age 65	R95 750
	Age 65 and over	R141 250	Age 65 and over	R148 217
	Age 75 and over	R157 900	Age 75 and over	R165 689
	Source: National Treasury, chapter 4, Revenue trends and tax proposals			
Tax on interest income	There will be no changes to the tax-free portion of interest income (R23,800 for under 65's and R34,500 for over 65's).			
VAT	No change and remains at 15%.			
Tax-free savings account	The annual limit and lifetime limit for investments in tax-free savings accounts will be kept unchanged at R36,000 and R500,000, respectively.			
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 is adjusted upward by 10% to compensate for inflation to 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 will increase from R347 to R364 per month for the first two members, and from R234 to 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 2023 and a further R10 on 1 October 2023. The result is a total increase to R2090. Child support grant: rises from R480 to R510 on 1 October 2023.
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Levies, duties, and charges:

Excise duties and tax	Excise duties on alcohol and tobacco will increase by a below-inflation rate of 4.9%. (A packet of cigarettes will cost an additional R1; a 340ml can of beer or cider will cost 10c more.)
Fuel levy	To provide some relief to households, no increases will be made to the general fuel levy on petrol and diesel for 2023/24. There will also be no increase in the Road Accident Fund levy.
Carbon tax rate	The carbon fuel levy rate will increase by 1c to 10c per litre for petrol and 11c per litre for diesel, with effect from 5 April 2023. Effective 1 January 2023, the carbon tax rate increased from R144 to R159 per tonne of carbon dioxide equivalent.
Sugar tax	There will be no change to the health promotion levy for 2023/24 and 2024/25.

Solar Tax Incentive

To boost electricity generation, the government is proposing a rooftop solar incentive program to encourage individuals to invest in solar Photovoltaics (PV). Under this program, individuals will be eligible to receive a tax rebate equal to 25% of the cost of any new and unused solar PV panels, provided that the panels are purchased and installed at a private residence, and a certificate of compliance for the installation is issued between 1 March 2023 and 29 February 2024.

The rebate is exclusively applicable to solar PV panels and does not apply to inverters or batteries, to focus on increasing electricity generation. The rebate can be utilised to offset an individual's personal income tax liability for the 2023/24 tax year, with a maximum limit of R15,000 per individual. For instance, an individual who acquires 10 solar panels worth R40,000 can lower their personal income tax liability by R10,000 for the 2023/24 tax year.

Expansion of the renewable energy tax incentive

To encourage private investment in renewable energy and address the energy crisis, the government will temporarily expand the existing tax incentive available to businesses. The current incentive enables businesses to deduct qualifying investment costs over a one- or three-year period, with deductions ranging from 50% to 100%. However, under the new plan,

businesses investing in renewable energy projects can claim a 125% deduction in the first year, with no generation capacity limits. This expanded incentive applies only to new investments between 1 March 2023 and 28 February 2025. For example, a R1 million renewable energy investment would qualify for a R1.25 million deduction, reducing a company's corporate income tax liability by R337,500 in the first year.

Retirement fund taxation and reform on the cards

The retirement tax tables for lump sums withdrawn before retirement, and for lump sums withdrawn at retirement, will be adjusted upwards by 10%. This means that the tax-free amount that can be withdrawn at retirement increases to R550 000.

Following extensive public consultation, the first phase of legislative amendments to the retirement system is due to take effect on 1 March 2024. These amendments intend to enable pre-retirement access to a portion of one's retirement assets while preserving the remainder for retirement. Retirement fund contributions will remain deductible up to R350 000 per year or 27.5% of taxable income per year – whichever is lower. Permissible withdrawals from funds accrued before 1 March 2024 will be taxed according to the lump sum tables. Withdrawals from the "savings pot" before retirement will be taxed at marginal rates. On retirement, any remaining amounts in the savings pot will be taxed according to the retirement lump sum table (for example, R550 000 is a tax-free lump sum on retirement).

In conclusion

In the words of Minister Godongwana – the Treasury's pursuit of higher growth remains anchored on three pillars:

1. Ensuring a stable macroeconomic framework to create a conducive environment for savings, investment and growth.
2. Implementing growth-enhancing reforms in key sectors, particularly in energy and transport.
3. Strengthening the capacity of the state to deliver quality public services, invest in infrastructure and fight crime and corruption.

Minister Godongwana shared this view and stated, "Our economy is facing significant risks. Uncertainty is on the rise. It requires us to do bold things. To put the fear of failure aside and execute the difficult trade-offs needed to get from where we are now, to where we want to be in the future".

South Africa has experienced multiple shocks in recent years, leading treasury to continue to adopt a consumer-oriented budget. The National Treasury has been faced with the challenging task of balancing the need to increase tax revenue with supporting struggling consumers, all while dealing with significant power supply constraints.

In response to these challenges, the National Treasury presented a budget with a focus on reducing Eskom's debt and promoting clean energy through solar incentives. The budget also included no increase in the fuel levy and positive adjustments to tax thresholds, while government expenditure increased by only 3.4%.

The primary objective of the government is to continue to generate employment opportunities, sustain the growth of the South African economy, and maintain low levels of government spending. If the gains are to be sustained, future budgets should prioritise prudent fiscal management and carefully considered trade-offs. ■■■

Useful links and resources:

- [Budget 2023 Highlights](#)
- [Budget 2023 Tax Guide](#)
- [2023 Budget FAQs - Solar Panel Tax Incentive](#)

Risk Warnings

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