BUDGETING ON GROWTH

Minister of Finance Pravin Gordhan does not have an easy job. He faces one of the most fundamental of economic problems, namely that of having to allocate limited resources in a society of unlimited needs. But when the resources in question are our contributions to the fiscus, it is probably worth paying attention to where the money is going.

The 2010-11 tax year is not going to be that different to prior years. Despite emerging from the worst economic downturn since the Great Depression, the world economy is on the mend, and South Africa is not far behind. With growth expected to recover to 2.3% in 2010, the Minister has managed to "balance the budget" without having to increase our tax burden dramatically. In fact, he has managed to provide some relief to tax payers from the potential thief of fiscal drag; this, following a year where tax revenues fell some R69 billion short of budget.

Further relief follows in the areas of interest exemptions and the tax free portion of dividends. There is also an increase in the tax deductible portion of contributions to medical schemes. This is some of the good news. The bad news is mostly for smokers, drinkers and gamblers, with "sin taxes" somewhat in excess of inflation. While these increases only affect those with disposable income, the increased fuel levy that hits us on 7 April is going to affect everyone in one way or another.

A carbon emissions tax for new passenger vehicles will further add to the already high cost of maintaining a motor vehicle. As far as business is concerned, the effects are likely to be limited. With the exception of small and micro businesses, corporate tax rates remain unchanged, and it should be business as usual as long as you don't work for one of those companies that hide all their profits in foreign subsidiaries. It has been proposed that legislative amendments be introduced to address a number of sophisticated tax avoidance schemes, ranging from offshore protected cell companies to tax-free foreign dividend schemes.

But the National Budget is more than a mere updated tax table or a deterrent to tax-dodgers. The Budget is an instrument of Policy. Fiscal, monetary and exchange rate policies need to work in harmony if economic objectives are to be achieved; objectives that appear straightforward enough: increase the rate of growth, create more jobs, reduce poverty. (Achieving them may be somewhat more difficult.) But the Budget addresses social objectives as well: improve education and literacy, improve health care, make communities safer. It is a juggling act that can never keep everyone happy.

Here are some of the issues competing for public funds:

- The HIV and AIDS program (an additional R5.4 billion)
- Roll-out of educational materials (R2.7 billion)
- Salaries for FET college educators (R1.3 billion)
- Rural housing program (R1.2 billion)
- Municipal Infrastructure Grant (R2.5 billion)
- Re-capitalisation of the Land Bank (R2.5 billion)

This is not an exhaustive list, and the debate continues as to who is more or less worthy. One thing we can be sure of, though, is that we have not turned into a welfare state. Social grants remain fairly stable in real terms, with old age pensions up R70 per month and the child support grant up R10 (a decrease in real terms).

The Minister himself spoke of South Africa setting world records for income inequality. And the Budget is surely an invaluable tool in achieving redress. But no matter how well thought out, it is still only a plan. The year ahead will unveil whether or not plans and objectives manifest into real change and sustainable growth.

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