



June 2020

# South Africa's Supplementary Budget – COVID-19

## A Difficult Road Ahead

Audit / Tax / Advisory

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Nothing is normal in the days of COVID-19!

In addition to the Budget announced on 26 February 2020, on 24 June 2020 Finance Minister Tito Mboweni, delivered a further Emergency Budget mainly as a result of the major economic crisis occasioned by the COVID-19 pandemic.

This Emergency Budget is also referred to as an Adjustment Budget and also as a Supplementary Budget. It is all that. A further Adjustment Budget is expected in October besides the Medium Term Budget Policy Statement at about the same time.

The financial state of our economy outlined by the Minister was not a pleasant picture. The gap between Revenue and Debt is unsustainable. 21% of current revenue is used to finance existing debt. Already, since the end of March, there is a revenue collections shortfall of R35 billion. This could lead to a shortfall of R300 billion for the current full year. Our total debt amounts to approximately 80% of our GDP.

It is clear that foreign borrowings have been made necessary and a foreign loan of US \$7 billion is being negotiated.

But it must be realized that loans must be repaid. That applies equally to private sector debt (including those advanced by local financial institutions) as well as debt incurred to the outside world.

There was a huge sigh of relief that no immediate additional taxes have been announced. There was speculation of an increase in the rate of tax on capital gains, imposition of a Wealth Tax, a tax levy on higher earning taxpayers, an increase in fuel levy and many similar suggestions.

There is to be a determined effort to improve tax collections as there appears to be little room to improve tax rates above current levels.

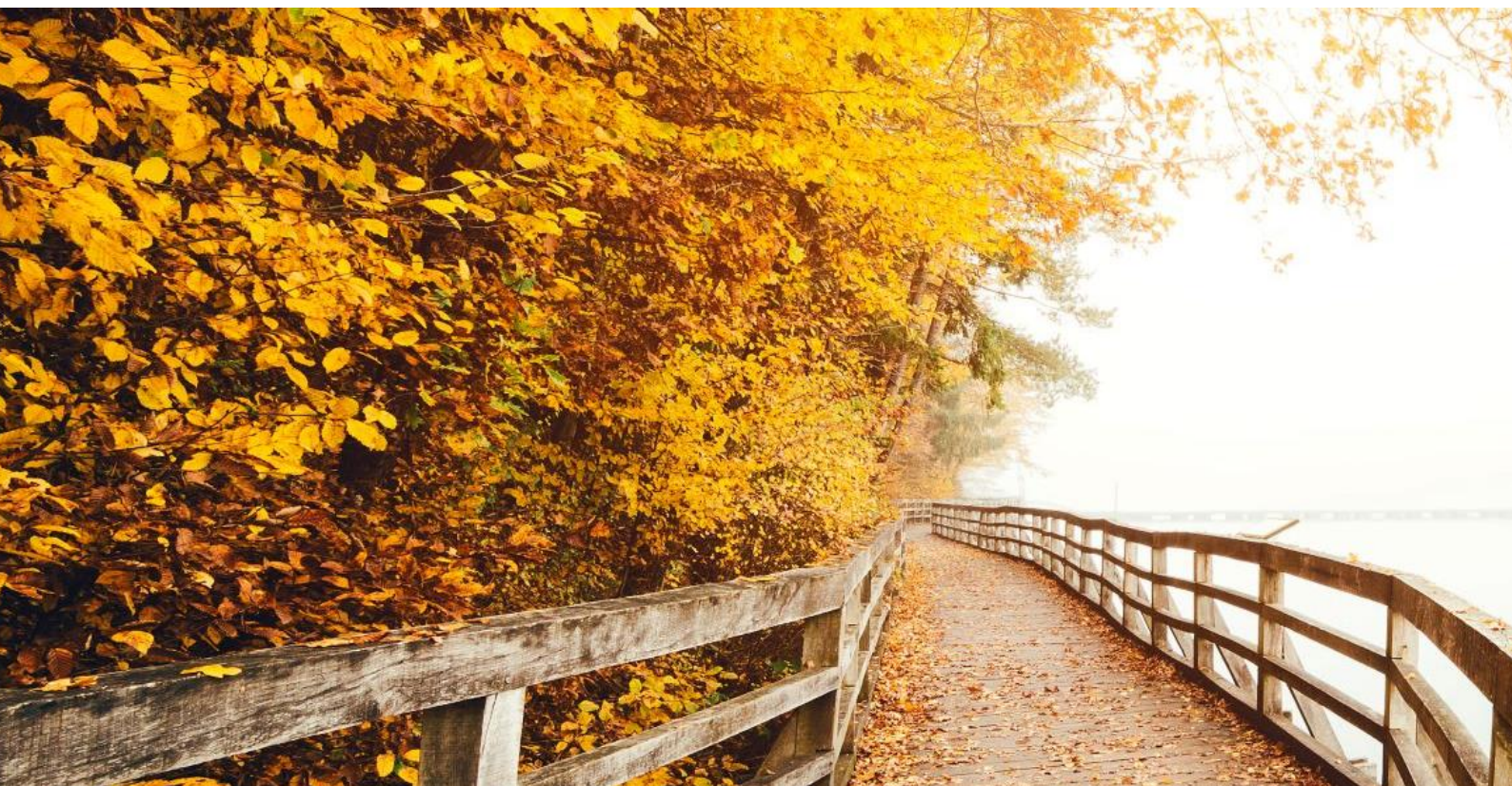
This is to be achieved by positive action against unjustifiable tax avoidance and illegal tax evasion. There will be an educational push to encourage tax morality supported by firm enforcement processes.

Levels of unemployment have been growing with the decreased level of economic activity. The Minister expressed the hope that, together with the private sector, all efforts will be directed towards stimulating the economy which will result in higher employment levels.

The main purpose of the Budget was to announce a major re-prioritizing of national expenditure and very detailed schedules were tabled by the Minister. This is referred to as a Revised Fiscal Framework.

Also tabled for Parliamentary Review were the related Bills including the Disaster Management Tax Relief Bill and The Disaster Management Tax Relief Administration Bill which last two Bills have been dealt with in previous circulars.

We will keep you informed should there be any further announcements affecting our tax landscape.





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