South African finance minister raises income tax, fuel and electricity levies

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In his first full Budget speech since taking office last year, South African Finance Minister Nhlanhla Nene of the ruling African National Congress (ANC) raised the top personal income tax rate by one percentage point, to 41 percent, together with fuel and electricity levies.

South Africans earning above R181,900 (US$15,634) a year are affected by the income tax hike. Fuel levies are to rise by 80.5 cents per litre, with 30.5 cents of that attributable to the general fuel levy, and 50 cents per litre going towards the Road Accident Fund (RAF) levy.

The increase in fuel levies means consumers will no longer benefit from the drop in the international oil price over seven consecutive months. Barring any increase in the international price, the retail cost of a litre of petrol is now projected to rise some 10 percent in March.

Nene admitted that the 50 cents per litre rise in the RAF levy was a substantial increase from the present level of R1.04 per litre. “It is required in order to finance the progress made by the RAF administration in clearing the claims backlog,” he said. “But it also reflects the unsustainability of the current compensation system, which has accumulated a R98 billion unfunded liability.”

Regarding funding for the state-owned power utility ESKOM, Nene announced an increase in the electricity levy from 3.5 cents per kilowatt-hour (kWh) to 5.5 cents per kWh. “This additional 2 cents a kWh will be withdrawn when the electricity shortage is over,” he said.

Rolling blackouts are expected to last until 2018, amid ESKOM’s delays in bringing its new Medupi and Kusile plants online. The utility is also grappling with the maintenance of a fleet of other power stations, whose average age is 35 years.

Nene cynically claimed the increased electricity levy would “promote energy efficiency and encourage lower greenhouse gas emissions.”

The Treasury is also set to help recover the costs of upgrades to electronically-tolled sections (e-tolls) of the Gauteng province highway network under the management of the South African National Roads Agency Limited. “Concerns regarding the social-economic impact of toll tariffs have been heard and revised monthly [toll payment] ceilings will shortly be proposed,” Nene announced.

The provocative issue of e-tolls saw Gauteng Premier David Makhura making a populist, anti-e-toll turn in 2014, along with Gauteng ANC Provincial Chairman Paul Mashatile and other members of a faction opposed to the increasingly unpopular President Jacob Zuma. Makhura then quashed all hope that he was a “people’s premier” when he gave his state-of-the-province address in the Gauteng Legislature on February 23. In that speech he said a “new” e-toll system, with details to be announced later, would provide what he described as a “major relief” for Gauteng road users, “while simplifying the payment system to make it easy… to pay.”

Road expansion and maintenance were originally meant to be paid for out of the fuel levy Nene has just raised by 80.5 cents a litre. But instead of being ring-fenced, the amount goes into a central account, from which it is disbursed for expenses unrelated to road transport.

Nene left the rate of value-added tax (VAT) unchanged at 14 percent, where it has been set since 1993. As a tax on consumption that affects even the poor and unemployed, a hike in the VAT rate had been opposed by activists and trade unionists. However, changes may still be afoot later this year, depending on the recommendations of the Davis Committee on Tax that is tasked with a review of South African tax law.

The fastest-growing expense in the budget is interest on sovereign debt. This amount is projected to increase from R115 billion in the 2014/15 fiscal year to R153.4 billion in 2017/18. Net debt has grown from 21.8 percent of gross domestic product, at the beginning of the global recession in 2009, when the ANC government ramped up spending, to 40.8 percent in the current year.

The purpose of this year's budget was to increase revenue, partly by reducing government spending by R25 billion. This is necessary if Nene is to satisfy the demands of rich creditors, while fending off pressure from the poor by maintaining the ANC's social spending.

Publications like *Business Day* indicate that, from the point of view of the rich, he has not done enough. Writing in the daily, Leon Louw of the Free Market Foundation criticised Nene for not having further loosened exchange controls. For other wealthy upper-middle class commentators, there was also not a clear enough commitment to privatising state-owned assets, including ESKOM and South African Airways. However, Nene has, like Pravin Gordhan before him, consistently referred to the need to dispose of "non-core assets."

According to Standard Bank chief economist Goolam Ballim, Nene must be "mindful that another sovereign credit downgrade hangs over him like a sword of Damocles."

The constant threat of downgrades by the international credit rating agencies—with more reluctant creditors and higher borrowing costs as a consequence—is ever present. It is one of the tools used by finance capital to keep all governments in thrall to their diktats, always at the expense of the basic social needs of the working class.