LIBERTY LIFE

Relief for consumers: how government did it

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The 2009 budget, presented by Trevor Manuel in February, aims to support the recovery of the local economy by helping consumers and by increasing investment in the country. Tax relief and increased social grants are some of the 'good news' items for consumers.

Despite the tough economic environment, the government was able to help consumers by saving during periods of growth and using increased revenue to reduce its debt.

Consumers are now encouraged to do the same: take advantage of lower interest rates and tax cuts by paying off debts and increasing savings. This will ultimately benefit the whole economy.

The 2009 budget at a glance

The minister of finance, Trevor Manuel, tabled his thirteenth budget in parliament on 11 February 2009. The budget was viewed as expansionary, which means that the government aims to increase economic activity through government spending and tax relief for consumers.

Very broadly, the budget aims to:

- Protect the poor
- Sustain employment growth
- Promote competition
- Support the recovery of the economy with a sustainable fiscal (tax) policy

What does this mean for South Africans?

Tax relief, especially for low-income earners

The minister gave back about R13.6 billion to South Africans in tax relief, which means that we will be paying R13.6 billion less in taxes this year. Low-income earners benefitted most from this, with 45% of this amount going to tax relief for people earning up to R150 000 a year.

Most of the tax relief was to counter the 'bracket creep'. Bracket creep occurs when people move to higher tax bracket when they get inflation adjustment on their salaries. A summary of income tax rates for individuals and trusts (2009 – 2010) is given in the table below:

Taxable income	Rates of tax
0 – R132 000	18% of each R1
R132 001 – R210 000	R23 760 + 25% of the amount above R132 000
R210 001 – R290 000	R43 260 + 30% of the amount above R210 000
R290 001 – R410 000	R67 260 + 35% of the amount above R290 000
R410 001 – R525 000	R109 260 + 38% of the amount above R410 000
R525 001 and above	R152 960 + 40% of the amount above R525 000

Social grants increased by over R13 billion

Social grants, such as old age and disability grants, foster care and child care grants, increased by about R13.2 billion. It is expected that there will be over 13 million social grants recipients in 2009. The age of a child qualifying for a child grant increased to 15 years. This might go up to 18 years if the state can afford it. This is all money going back to the people's pockets.

Good news, but how did the government do it?

How was government able to do this in a tough economic environment when some were expecting a cut on expenditure and even suggested increasing taxes?

Government saved during periods of growth

Well, from 2004 to 2007 the South Africa economy was growing at an average of 5% a year. Government tax revenue was boosted by healthy increases in company tax, personal tax and VAT receipts as consumption spending rose with overall economic growth. Also, commodity prices and tax revenue from exports were high.

What government did during this time was to spend wisely and collect taxes more efficiently. Government saving as percentage of GDP (gross domestic product) also increased from -0.1% in 2004 to 3.3% in 2007.

Government used extra income to reduce debt

At the same time, government used extra income to reduce its debt (from 48% of GDP in 1996 to an estimated 23% in the 2009/10 budget). In managing its spending and income wisely over the years, government was even able to record a budget surplus in the 2007/08 fiscal year.

These saving measures have allowed government to step out and support the economy by injecting R787 billion in investment spending to boost growth and at the same time give something back to South African consumers.

There will be a deficit of 3.9% to GDP in the 2009/10 fiscal year but as most spending will be on investment, this will pay dividends in a few years and hopefully government will increase its revenue when the economy recovers.

Consumers do the opposite

The way government finances are managed should not be different from personal budgeting. Government get its revenue from tax payers and individuals get their income from salaries. When the economy grows, people's incomes go up and so does government revenue.

While government saved, consumers took on debt

When the economy was booming, the government used extra revenue to reduce debt. Individuals, on the other hand, did the opposite. They took more credit, leading to higher debt levels. Personal debt increased from 56.6% of disposable income in 2004 to 76.9% in 2007.

People were borrowing to finance normal consumption spending and investment in housing. Pressure increased when interest rates on debt (the prime overdraft rate) increased from 10.5% in June 2006 to 15.5% at the end of November 2008.

Personal saving dropped but is improving

Personal saving was also the opposite of government saving. Individual saving as percentage of GDP dropped from 2.0% in 2004 to 1.4% in 2007. It has since improved to 1.6% in the third quarter of 2008.

Personal saving has a long way to go before it can provide a cushion in tough economic conditions.

Personal saving is good for the economy

Saving increases the financial freedom of individuals and of the country. As Trevor Manuel put it, “our development expenditure over the period ahead will require both improved domestic saving and continued capital flows” (Budget Speech 2009).

The budget actually made provision to encourage saving. South Africans will pay less tax on money earned from interest and distributions from unit trusts. For example, “a 40-year-old who invested R150 000 on a savings account at a 7% yearly interest rate won’t be taxed on the interest income of R10 500.”(SARS)

Capital flows (money coming from other countries) depend largely dependent on how foreigners perceive opportunities South Africa has to offer, but domestic saving is certainly within our control.

It would be very wise for individuals to use the money that will come from reduced interest rates and tax relief to lower debt and increase savings.