



MINISTRY OF FINANCE  
REPUBLIC OF SOUTH AFRICA

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## TERMS OF REFERENCE FOR THE INDEPENDENT PANEL OF EXPERTS FOR THE REVIEW OF CURRENT LIST OF VAT ZERO RATED FOOD ITEMS

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### 1. Background to appointment of independent panel of experts

1.1. The Value-Added Tax (VAT) rate was increased from 14 to 15 per cent on 01 April 2018, as was announced in the February 2018 National Annual Budget. The increase of the VAT rate by one per cent is expected to raise additional revenue in the amount of R22.9 billion in 2018/19. The decision to increase the VAT rate was taken to protect the integrity of the public finances by narrowing the budget deficit, stabilising government debt and laying the foundation for new investment and inclusive, job-creating growth in the years ahead. The increase in the VAT rate is one of the main components of a package of other tax increases aimed at raising the required R36 billion during 2018/19. Other components include below-inflation adjustments to personal income tax brackets (particularly for higher-income individuals), increases in *ad valorem* excise duties and other excises, as well as a higher rate of estate duty and donations tax imposed on wealthy individuals.

1.2. VAT is the second largest source of tax revenue after personal income tax (PIT). VAT contributed approximately 25.3 per cent to the total tax revenue collected during 2016/17. VAT is an efficient, certain source of revenue if the design thereof remains simple. The current VAT system allows for 19 basic food items to be taxed at a rate of zero per cent in terms of section 11(1)(j) of the VAT Act, 1991. The zero rating of food items was introduced as a means of providing some relief to low-income households as these households spend a high proportion of their income on those food items.





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1.3. Since the increase in the VAT rate has been announced, concerns have been raised about the impact of the increase in the VAT rate on poor and low-income households by means of parliamentary processes and other platforms. Following the report of the Standing Committee on Finance and the Select Committee on Finance compiled after public hearings and the statement of Cabinet of 28 February 2018, the Minister of Finance through the Davis Tax Committee appointed a panel of independent experts to consider and review the list of zero rated food items.

1.4. This review process will be conducted within the confines of the current Fiscal Framework as proposed in the 2018 Annual National Budget for the 2018/19 financial year, including for revenue and expenditure. The review process can allow for potential adjustments to the Fiscal Framework for later financial years.

## **2. Terms of reference of independent panel of experts**

### **2.1. Evaluation of the current zero rated food items:**

2.1.1. Evaluate whether the current list of 19 zero rated food items achieves the objective for which it was implemented, including examining the consumption patterns of low income households as opposed to higher income households and the benefits derived from the zero-rating by these households respectively as well as the negative impact on poor households of removing zero rating on any of these items;

2.1.2. Consider whether the policy objective underlying zero rating may be better achieved through disaggregation of those items currently expressed as broad categories to more specific targeting of products.



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## **2.2. Consideration of inclusion of additional zero rated items:**

2.2.1. Identify any items other than the current zero rated food items that may be considered for inclusion for zero rating that will achieve the policy intention of providing relief to poor and low-income households with particular consideration of the needs of children, women and other vulnerable groups, taking into account:

- Absolute and proportional benefit likely to accrue to low-income households,
- The impact on the disposable income of poor and low income households,
- Likelihood of producers and/or retailers passing the benefit on to customers,
- The amelioration of poverty and inequality,
- Ease of administration,
- Potential for abuse,
- Estimated revenue loss;

2.2.2 In considering these factors, most weight must be given to the benefit which will accrue to poor households.

## **2.3. Consideration of other mitigatory measures:**

2.3.1. Whether the outcome of zero rating of items could be better achieved through additional/or other mitigatory government expenditure programmes; whether a government expenditure programme offers options for supporting poor and lower income households; and whether specific current government programmes which impact on the budgets of poor and low income households can be better tailored as a mitigation measure.



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### **3. Delivery of initial report**

The panel must deliver an initial report with recommendations to the Minister of Finance by 31 July 2018.

### **4. Time frames for work of the independent panel of experts**

An initial report with recommendations to the Minister of Finance

- Call for submissions: 1 June 2018
- Preparatory empirical work
- Summary of submissions
- Workshops with commentators
- Submit report to Minister of Finance: 31 July 2018
- Publication of report

### **5. Members of the independent panel of experts**

#### **5.1. Prof Ingrid Woolard (Chair)**

Prof. Ingrid Woolard is Dean of the Faculty of Commerce and Professor of Economics at the University of Cape Town. She is a Research Associate of the Southern Africa Labour and Development Research Unit (SALDRU) at UCT, a Research Fellow of the Institute for the Study of Labour based in Bonn, a non-resident senior research associate at UNU-WIDER and a research associate of the Commitment to Equity Institute. Ingrid's areas of research interest include the measurement of poverty and inequality, unemployment, social protection and fiscal policy. From 2008 to 2014, Ingrid served on the Employment Conditions Commission (ECC) which advises the South African Minister of Labour on making sectoral determinations concerning working conditions and minimum wages in sectors where collective bargaining is weak. She served as the Chair of the ECC for the last three years of this period. She has served on the Davis Tax Committee since 2013.





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## 5.2. Ayabonga Cawe

Ayabonga Cawe is a Johannesburg based development economist, columnist, radio presenter, photographer and activist. He is Managing Director of Xesibe Holdings (Pty) Ltd, a platform involved in advisory, facilitation and content development across a wide range of fields. He hosts #PowerBusiness on PowerFM and writes a regular column for the Daily Maverick and the Business Day. Prior to this, he was Economic Justice Manager at Oxfam South Africa (OZA) working on policy advocacy and research. He has also worked as an Associate Consultant at Dalberg Global Development Advisors, a global development strategy consulting and policy advisory firm. He has experience in economic research, policy and supply chain analysis, advocacy, development program design and M&E. He is also a co-founder of Rethink Africa NPC, a youth-led policy research, advocacy and advisory organisation. He has taken part in a wide range of research, advisory and policy engagements on development issues in agriculture, rail, urban design and labour market policy. His international experience on issues of sustainability and business includes conducting primary research with farmer organizations in Indonesia, for a multilateral client. He has also conducted primary research in Nigeria, for a market entry strategy on behalf of a global pharmaceuticals manufacturer. Ayabonga recently sat on the National Minimum Wage Advisory Panel appointed by the Deputy President and Nedlac, which advised on the R20/hour proposal. Ayabonga was a finalist in the category, 'Best Business and Finance Show' at the 2018 Liberty Radio Awards. He holds an M. Com (Cum Laude) in Development Theory and Policy from Wits.

## 5.3. Prof Ada Jansen

Prof. Ada Jansen is an Associate Professor in Economics at Stellenbosch University. She has a PhD in Economics and teaches Public Economics at undergraduate and postgraduate level. Her main research focus is Public Finance, with a specialisation in taxation. She has co-authored and published widely on public finance issues including recent work on VAT zero-ratings.

## 5.4. Dr Thabi Leoka

Dr. Thabi Leoka is an Economist who has worked for various organisations in the financial sector. Thabi started her career as an Economist at Investec Asset Management in South Africa and London. She has also worked as an Emerging





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Markets Economist at Barclays in London and Head of Economic Research, SA at Standard Bank and the Chief Economist for SA at Renaissance Capital. Thabi has a PhD in Economics from the University of London, MSc in Economics and Economic History from the London School of Economics and MA (Distinction) from the University of the Witwatersrand. Thabi was named the Economist of The Year 2017 by ABSIP. She writes for various publications both in South Africa and internationally.

### 5.5. Dr Neva Makgetla

Dr. Neva Seidman Makgetla has been Senior Economist: Trade and Industrial Policy at Trade and Industrial Policy Strategies (TIPS) since November 2014. She was Deputy Director General for Economic Policy in the Economic Development Department from 2010 to 2014. Before joining EDD, Makgetla worked for the Presidency, the DBSA and COSATU as well as other government departments. Prior to 1994, she worked in various universities in Africa and the United States. Makgetla's research centres on aspects of industrial policy and value chain analysis, and on socio-economic challenges facing South Africa, especially around employment creation and inequality.

### 5.6. Lynn Moeng

Lynn Moeng Mahlangu, Chief Director for Health Promotion, Nutrition and Oral Health. She has a Masters degree in Dietetics and pursuing a PhD. She has worked in the nutrition field for more than 30 year, as clinical Dietician, lecturer and public health nutrition. Has been influential in the development of key national policies and legislations, including infant feeding regulations, nutrition roadmap for South Africa, health promotion policy, and the strategy for the prevention and control of obesity in South Africa. She is currently a member of the Task team responsible for developing and overseeing implementation of the Food and Nutrition plan for South Africa. She is a strong advocate for nutrition.

### 5.7. Cecil Morden

Cecil Harold Morden completed his B.Com (majoring in Economics, Statistics and Accountancy), B.Com Honours (Economics), Secondary Teachers' Diploma (all at the University of the Western Cape (UWC) in Belville), and a Masters in Science (Economics) at the University of Illinois at Urbana-Champaign in the USA. He was a teacher and lecturer before joining the CSIR as a Transport Economist and



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worked as an Economist in the private sector for four years. He joined government in 1996 as a Director in the Northern Cape Province and subsequently joined the National Treasury in May 2000 as Director: Indirect Taxes (VAT and Excise duties). He was promoted to Chief Director: Economic Tax Analysis in September 2005, responsible for general tax policy advice and tax revenue estimation. He was instrumental in the design of the Mineral and Petroleum Royalty regime and Government's Environmental Fiscal Reform initiatives, including the proposed carbon tax. He retired from the National Treasury in April 2017 and is currently an independent analyst / consultant.

#### **5.8. Prenesh Ramphal**

Prenesh Ramphal is currently the senior manager at SARS in the Legal Counsel unit responsible for facilitating alignment between VAT policy as entrenched in the legislation and the operational execution of the legislation. A critical aspect of this role is to co-develop the VAT policy with National Treasury to ensure that practical implementation and compliance is achieved as well as to ensure that certainty and clarity is provided in respect of the interpretation of the VAT legislation in the form of rulings and other SARS published documents. Prenesh has 23 years VAT administration experience at SARS which includes experience in the audit environment of VAT and holds a degree in Commerce.

#### **5.9. Prof Imraan Valodia**

Prof. Imraan Valodia is Dean of the Faculty of Commerce, Law and Management, University of Witwatersrand, Johannesburg. His research interests include employment, the informal economy, gender and economic policy, and industrial development. Professor Valodia has led and participated in a number of large national and international studies. In the recent period, he led an international study, in 10 cities across the globe, of the informal economy using a combination of quantitative and qualitative methodologies. In the period 2008-2011 he led, with Professor Caren Grown of the American University, a pathbreaking three-year research project, conducted in 8 countries, on the gender impacts of direct and indirect taxation. This research was recently published by Routledge as an edited book. He has published widely in leading international journals. Professor Valodia is a National Research Foundation (NRF) B-rated researcher. Professor Valodia is a part time member of the Competition Tribunal in South Africa. He is also a



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Commissioner of the South African Employment Conditions Commission and a member of the Academy of Science of South Africa (Assaf) Standing Committee on Science for the Reduction of Poverty and Inequality. In August 2016, Professor Valodia was appointed by Deputy President Cyril Ramaphosa to chair the Advisory Panel on the National Minimum Wage.

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