



MINISTRY OF FINANCE  
REPUBLIC OF SOUTH AFRICA

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## SPEECH BY DEPUTY MINISTER OF FINANCE

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### SPEAKING NOTES OF DEPUTY MINISTER OF FINANCE, DR DAVID MASONDO, AT THE MINI PLENARY DEBATE ON RELIEF MEASURES, INCLUDING EXPANDING THE ZERO-VAT-RATED FOOD BASKET

16 NOVEMBER 2023

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Afternoon Chair,

Honourable Members,

The government recognizes that South Africans have faced numerous challenges in a difficult economic climate. The cost of living is too high. This has led to calls for relief measures that include additional VAT zero-rating of several food items.

We do not think additional VAT zero-rating of several food items is the best instrument to address the problem of the high cost of living.

Before I state the reasons why we think this is not the right solution, let's state that VAT contributes 26 per cent on average of gross tax revenue. It is this tax that we collect that we redistribute to the poor through different pro-poor government programs. Let me remind Honourable members that the government spends more than 60 per cent of its budget on the social wage.

In addition to this, the government has already VAT zero-rated a total number of 21 basic foods. This includes the zero-rating of illuminating paraffin and other items, which was introduced in April 2001. Studies subsequently showed that suppliers did not pass on the benefit of the VAT relief to consumers as was intended. So, it does not follow that zero-rating will lead to lower prices.



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The tax revenue that is lost from zero-rated food items mostly flows to higher-income households because they purchase more of the products that are zero-rated. In fact, many analysts<sup>1</sup> have demonstrated that in absolute monetary terms, middle- and higher-income households benefit more from the zero-rating than low-income or poorer households. The products that are zero-rated are well-targeted. Further zero-rating will lead to VAT revenue, which should be directed to other pro-poor government programs.

Targeted cash transfer to the poor is better and more redistributive as opposed to VAT which benefits mostly high-income earners.

In the 2019/20 fiscal year, R31.72 billion VAT revenue was forgone due to zero-rated items. Further zero-rating will lead to the decline of revenue which could be used to support the poor.

It is our view that the current VAT system is well-intended and essential in generating the necessary tax revenues to fund the Government's expenditure programs, including initiatives to help the poor.

As I said, a social transfer system of assisting the poor through targeted expenditure interventions is much more desirable.

### WHAT HAS THE GOVERNMENT DONE?

Recognising that zero-rating is not well targeted, the government has instead implemented a number of policies to directly benefit lower-income households through the expenditure side.

1. Education and health budgets are progressive, and the extensive grant system of old age grants, the child support grant, and the disability grant provide cash to households who are most in need.

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<sup>1</sup> Jansen A & Calitz E. 2015. Reconsidering the effectiveness of zero-rating of value-added tax in South Africa. REDI3x3 Working Paper 9. [www.redi3x3.org/papers](http://www.redi3x3.org/papers)



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2. The social relief of distress grant is another new mechanism that the government has used to provide this relief. This a better approach than zero-rating where so much of the benefit goes to higher earners and where companies may not even pass on the benefits to consumers.

Government has recognised that prices have risen considerably in the last few years and have put in other measures to alleviate this burden.

1. Last year we implemented a temporary reduction in the general fuel levy. This provided relief of an estimated R10.5 billion.
2. On top of that, the general fuel levy for the past two Budgets has not been increased, at a cost of R3.5 billion in 2022/23 and R4.0 billion in 2023/24.

Another measure that was announced earlier this year in the Budget was the introduction of a Road Accident Fund (RAF) levy refund for food manufacturers. This means manufacturers using diesel can apply for additional tax reductions on the diesel used. This could possibly reduce the costs for these food manufacturers and alleviate the pressure on food prices. This shows government has been active in finding solutions to try and combat high prices, without resorting to further zero-rating.

The focus is on driving structural reforms in our economy. Bringing in competition in the energy industry through the structural reforms we have undertaken should bring the prices of energy. Bringing competition in the rail and port system will bring competition, thus lowering the prices in this industry.

This will not only increase growth and the potential for more revenue and higher social expenditure but will also lead to less pressure on prices if logistics become more efficient and energy more reliable.

The ultimate goal is to increase growth and create more jobs where households will have higher incomes, be less dependent on the state, and will be able to withstand temporary shocks to prices. **ENDS.**