

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 3631 [NW4448E]
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3631. Dr D T George (DA) to ask the Minister of Finance:

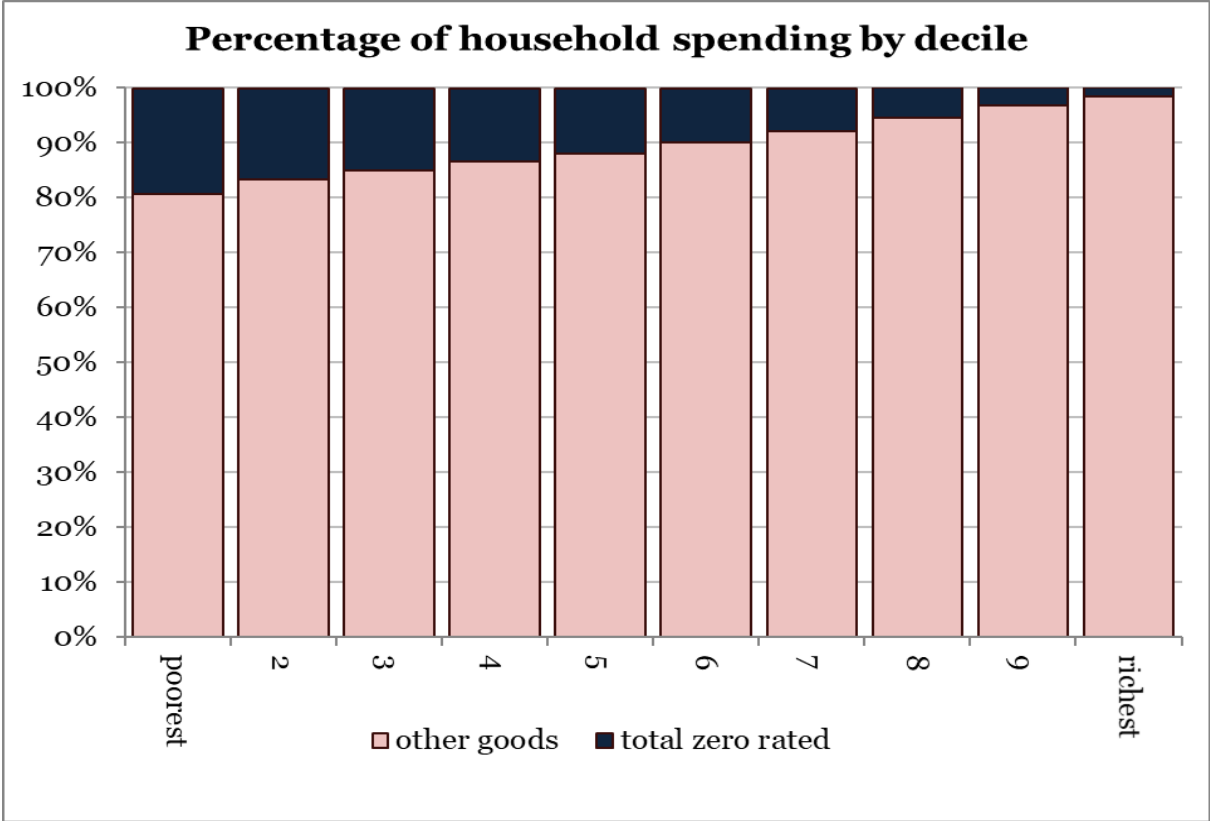
Whether, with regard to a letter from Dr D T George dated 25 September 2022, requesting that a proposed extended basket of food be zero-rated with regard to value-added tax and subjected to expert analysis, he will convene a panel for such analysis; if not, why not; if so, what are the relevant details? NW4448E

REPLY

No, I will not convene a panel for analysing an extended basket of food for zero-rating from the value-added tax because this was done when the rate was increased from 14 per cent to 15 per cent from 1 April 2018. The Minister of Finance appointed a panel of independent experts to consider and review the list of zero-rated food items to mitigate the effect of the increased VAT rate on low-income households. The Panel considered a total of 66 expenditure items from public submissions, and incidentally, it also considered the items in the list contained in the letter from Dr George, except for soup powder (*please refer to Table 19 & 23 of the [Panel's Report](#) for submissions received*). The Panel's main recommendations were that six items (i.e. white bread; white flour; cake flour; sanitary products; school uniforms; and nappies) should be added to the list of zero-rated items, at a cost to the fiscus of around R4 billion per annum in forgone revenue. These items were recommended for zero-rating primarily because of their progressive impact, especially in relation to households in income deciles 1 to 7. Through this process, Government decided that two food items (i.e. white bread wheat flour and cake wheat flour) and sanitary pads be zero-rated from 1 April 2019.

The Value Added Tax Act currently provides for the zero rating of 21 basic food items. By year 2019/20, it was estimated that the basket of 21 food items is costing the fiscus about R31.72 billion in forgone revenue (i.e. tax expenditure). Studies show that VAT would be regressive in the absence of the zero-rated food items. The zero-rating of specific foodstuffs provides a larger proportional benefit to the poor (i.e. progressivity is enhanced), but provides a larger absolute benefit to the rich (who consume larger quantities). The current basket of food items that are zero-rated are well targeted towards poor households. Overall, the current basket of zero-rated goods have a progressive impact and a strong equity-gain ratio – poor people consume a relatively high share of zero-rated items. The analysis of the Panel indicated that extending zero-rating to further food items would be inefficient, since high-income households tend to benefit more from such measures.

Table: Findings – current zero rating



Source: 2018 Independent Panel of Experts for the Review of Zero Rating in South Africa

Even though the economic conditions have changed since the Panel’s Report, the fundamental challenge remains that the VAT system is as an inefficient and ineffective instrument to provide targeted relief to poor households. Given these constraints, the Minister is not intending to convene another panel of independent experts to consider further zero-rating.