

NATIONAL COUNCIL OF PROVINCES
QUESTIONS FOR WRITTEN REPLY
QUESTION NUMBER: 85 [CW158E]
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Zero VAT-rated products

85. Mr H J Van den Berg (Northern Cape: FF Plus) to ask the Minister of Finance:

- (1) (a) What food products are currently considered to be added to the list on Zero Value-Added Tax (VAT) and (b) what is the objective of Zero VAT on (i) those and (ii) other products that are already on such a list;
- (2) whether selection of such products is based on any scientific research or work groups; if not, why not; if so, (a) which are all stakeholders and companies that have (i) conducted the research and/or (ii) represented in the workgroups, (b) what qualification is each representative holding and (c) what are the further relevant details;
- (3) whether any monitoring is taking place to ensure that the saving of Zero VAT-rated foods reach consumers and is not taken up by the profit of retail; if not, why not; if so, (a) who is responsible for such monitoring and (b) what are the further relevant details?

CW158E

REPLY:

- (1) The National Treasury is assessing various options related to amending the list of food items that could be zero-rated for VAT purposes. The available data for this purpose is being explored, alongside submissions that have been made by taxpayers and industry representatives. Further submissions are expected during the year, and all these inputs will be considered. An announcement on any possible additions to the list of zero-rated items would be made once the process is complete and a decision has been made.

Generally, VAT zero-rating is intended as a relief mechanism to reduce the tax burden on low-income households. This objective is, however, balanced against the overall cost to the fiscus and the extent to which the benefit also accrues to higher income households. When VAT zero-rating is provided, it is intended to reduce the price of the zero-rated item by the fraction of the VAT component that would ordinarily apply if the item were standard rated (15 per cent).

Currently, the VAT Act (No. 89 of 1991) in Schedule 2 Part B provides for the zero rating of 21 basic food items, and sanitary towels. The first ten (10) food items (i.e. brown bread, maize meal, mealie rice, samp, dried

maize for human consumption, dried beans, lentils, tinned sardines, milk powder, and dairy powder blends) were introduced in 1991 when VAT was first implemented.

A further nine (9) basic food items (i.e. rice, vegetables, fruit, vegetable oil, milk, cultured milk, brown wheat flour, eggs, edible legumes) were added to zero rated list in 1993 when the VAT rate was increased from 10 per cent to 14 per cent.

- (2) Two items (i.e. white bread flour and cake flour) were recently added to the VAT zero-rated list in April 2019 after an independent review process. When the then Minister of Finance (MoF) increased the VAT rate from 14 per cent to 15 per cent in April 2018, there were concerns about the impact on poor households. The MoF then appointed a Panel of Independent Experts to consider and review the list of zero-rated food items to mitigate the effect of the VAT rate increase on low-income households.

The Panel considered a total of 66 expenditure items from the public submissions (please refer to tables 19 and 23 of the Panel's Report for submissions received and other details as requested). The analysis and consultations by the panel led them to recommend 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. Following from this process, government decided that two food items (i.e. white bread wheat flour and cake wheat flour) and sanitary pads should be zero-rated from 1 April 2019.

The report, including the research and analysis, can be found at https://www.treasury.gov.za/comm_media/press/2018/2018081001%20vat%20panel%20final%20report.pdf.

- (3) The National Treasury does not have a dedicated system for monitoring the price changes on the zero-rated items, however all tax policies are evaluated periodically to ensure that they are achieving their intended objectives. The outcomes from academic research regarding the efficacy of zero rating are also considered when reviewing the VAT system. In addition, compliance with the VAT legislation is monitored and enforced by the South African Revenue Service.

Government does not regulate the prices of the zero-rated items and cannot guarantee that when products are zero-rated for VAT purposes that the benefits will reach consumers. This is one of the reasons that the National Treasury is not generally in favour of providing relief to low-income households through zero-rating.