Submission by Budget Justice Coalition with respect to the current list of zero-rated items, and mitigating the impact of the increase in the VAT rate on poor and low-income households

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Submitted by:

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PART 1: CONTEXT

1 Introduction

As civil society organisations (CSOs) we are concerned by the tax proposals made by the 2018 National Budget ('the Budget') and contained within the Rates and Monetary Amounts and Amendment of Revenue Laws Bill 2018 ('the Bill'), in particular its regressive tax measures, most notably the increase to VAT, and the harsh spending cuts that will result from the proposed revenue levels.

As raised in our two submissions to Parliament on the Budget,[1] we are concerned about the negative effects these measures will have on poor and low-income households. Such choices were not inevitable and, as previously demonstrated, alternative progressive taxation measures, which would reduce inequality and support growth, are available to the Executive.

We fully support the establishment of this Expert Panel to consider appropriate mechanisms to ameliorate the impact of the VAT increase on poor and low-income households.

2 The Terms of Reference of the Expert Panel

The Budget Justice Coalition raised concerns[2] regarding the original Terms of Reference (TOR) for the Expert Panel that have subsequently been amended. We note that the revised TOR allows the expert panel to:

- Evaluate the current list of zero-rated items.
- 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.
- Make proposals that may alter the fiscal framework for the 2019/20 financial year and beyond.
- Consider potential government expenditure programmes that can assist poor and low-income households in a broader manner than was previously scoped for and make comments and suggestions in this regard.

3 The role of the budget

As with all laws, the budget should take forward the constitutional imperative to build a society based on social justice and ensure the realisation of constitutional rights, especially the socio-economic rights to food, health care services, land, housing,

[1] Submission to the Standing Committee and Select Committee on Finance with respect to the proposed 2018 National Budget: February 2018

[2] Submission to the Standing Committee and Select Committee on Finance with respect to the Draft Rates and Monetary Amounts and Amendment of Revenue Laws Bill: April 2018

water, education, social security and social services. The Standing Committee on Finance's ('the Committee') report on the 2018 Fiscal Framework and Revenue Proposals ('the Report'), dated 06 March 2018, noted that the budget should contribute towards transforming the economy and that this requires "a fundamental shift in the way that wealth is created and shared".[3] The Budget should also further policy objectives, such as the reduction of poverty and inequality, as found within national policy documents.

Our submission is made in light of these constitutional imperatives with particular attention to how the VAT increase impacts poor and low-income households.

4 The VAT hike: Increasing the regressivity of the tax mix

The increase in VAT makes the tax mix more regressive, increases the taxes paid by poor and low-income households and reduces their spending. This is exacerbated by the increase to the fuel levy. While the most recent research shows that, due to zero-rating, VAT in South Africa is not in itself regressive, this narrow technocratic approach – dismissed by the Parliamentary Committee – misses the real issue.[4] The tax increase is projected to raise the share of VAT in the overall tax mix and hence the share of tax contributed by the poor and low-income households – this *makes the tax mix more regressive*.

We similarly agree with the Parliamentary Committee's rejection of the argument that a VAT increase is justifiable because "our current rate is lower than the global and African average"[5] as this does not take account of extreme levels of poverty and inequality in South Africa and the policy objective to reduce these.

We reject the view that VAT is the most appropriate way of raising additional revenue. Not only does it make the tax mix more regressive and reduce the incomes of poor and low-income households, but large-scale VAT fraud, in South Africa and elsewhere, calls into question whether VAT is the "most efficient" tax option.[6] We accept that revenue raised by the VAT increase can be spent on pro-poor social spending but so too can revenue raised from other sources (see below).

Further, raising VAT can stifle economic growth as household disposable income falls and domestic demand is depressed. Increases to both VAT and the fuel levy will spur inflation, including on basic foodstuffs and other essential goods.

[3] Standing Committee on Finance, 'Report of the Standing Committee on Finance on the 2018 Fiscal Framework and Revenue Proposals' (Parliament of the Republic of South Africa, 6 March 2018), 28.
[4] Standing Committee on Finance, 35.
[5] Standing Committee on Finance, 35.
[6] BBC, 'The Fraud Costing the UK More than £1bn', *BBC News*, 27 November 2017, sec. Business, http://www.bbc.com/news/business-42143849; Dave Chambers, 'R300-Million VAT Scam Earns Company Directors 25 Years in Jail', *Times Live*, 17 August 2017, https://www.timeslive.co.za/news/south-africa/2017-08-17-r300-million-vat-scam-earns-company-directors-25-years-in-jail/; Mxolisi Mngadi, '9 Alleged Members of R99m VAT Fraud Syndicate Arrested', *News24*, 1 February 2018, https://www.news24.com/SouthAfrica/News/9-alleged-members-of-r99m-vat-fraud-syndicate-arrested-20180201.

PART 2: VAT ZERO-RATING

5 Testing zero-rating

The panel is tasked to assess the efficacy of the current basket of zero-rated items and recommend additional items that, if zero-rated, would contribute towards alleviating the impact of the VAT increase on poor and low-income households. In order to do this, it is necessary to analyse the consumption of goods and services across deciles and hence the benefit that does / would accrue from zero-rating. A summary of findings is presented here and a detailed report will be published by the Institute for Economic Justice expanding on the methodology and findings. The full data output will be made available online.

We propose five tests /considerations when determining if zero-rating is, or can be, effective. These are:

1 **The restrictive test**: assesses whether poor consumers (deciles 1-4, the lowest consuming 40% of the population) receive more than 40% of the benefits of zero-rating.
2 **The general test**: assesses whether poor and low-income consumers (deciles 1-7, the lowest consuming 70% of the population) receive more than 70% of the benefits of zero-rating.
3 **Progressivity/regressivity**: used in Jansen et al.[7] this compares the relative amount spent by deciles on a particular item as a share of their total expenditure. Where the lower deciles (poor and lower-income households) spend a higher share than upper deciles (higher-income households) then removing VAT from that item would be progressive, whereas adding VAT to that item (in the case of existing zero-rated items) would be regressive.
4 **Equity and socio-economic rights consideration**: Tests limited to a distributional expenditure analysis (as above) are not appropriate for all items. In certain instances, other reasons may prevail, for example a gender-equity argument in support of zero-rating sanitary pads, or a child-rights argument in support of zero-rated school uniforms.
5 **Mobility or social considerations**: consideration should also be given to the fact that poor and low-income households may not currently spend on particular items, but *would like to* or *should be encouraged to* (e.g. healthier foods).

The 'general test' is used as the baseline measure, although in many instances the conclusions between the 'restrictive' and 'general' tests are the same. This is selected for a number of reasons. First, South Africa has extremely high rates of poverty. In 2015 the poverty headcount rate for the Statistics South Africa upper bound poverty line

[7] Ada Jansen and Estian Calitz, 'Considering the Efficacy of Value-Added Tax Zero-Rating as pro-Poor Policy: The Case of South Africa', *Development Southern Africa* 34, no. 1 (2 January 2017): 56–73, https://doi.org/10.1080/0376835X.2016.1269635.

(R992 in 2015 prices) was 55.5%[8] and considerably higher for the more appropriate Budlender et al. poverty line (of R1319 in 2015 prices).[9] Second, even where people do not live in poverty, the lowest seven deciles contain low-income individuals and households which should also be protected from the consequences of the VAT increase. Third, as shown in Inchauste et al.[10] the lowest seven deciles pay a negligible share of personal income tax (PIT) and raising PIT, we argue below, is an alternative to increasing VAT – the lowest seven deciles are therefore poor or low-income, non-PIT paying households. Fourth, it is conceivable, although highly unlikely, that some items may be consumed very heavily by the poorest (measured under the 'restrictive' test) and the wealthiest and their absences from the consumption baskets of middle deciles may make them inappropriate for further zero-rating.

All data work uses the Statistics South Africa Living Conditions Survey 2014/15. Elaboration on the methodology will be contained in the forthcoming report.

6 Current zero-rating

The Expert Panel is tasked to assess the efficacy of the current basket of zero-rated items. This is discussed in the work of Jansen and Calitz[11], Alderman and Ninno[12], Casale[13] and Jansen et al.[14]

Our calculations – in line with Jansen and Calitz (2017) – show that for approximately two-thirds of VAT zero-rated items the poorest 70% derive more than 70% of the financial benefits of zero-rating; this is shown by the green highlighted rows in Table 1.[15] This indicates that VAT zero-rating is both an effective pro-poor measure and can, in certain instances, be better targeted.

[8] World Bank, 'Overcoming Poverty and Inequality in South Africa: An Assessment of Drivers, Constraints and Opportunities' (The World Bank, 2018).

[9] Joshua Budlender, Murray Leibbrandt, and Ingrid Woolard, 'South African Poverty Lines: A Review and Two New Money-Metric Thresholds', Working Paper Series (Southern Africa Labour and Development Research Unit, University of Cape Town, 2015); Arden Finn, 'A National Minimum Wage in the Context of the South Africa Labour Market', Working Paper Series, National Minimum Wage Research Initiative (University of the Witwatersrand, 2015).

[10] Gabriela Inchauste et al., 'The Distributional Impact of Fiscal Policy in South Africa' (The World Bank, 1 February 2015), 17, http://documents.worldbank.org/curated/en/502441468299632287/The-distributional-impact-of-fiscal-policy-in-South-Africa.

[11] Jansen and Calitz, 'Considering the Efficacy of Value-Added Tax Zero-Rating as pro-Poor Policy'; Ada Jansen and Estian Calitz, 'How Effective Is VAT Zero Rating as a Pro-Poor Policy?', *Econ3x3*, 20 July 2015, http://www.econ3x3.org/article/how-effective-vat-zero-rating-pro-poor-policy.

[12] H. Alderman and C. del Ninno, 'Poverty Issues for Zero Rating VAT in South Africa', *Journal of African Economies* 8, no. 2 (1 July 1999): 182–208, https://doi.org/10.1093/jae/8.2.182.

[13] Daniela Maria Casale, 'Indirect Taxation and Gender Equity: Evidence from South Africa', *Feminist Economics* 18, no. 3 (1 July 2012): 25–54, https://doi.org/10.1080/13545701.2012.716907.

[14] Ada Jansen, Elizabeth Stoltz, and Derek Yu, 'Improving the Targeting of Zero-Rated Basic Foodstuffs under Value Added Tax (VAT) in South Africa - An Exploratory Analysis', Working Papers (Stellenbosch University, Department of Economics, 2012), https://ideas.repec.org/p/sza/wpaper/wpapers159.html.

[15] This is congruent with the findings of Jansen and Calitz (2017) although the rand values and percentages are not the same (given that they use the IES 2011/12 dataset).

Table 1 Consumption of existing zero-rated items across decile groups (2014/15)

Consumption item	Deciles 1-4 (R mn 2018)	Percentage of total	Deciles 1-7 (R mn 2018)	Percentage of total
Rice	2 929	43%	5 001	73%
Brown bread	5 107	43%	9 054	76%
Mealie meal/Maize flour	7 051	54%	11 001	84%
Mealie rice	9	14%	27	41%
Samp	285	51%	467	84%
Beans dried	553	59%	795	84%
Lentils dried	8	22%	19	51%
Canned pilchards	966	39%	1 853	75%
Vegetables	6 724	31%	12 546	58%
Powdered milk	196	38%	379	74%
Sour milk/maas	858	45%	1 474	78%
Milk	1 745	20%	4 215	47%
Cooking fat (vegetable)	7	64%	10	91%
Edible oils (e.g. cooking oils)	2 061	45%	3 529	77%
Fruits	723	13%	1 794	32%
Eggs	1 360	28%	2 876	60%
Paraffin	672	56%	1 059	88%

Source: Statistics South Africa, Living Conditions Survey 2014/15, own calculations

There are several items that, on the general test, are not 'effectively targeted'. It should, however, be considered that:

- Eggs and vegetables are not too far off at 60% and 58% respectively (63% and 61% in Jansen and Calitz).
- Vegetables pose a more complex challenge, as argued in Jansen et al.[16] they are a heterogeneous category.
    - The inclusion of frozen but not canned vegetables, with the latter consumed more by lower deciles skews the outcome.
    - The differentiation between 'basic' and 'other' vegetables shows that the zero-rating of the majority of vegetable products is effectively targeted.
    - Removing zero-rating from 'other' vegetable items, which are consumed disproportionately by higher-income households, would make it harder for poor and lower-income households to afford these products, thus making vegetables like cauliflower and broccoli the preserve of the rich. The administration associated with differentiation between vegetables may also be cumbersome and open to abuse.
- The cases of milk, eggs and fruit raise health considerations. Removing the zero-rating of these items would make relatively cheap sources of protein, iron and vitamins, also important in the diets of children, more expensive.
- Dried lentils and mealie rice appear poorly targeted. However, lentils are a relatively cheap source of healthy protein.

[16] Jansen, Stoltz, and Yu, 'Improving the Targeting of Zero-Rated Basic Foodstuffs under Value Added Tax (VAT) in South Africa - An Exploratory Analysis'.

All currently zero-rated items are progressive (see Table 9 in the Appendix), meaning that if these items were no longer zero-rated, the tax mix would become more regressive.

Recommendations regarding currently zero-rated items:

- Zero-rating be retained for rice, brown bread, maize meal, mealie rice, samp, dried beans, canned pilchards, powered milk, sour milk, cooking fat (veg), edible oils, paraffin.
- Retain zero-rating on vegetables and frozen vegetables and add canned vegetables in line with explicit recommendations in Jansen et al.[17]
- Retain zero-rating for milk, eggs and fruit. The cases of milk, eggs and fruit raise health considerations. Removing the zero-rating of these items would make relatively cheap sources of protein, iron and vitamins, that are essential for nutritional diets (especially for young children under 5), more expensive.
- Dried lentils and mealie rice appear poorly targeted. In the case of dried lentils, we recommend it remain for health considerations as it is an affordable healthy protein that should be encouraged.

7 Additional items to zero-rate

7.1 Candidates for future zero-rating

The Expert Panel is also tasked to consider expanding the current basket of zero-rated items. This is because the current zero-rating of a limited number of goods is insufficient to cushion the effects of the VAT increase on significant sections of the poor and low-income earners. The Parliamentary Committee noted that it strongly believes "that the list of zero-rated items needs to be expanded taking into account the needs of the poor and low-income earners". This submission provides evidence in support of this.

The analysis here applies five tests: the restrictive and broad measures, progressivity/regressivity, and gender and child analysis. The full results for each test is given in the Appendix. The analysis below has been conducted using both the Income and Expenditure Survey (IES) 2010/2011 and the Living Conditions Survey (LCS) 2014/15, both conducted by Statistics South Africa. An even more detailed report of the statistical findings will be published and the full output made available online.

Table 2 lists a selection of items[18] which 'passed' one of a number of tests applied – represented by a '1' in the appropriate column.

- Test 1: Restrictive test as above – deciles 1-4 consume 40% or more of that item and therefore would derive 40% or more of the benefit of zero-rating.
- Test 2: General test as above – deciles 1-7 consume 70% or more of that item and therefore would derive 70% or more of the benefit of zero-rating.

[17] Jansen, Stoltz, and Yu.

[18] Certain items have been removed, e.g. cigarettes, alcohol, sugar, and mini-bus taxis, this will be discussed in more detail in the forthcoming report.

- Test 3: The restrictive test but applied to very-poor female heads of households to reveal any gender bias.
- Test 4: Flags item which should be zero-rated based on socio-economic rights grounds. This pertains in particular to considerations over health, education, child and women's rights, and access to essential goods.
- Test 5: Flags item where instituting VAT zero rating would make the tax mix more progressive (i.e. where decile 1-7 spend a higher share of their consumption expenditure on the item than deciles 8-10).
- Test 6: Flags item which meet one of Test 3-5 but not Tests 1 and 2, but where the it comes very close to the general test (Test 2).

Table 2 Candidates for zero-rating

TEST CODE:	1	2	3	4	5	6
	CONSUMPTION TESTS			**OTHER TESTS**		
	ALL HOUSEHOLDS		**FEMALE HEAD**	**SOCIO-ECONOMIC**	**PROGRESSIVITY**	**OTHER**
ITEM	**DECILES 1-4 >= 40%**	**DECILES 1-7 >= 70%**	**DECILES 1-4 >= 40%**		**DECILES 1-7 SHARE > DECILES 8-10 SHARE**	**DECILES 1-7 >= 66%**
Cake flour	1	1	1		1	
Bread flour	1	1	1		1	
Sorghum meal/powder	1	1	1		1	
Other meal and flour			1		1	1
Mabella	1	1	1		1	
Poultry (including heads and feet)			1		1	1
Mopane worms	1	1	1		1	
Beef extract cubes		1	1		1	
Dried fish			1		1	
Other canned fish		1	1		1	
Whiteners (Cremora; Ellis Brown)		1	1		1	
Amageu		1	1		1	
Yellow brick margarine			1		1	
Other edible animal fats (e.g. lard)			1		1	
Smooth peach jam		1	1		1	
Preserves; specify		1			1	
Salt	1	1	1		1	
Curry powder		1	1		1	
Baby food Predominantly grain	1	1	1	1	1	
Baby food Predominantly meat		1	1	1	1	
Baby food Predominantly vegetables			1	1	1	
Baby food Predominantly fruit		1	1	1	1	
Baby food Predominantly milk		1	1	1	1	
Powder soup	1	1	1		1	
Instant yeast	1	1	1		1	

Soya product (excluding soy milk)	1	1	1		1	
Tea leaves	1	1	1		1	
Tagged tea bags			1		1	1
Tag less tea bags		1	1		1	
Rooibos tea leaves			1		1	
Infants' clothing	1		1	1	1	
Girls' clothing			1	1	1	
Boys' clothing			1	1	1	
School uniform			1	1	1	
Girls' school footwear	1	1	1	1	1	
Boys' school footwear	1	1	1	1	1	
Girls' footwear			1	1	1	
Boys' footwear			1	1	1	
Infants' footwear	1	1	1		1	
Repair of footwear				1	1	
Candles	1	1	1		1	
Coal (including anthracite)	1	1	1		1	
Other household fuel		1			1	
Refrigerators			1		1	1
Stoves (gas and paraffin)			1		1	
Hotplates	1	1	1		1	
Soap; (bars and cakes; not toilet soap); washing powders; liquid detergents and bleaches; dishwasher tablets			1	1	1	
Scouring powders; pot scourers; etc			1		1	
Floor shoe and furniture polish			1		1	
Matches	1	1	1		1	
Medicine purchased with prescription in public institutions				1	1	
Medicine purchased without prescription in public institutions				1	1	
Pharmacy dispensing fees in public institutions				1	1	
Pharmacy service fees in public institutions	1	1	1	1	1	
Other medical products (bandages; syringes; knee supports etc) in public institutions				1	1	
Medical services in public institutions	1	1	1	1	1	
Flat rate in respect of services and medicine obtained at hospital/clinic in public institutions	1	1	1	1	1	
Other medical services in public institutions				1		
Consultations of traditional healers in private institutions/work places	1	1	1		1	

Consultations of traditional healers in public institutions			1		1	
Doctors' consultation fees public				1	1	
Dental service (service of dentists include oral-hygienists) in public institutions				1	1	
Medical analysis laboratories and X-ray service in public institutions				1	1	
Service of medical auxiliaries (freelance nurse; midwives; freelance optometrist; physiotherapist; speech therapist etc) in public institutions				1		
Non hospital service (ambulance service other than hospital) in public institutions		1		1	1	
Hospital service fees (eg wards; beds and theatre fees) in public institutions		1		1	1	
Train for attending educational institutions				1	1	
Train for non-educational institutions				1	1	
Bus (including school bus) for educational purposes				1	1	
Bus (including school bus) for non-educational purposes		1			1	
Bus for when away from home				1	1	
Other (including bakkies used as taxis) for education purposes	1	1	1	1	1	
Other (including bakkies used as taxis) for non-education purposes	1	1	1	1	1	
Calls (including airtime for cellular phones)				1	1	
Textbooks for public institutions - Loans				1		
Stationery				1	1	
Body soap (including Sunlight; liquid soap)				1	1	
Disposable nappies	1	1	1	1	1	
Sanitary towels and tampons				1	1	
Day-care; creches and playgroups in public institutions - Loans			1	1	1	
Funeral policies				1	1	
Maize (own production)	1	1	1	1	1	
Wheat (own production)	1	1	1	1	1	
Other grains (own production)		1		1	1	
Milk (own production)				1		
Eggs (own production)	1	1	1	1	1	
Fruit (own production)	1	1	1	1	1	
Vegetable (own production)s	1	1	1	1	1	

Other produce; specify (own production)	1	1	1	1	1	
Cattle (own production)				1	1	1
Sheep (own production)			1	1	1	
Pigs (own production)	1	1	1	1	1	
Goats (own production)	1	1		1	1	
Poultry (own production)	1	1	1	1	1	

Source: Own calculations from Statistics South Africa Living Conditions Survey 2014/15

We are currently working on a range of further gender and age sensitive measures.

Recommendations regarding expanding zero-rated items:

- Given that the items above meet one or more of the tests applied they are excellent candidates for zero-rating (inappropriate candidates have also already been removed from the list). Zero-rating these items disproportionately benefits poor and low-income households, and, in a number of instances, very poor female headed households in particular. They also take account of various socio-economic imperatives, for example making school uniforms, children's clothing, basic medicines, and female sanitary pads, less expensive. In addition, zero-rating these items would further reduce the regressivity of VAT and make the tax mix more progressive. All of the above items should, therefore, be zero-rated.

7.2 The cost of zero-rating

The cost to the fiscus of zero-rating the above recommended items is R19.4bn in 2018 rands, considered on the basis of a 15% VAT rate. See the Appendix for a breakdown.

PART 3: OTHER AMELIORATION MEASURES

8 Amelioration through improvements to public programmes

Zero-rating, while an important intervention, is not the panacea to ensuring poor and low-income households have access to basic foods and other essential goods and services and should be complemented by other interventions. This requires not only improved incomes but also rethinking the manner in which society gains access to basic goods and their associated supply chains as well as other measures to support and provide better services for poor and low-income households.

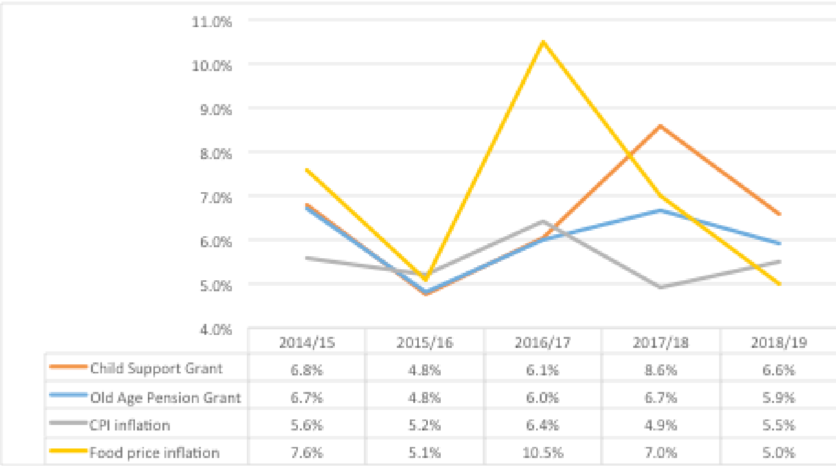
Due to the current levels of corruption, maladministration and irregular expenditure; programmes that involve complex systems of conditionality and sub-contracting carry the risk that the benefit is less likely to reach the intended beneficiary. We therefore recommend that when considering which programmes should be expanded, programmes that result in direct cash transfers, price reductions or improved wages for poor and low-income households should be prioritised.

8.1 Social grants

Social grants have persistently been shown to be a very effective pro-poor policy. The World Bank recently noted that social assistance has “proven successful at reducing extreme poverty” and “kept inequality from rising in South Africa”.[19] Inchauste et al. show that social grants are progressive, entailing transfers from wealthier to poorer households.[20]

However, limited increases or declines in the real value of social grants, on which the lowest-income households rely, limit disposable income. Figure 1 shows that over the last five years the old age pension and child support grant have risen below CPI inflation twice each, and below food price inflation on all but one occasion for the old age pension and two occasions for the child support grant. Table 3 shows the real annual increase in social grants compared to the real rise in the fuel levy, another concern of ours in the context of rising indirect taxation: the latter outstrips the increase to social grants by large margins in all but one instance.

Figure 1 Nominal annual percentage change in grants compared to CPI and food inflation, 2014/15 - 2018/19



Source: SPII (2017); National Treasury; Budget Review 2018, Table 5.9

Table 3 Real annual change in grants vs real annual change in indirect tax rates

	Old Age Pension Grant	Child Support Grant	Fuel levy (petrol, diesel average)
2010/11	0.6%	-2.0%	5.7%
2011/12	1.3%	1.7%	2.0%
2012/13	0.4%	0.8%	6.7%
2013/14	-0.2%	-0.2%	2.2%
2014/15	0.9%	0.9%	0.1%
2015/16	-0.7%	-0.8%	8.0%
2016/17	0.8%	0.8%	6.6%
2017/18	0.3%	2.0%	4.2%

[19] World Bank, ‘Overcoming Poverty and Inequality in South Africa: An Assessment of Drivers, Constraints and Oppurtunities’, xxv.
[20] Inchauste et al., ‘The Distributional Impact of Fiscal Policy in South Africa’.

2018/19	1.0%	1.6%	2.2%

Source: National Treasury, Budget Review 2018; SARB, Tax Chronology of South Africa 1979-2016; SPII (2017)

It is also worthwhile to note, that the value of these grants, as a share of different poverty lines, has fallen. In 2011/12, the child support grant would have covered 79% of the cost of basic foodstuffs necessary to avoid hunger. By 2018/19 it covered only 71% of the cost of these goods. Similarly, the value of the old age pension grant, had been declining relative to the upper-bound poverty line until last year.

It is clear therefore that the limited rise in social grants will not compensate for the increase in the VAT rate and the fuel levy in any way that relates to peoples' basic needs.

South Africa currently has very high rates of stunting and malnutrition amongst children and over 5 million children live below the food poverty line.[21] Children living below the food poverty line are not getting enough nutrition. This is despite the existence of the current social grants programme. One of the reasons for South Africa's poor child nutrition indicators is that the value of the child support grant is too low to meet basic food needs.[22] The child support grant at R400/child/month is the lowest of all the social grants and is insufficient to cover the costs of feeding a child a nutritional diet, never mind the other costs of accommodation, clothing, education or transport. This grant should therefore be increased to at least the level of the food poverty line and increased annually based on food price inflation (not the lower CPI). For a more detailed discussion of child malnutrition and the child support grant see the Children's Institute's submission to the Panel.

There is no indexing to the cost of raising a child in line with the non-derogable right of dignity contained in Section 10 of the Constitution of South Africa. The actual value of all the grants have been derived as the result of making a certain monetary figure cover a set number of people. SPII is currently developing a Decent Standard of Living Index (DSLI) with the Department of Social Development and Statistics South Africa. Once adopted after consultation, this should be a measure of progressive realisation for social grants, the social age and other government spend.

Recommendations regarding social grants:

- Further increases to all social grants should be instituted in October 2018 to adequately compensate for the impact of the VAT increase.
- The child support grant should receive additional attention for a substantial increase to enable caregivers to provide children with a basic nutritional diet.

[21] Hall & Sambu 'Income poverty, unemployment and social grants' in Jamieson et al et al (eds) *South African Child Gauge 2017* Children's Institute, University of Cape Town at 105 - 106

[22] Devereux & Waidler (2017)' Why does malnutrition persist in South Africa despite social grants? ' *Food Security SA Working Paper Series No.001*. DST-NRF Centre of Exellence in Food Security, South Africa at 16 – 17.

- The October 2018 Medium Term Budget Policy Statement (MTBPS) should outline a three-year schedule of increases that are based on food and fuel price inflation and not CPI.
- The Nedlac process on universal social security should be strengthened and accelerated and progress should be reported publicly and to Parliament every three months.
- A process exploring the implementation of a universal basic income grant involving all social partners should be instigated.

8.2 Essential social services

Government funding of essential social services is extremely important to poor and low-income households, as well as to the economy. The World Bank's recent report on poverty and inequality in South Africa notes the importance of accessing basic public services to reduce multi-dimensional measures of poverty. Despite expanded access such access is still positively correlated with income.[23] Inchauste et al. do however note that spending in South Africa on free basic services – water, electricity, sanitation and refuse removal – as well as on health and education is progressive. [24]

We are, therefore, extremely concerned by cuts to these goods and services entailed in the 2018 Budget. The magnitude of overall revenue raised, and the distribution thereof, will, of necessity, entail cuts or limited increases for essential social expenditure. This includes education, health and social welfare, as well as economic infrastructure. This will disproportionately hurt vulnerable groups: the poor, low-income households, and women and children, who rely heavily upon state services.

For example, despite government being overdue on the implementation of Norms and Standards for School Infrastructure, the education infrastructure grant has been cut by R3.6-billion over the medium term and the health facility revitalisation grant (which pays for maintenance and upgrades to hospitals) is cut by R820-million.

The Parliamentary Finance Committees expressed concern about the "reductions in the infrastructure grants as part of the expenditure saving".[25] The Committees correctly note that: "In particular, a decision taken by NT [National Treasury] to cut capital expenditure at provinces and municipalities, the faces of service delivery, is a major cause of concern for the Committees because social infrastructure is needed to grow the economy and deliver services to the people."[26] It is worth pointing out that the devil is in the detail here, with various spending squeezes happening that are not immediately obvious in the budgets. For example, the Eastern Cape Education Department has reduced per capita funding to no-fee public schools by excluding all children at the schools who don't have birth certificates from the funding formula.

[23] World Bank, 'Overcoming Poverty and Inequality in South Africa: An Assessment of Drivers, Constraints and Oppurtunities'.
[24] Inchauste et al., 'The Distributional Impact of Fiscal Policy in South Africa'.
[25] Standing Committee on Finance, 'Report of the Standing Committee on Finance on the 2018 Fiscal Framework and Revenue Proposals', 30.
[26] Standing Committee on Finance, 31.

8.2.1 Education and transport

Long-term failures to budget adequately (both nationally and provincially) for quality education for all have been compounded by the medium-term fiscal consolidation strategy of National Treasury in recent years and ongoing poor provincial planning, which has set up a crisis in education funding in many provinces.

Last month, the Minister of Basic Education announced in her 2018 budget vote speech announced the reduction of the basic education budget by 3%, between the 2017/18 and 2018/19 financial years. In the current year, KwaZulu-Natal Department of Education (DoE), as an example, has "had to implement aggressive cost-cutting measures to offset in-year budget pressures of R728.3 million".[27] This is in a province that has failed to meet the minimum norms and standards for school funding (i.e. minimum per learner funding) since 2015/16. In the current year, KZN DoE is funding the poorest Quintile 1-3 schools at R955 per learner instead of the national minimum amount of R1 316 per learner (that is, under-funding the poorest schools by more than 25% of their annual budgets).[28]

In addition to the infrastructure challenges noted above, rural provinces such as KZN also have huge backlogs of learners who qualify but lack access to school transport. In KZN, the DoE has estimated in recent court papers that the backlog now stands at 370 682 learners who face daily struggles simply to reach their school. Despite this, the KZN DoE spends only 0.4% of its budget on scholar transport.

This story of thousands of leaners walking many kilometres to school every day due to a lack of provision of scholar transport by the state is repeated across the country.

Additional funding for scholar transport from National Treasury in the form of a conditional grant has been widely touted as a potential solution. This would ensure that funds reach their target group, which is mainly historically disadvantaged learners in rural areas.

Such a grant could represent a relatively 'easy-win' for government, since the need is so well established and the costs relatively small. For example, while an appropriate costing exercise is yet to be undertaken (to our knowledge), we estimate that provinces such as KZN require at least a doubling of their annual expenditure (currently circa R250 million) on scholar transport to begin to address the backlog.

Increases to the fuel levy announced in the 2018 budget make access to state-subsidised transport all the more urgent as the families of learners who are currently only able to access less safe and more expensive private transport to get to school will have felt an immediate pinch from the rising cost of fuel. This may even have made private transport unaffordable for learners who previously had access.

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[27] Province of KwaZulu-Natal, Estimates of Provincial Revenue and Expenditure, 2018/19, Vote 5 Education at 196.

[28] Province of KwaZulu-Natal, 196

Recommendations regarding essential social services:

- Recommend the raising of taxes (see below) to reverse cuts to essential social services and public goods.
- Support the instruction by the Parliamentary Committee that National Treasury undertake spending reviews and put in place a framework that "quantifies and manages the impacts of cutting capital budgets on service delivery, schools, clinics, and hospitals, given the current backlog".
- As noted above, we support the zero-rating of public transport, various medical care items and school uniforms.
- Reaffirm the detrimental consequences of austerity particularly when it comes to basic social service.
- Institute a scholar transport conditional grant.

8.3 Wage policy: the national minimum wage

The national minimum wage (NMW), which was passed in Parliament on Tuesday, 29 May 2018, is a boon to low-wage workers and can play a major role in raising incomes for poor and low-income households. The NMW is likely to raise the wages for approximately one third of the formal sector workforce (around 4 million workers). It will go some way to reducing working poverty, with approximately 54% of full-time workers below the working poverty line.[29]

However, various weaknesses in the Bill pose a major threat to its progressive potential. These include:[30]

- There is no mandatory annual increase – the Bill should stipulate that the annual review should "ensure" or "promote" a minimum inflation-linked annual increase subject to other factors.
- The NMW Commission is not granted sufficient capacity and independence and does not have sufficient powers to review and update sectoral determinations;
- The Bill does not provide a clear mandate for a medium-term target – an amount above the R20 per hour starting point that was set to be reached over a medium-term time period – to be introduced in reasonable time frames;
- The Bill does not ensure annual increases to the EPWP wage level in line with increases to the NMW;
- Given the delayed starting date, the real value of the NMW has been undermined and so an increase, by the latest in September 2019, should be guaranteed.
- The Bill allows employer organisations to apply for exemptions on behalf of their members, thus establishing a potential conveyer belt of exemptions and undermining the universality of the NMW.
- The Bill does not take forward the Nedlac Committee of Principles agreement to provide for an investigation on increasing minimum hours from 4 to 5 per day;

Recommendations regarding the national minimum wage:

- The Panel should flag all the above as issues which have the potential to undermine the NMW and reduce the incomes of poor and low-income households.
- The Panel should recommend to government and Parliament that these issues are seriously considered when the Bill comes before the National Council of Provinces.

8.4 Public sector wage bill

We support a review of the public sector wage bill that intends to support not curtail front-line services and protect critical frontline posts in health and education. The Parliamentary Finance Committees requested National Treasury "to provide a detailed

[29] Finn, 'A National Minimum Wage in the Context of the South Africa Labour Market'.

[30] See: http://nationalminimumwage.co.za/wp-content/uploads/2018/05/Press-Release-NMW-Bills-in-Parliament-NMW-RI.pdf for further information.

analysis in respect of the 2018/19 budgeted annual increases in compensation of employees including: structural remuneration changes, notch adjustments, promotions, seniority increases, performance bonuses, annual general adjustments". This analysis should explicitly note: 1. The importance of protecting front-line services, and expanding them where there are critical shortages; 2. The role that public sector wage spending plays in stimulating the economy and supporting non-wage-earning dependents; 3. That any assessment of the public sector wage bill must specifically target making the wage structure more progressive and reducing inequality.

Recommendations regarding the public sector wage bill:

- The Expert Panel note the above approach regarding the review stipulated by the Parliamentary Finance Committees.

PART 4: THE REVENUE MIX

Wealthy South Africans live an extraordinarily opulent lifestyle amidst a sea of poverty and deprivation. White South Africans have retained almost all their economic privilege with research showing that their incomes and wealth have increased at a faster rate in democratic South Africa than under apartheid. Despite this, the discourse of the wealthy often paints them as victims and resists meaningful transformation.

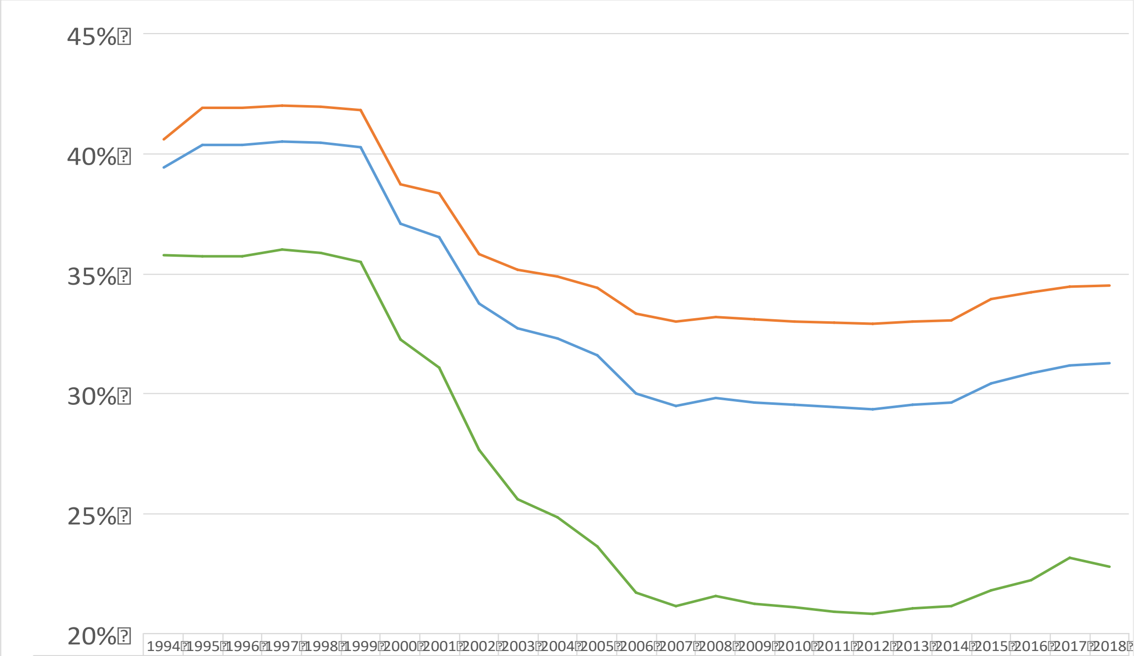
Taxation has an important role to play in redistribution and transforming the economy. We reject a view that sees taxation narrowly as simply a means to raise funds, as implied by some inputs from National Treasury during the Committee's public hearings. A well-established body of literature highlights the role taxation can play in either entrenching or reducing inequality.[31]

Fair taxation also contributes towards social cohesion. Given the understandable level of frustration among poor and low-income households, and the youth in particular, it is critical that all policies both meaningfully advance transformation and are seen to do so. The fact that the VAT increase was not accompanied by substantial other taxes on the wealthy increased the reality and perception of an unfair system which makes the poor shoulder the burden.

It is important to note that the debate of the VAT increase is taking place in the context of long-term declines in personal income tax (PIT) and corporate income tax (CIT) rates over time. This is highlighted in Figures 1 and 2. It is also important to note that CIT is comparatively low in South Africa (see attached submission to Parliament).

[31] See, for example, Era Dabla-Norris, Kalpana Kochhar, and Nujin Suphaphiphat, *Causes and Consequences of Income Inequality : A Global Perspective* (International Monetary Fund, 2015); Ingrid Woolard et al., 'How Much Is Inequality Reduced by Progressive Taxation and Government Spending?', *Econ3x3*, October 2015, http://www.econ3x3.org/sites/default/files/articles/Woolard%20et%20al%20%202015%20Fiscal%20policy%20progressivity%20FINAL4_0.pdf; Daniel Jeongdae Lee and Zheng Jian from the Macroeconomic Policy and Financing for Development Division, 'Taxing for Shared Prosperity', MPDD Policy Briefs (United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)), accessed 23 April 2018, https://ideas.repec.org/p/unt/pbmpdd/pb46.html.

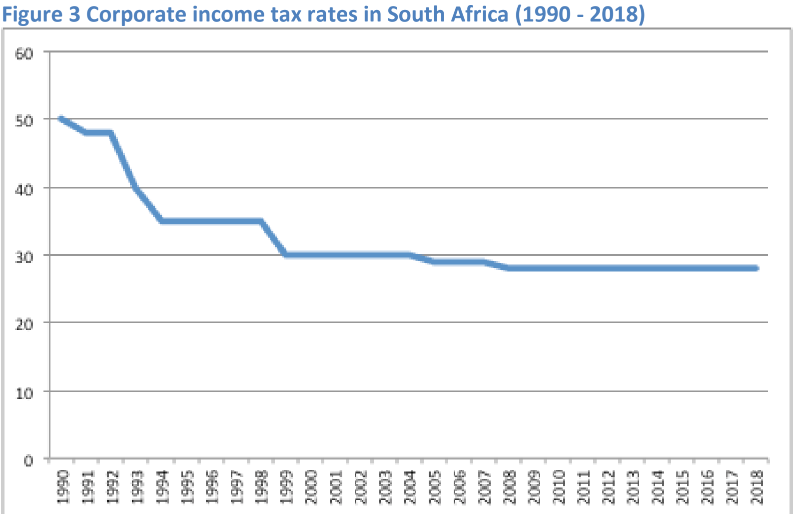
Figure 2 Effective tax rates (accounting for rebates) for those earning the equivalent of R500 000, R1mn and R1.5mn in 2018



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
R500 000	36%	36%	36%	36%	36%	35%	32%	31%	28%	26%	25%	24%	22%	21%	22%	21%	21%	21%	21%	21%	21%	22%	22%	23%	23%
R1 000 000	39%	40%	40%	41%	40%	40%	37%	37%	34%	33%	32%	32%	30%	29%	30%	30%	30%	29%	29%	30%	30%	30%	31%	31%	31%
R1 500 000	41%	42%	42%	42%	42%	42%	39%	38%	36%	35%	35%	34%	33%	33%	33%	33%	33%	33%	33%	33%	33%	34%	34%	34%	35%

Source: SARB, Tax Chronology of South Africa 1979-2016

Figure 3 Corporate income tax rates in South Africa (1990 - 2018)



Source: SARB, Tax Chronology of South Africa 1979-2016

Given the very high levels of wealth inequality it is problematic that taxes on property account for a very small share of the South African tax mix. Taxes on property – including donations tax, estate duty (inheritance tax), securities transfer tax (STT), and transfer duties – rose to 2.7% of the tax mix in 2005/2006 but then fell to 1.3% in 2017/2018 where they are projected to remain. Capital gains tax (CGT – formally a form of income tax but considered here as it is a tax accrued from owning property) has also fallen from a share of tax revenue in 2007/2008 of 3.6% to 2.4% in 2017/2018. In rand terms, the rate at which property and capital gains taxes have increased is below the rate of increase on other major tax forms.

While these trends reflect poor economic growth they also reflect the tax structure.

- **CGT**, for example, raised only R17billion in 2016/17, a mere 1.5% of tax revenue. Because not all capital gains are taxed, in 2017, individuals only paid a rate of 16% on capital gains, and companies 22%.[32] This is below the OECD and BRICS norm.
- Tax on inheritance – **estate duty** – is levied at only 20% and raises revenue worth 0.05% of GDP compared with the OECD average of 0.2%.[33]
- Bonds are excluded from **securities transaction tax** (STT) (a tax on sale of shares) and there is no transaction tax on derivatives and other forms of financial transactions. Despite South Africa's market capitalisation to GDP ratio being almost triple the OECD average, revenue from STT lags behind the OECD average.
- South Africa has no annual "**net wealth tax**" that would tax the total value of wealth held in a given year.

9 Luxury VAT

Taxing luxury consumption is an avenue to make the tax system more progressive and raise additional revenue. South Africa currently has a limited range of *ad valorem* excise duties on luxury goods paid by the manufacture or importer. These raise a limited, but not insignificant, amount of revenue – in 2017/2018 R3.8bn and projected to rise to R4.8bn in 2020/2021 (in nominal terms). However, they will maintain their share in the overall tax mix.

There is room to further tax luxury consumption through the increase and expansion of *ad valorem* excise duties and the institution of a higher VAT rate on luxury goods, a historic demand of civil society and the labour movement and was recently supported by the Parliamentary Committee when they noted that consideration should be given to "incrementally introducing a multi-rated VAT system in which VAT on luxury goods is higher than VAT on goods bought by the poor and lower income earners" or to increasing the tax on luxury goods by adjustments to ad valorem tax.

A VAT on luxury goods (for example at 25%) could include those items bought only by the rich, as well as upper segments of other goods markets, for example, fancy cars, expensive fridges, and so on. Given the existing tax administration systems this can be feasibly implemented. Given that a higher share of luxury items is imported, this should not unduly dampen domestic demand and could modestly assist in closing the balance of payments. Access to luxury goods is an expression of inequality. The selection of items should not place goods that poorer households save for, beyond their reach.

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[32] SARS, 'Capital Gains Tax (CGT)', accessed 20 February 2018, http://www.sars.gov.za/Tax-Rates/Income-Tax/Pages/Capital-Gains-Tax-(CGT).aspx.
[33] SACTWU and COSATU, 'Submission to the Davis Tax Committee on Possible Wealth Taxation in South Africa', June 2017.

Table 11 **in the Appendix provides a sample of items that could be good candidates for a luxury VAT rate as well as the revenue this could raise.** The test for inclusion is whether 70% or more of expenditure on the item is spent by decile 10 (and more than 90% by deciles 8-10). The columns show additional revenue (over and above the existing 15% VAT rate) that would be earned from a 25% VAT rate on all goods in that category (the second last column).

Another test is applied to mimic a higher VAT rate on expensive versions of a particular good (the last column). Unfortunately, the data set is limiting and a luxury VAT rate cannot be properly applied to this data based on price differentiation, e.g. levying a higher tax for cars selling for more than R500 000. For a selection of items, we have applied the 25% VAT rate only to the consumption of decile 10, on the loose assumption that decile 10 would purchase more expensive versions of this item.

Our indicative list shows between R6.5bn and R8.2bn additional revenue from a 25% luxury VAT rate on certain goods.

Recommendation regarding a luxury VAT:

- A VAT rate of 25% be recommended to be applied to the list of luxury goods.
- A VAT rate of 25% be recommended to be applied to goods over a pre-determined value on a list of items to be established.

10 Reducing tax breaks for wealthier households

Tax breaks given to wealthier households can be reduced. Table 4, from the 2018 Budget Review, shows that in 2015/16 total personal income tax relief from the listed items cost the state R58.3bn whereas the 19 zero-rated food items cost almost three times less at R22.8bn. The subsidy on zero-rated items was exceeded by subsidies to private retirement savings while medical aid tax breaks cost almost as much. These are tax breaks given against personal income tax contributions. Recall that only the top 30% pay any PIT and thus enjoy these breaks, and that many low-income workers have no form of medical aid or retirement funds, let alone tax-exempt investments.

Table 4 Tax expenditure estimates PIT vs VAT

R million	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Personal income tax				
Pension and retirement annuity contributions	26 314	28 467	30 485	31 772
Medical	20 272	21 883	19 750	20 442
Interest exemptions	2 067	2 191	2 418	2 592
Secondary rebate (65 years and older)	1 533	1 711	2 087	2 186
Tertiary rebate (75 years and older)	119	132	177	185
Donations	620	826	963	633
Capital gains tax (annual exclusion)	309	393	458	446
Total personal income tax	**51 233**	**55 603**	**56 338**	**58 256**
19 basic food items	**18 628**	**20 107**	**21 503**	**22 793**

Source: National Treasury, Budget Review 2018

Recommendations regarding tax breaks:

- National Treasury should be recommended to partially close any revenue shortfalls associated with increased zero-rating or the expanded social programmes through reducing PIT tax breaks for higher-income households.

11 Personal income tax, corporate income tax and wealth taxes

Our submission to Parliament – which we attached as an addendum to this submission and which should be considered in full – outlined in some detail how increases in corporate income tax, personal income tax on higher income-earners, luxury consumption taxes and wealth taxes on net wealth or fixed property, could close the necessary fiscal shortfalls. The Parliamentary Committee subsequently noted that: "National Treasury needs to look into other forms of raising taxes apart from VAT. Among other options, the majority of the Committee members believe that consideration needs to be given to increasing *ad valorem* excise duties on luxury goods, estate duty rates for the wealthy and inheritance taxes, and investigating the possibility of either a net-wealth tax or an additional tax on immovable property."[34]

Below we summarise these proposals. It is important to note that these are not concrete fully-costed proposals. However, they illustrate that relatively modest increases to these other types of taxation can raise the necessary revenue to compensate for zero-rating, fund expanding various social programmes, and allowing for the downward revision of VAT in 2019. National Treasury should be tasked with fully costing these proposals and making public the findings.

There is clearly room to increase PIT. Table 5 divides PIT payers into five income groups and compares the proposals in the 2018 Budget Review (Table 4.6) with two alternative scenarios. The table shows the effective tax rates for the five brackets and then potential alternatives to that.

In Scenario 1, the lower three effective tax rates are left as is and the effective tax rate for those earning between R500,000 and R1mn is raised from 26% to 28% and the effective rate for those earning over R1mn is raised from 37% to 40%. In this Scenario 2, the top three rates are raised from 16.7% to 18%, 26% to 29%, and 37% to 41%. Scenario 1 raises an additional R27.2bn and Scenario 2 an additional R47.4bn. These are then adjusted downwards to take account of an assumed elasticity of taxable income (ETI) of 35% – essentially an adjustment based on the assumption that those taxed more might adjust their income sources or evade tax by this margin. With this adjustment the two scenarios still raise an additional R17.7bn and R30.8bn.

[34] Standing Committee on Finance, 'Report of the Standing Committee on Finance on the 2018 Fiscal Framework and Revenue Proposals', 36.

Table 5 Potential extra PIT revenue raising

(R bn)	Proposed 2018/2019			Scenario 1		Scenario 2	
	Taxable income	Effective tax rate	Tax accessed	Effective tax rate	Tax accessed	Effective tax rate	Tax accessed
0 - 150 000	432.2	2.4%	10.2	2.4%	10.2	2.4%	10.2
150 001 - 250 000	351.8	9.4%	33.2	9.4%	33.2	9.4%	33.2
250 001 - 500 000	736.7	16.7%	123.2	16.7%	123.2	18.0%	132.6
500 001 - 1 000 000	549.0	26.0%	142.5	28.0%	153.7	29.0%	159.2
1 000 000 +	531.7	37.0%	196.7	40.0%	212.7	41.0%	218.0
Total:	**2601.5**		**505.8**		**533.1**		**553.3**
Additional revenue					**27.2**		**47.4**
Additional revenue adjusted for ETI of 35%:					**17.7**		**30.8**

Source: National Treasury, Budget Review 2018

There is also room to raise CIT. CIT will contribute an expected R231bn to the 2018/2019 tax revenue in the current proposal. The overall effective CIT rate is approximately 28% according to SARS Tax Statistics 2017

Table 5 shows four alternative scenarios with effective rates ranging from 30% to 35%. As shown, even a 2 percentage point increase can raise an additional R16.5bn. The table also shows how much extra revenue could be raised if we assume the taxable income falls by 5% due to the increased CIT rate (i.e. if a degree of offsetting occurs). Even with this profit fall, additional revenue of between R4.1bn and R43.4 can be raised.

Table 6 CIT 2018/2019 budget proposal vs alternate scenarios

	Taxable income	Effective tax rate	CIT raised	Difference between budget proposal and scenario	CIT raised with 5% profit loss	Difference between budget proposal and scenario with 5% profit loss
Budget proposal	825.8	28%	231.2			
Scenario 1	825.8	30%	247.7	16.5	235.3476043	4.1
Scenario 2	825.8	32%	264.2	33.0	251.0374446	19.8
Scenario 3	825.8	35%	289.0	57.8	274.5722051	43.4

Source: National Treasury, Budget Review 2018

We view the claim made by National Treasury that increases to PIT and CIT will be growth retarding with scepticism. This is derived from Computable General Equilibrium (CGE) modelling that are biased in this regard and constructed in a manner that *a priori* assume this conclusion 'proved'. This bias is also clear in the Budget Review where National Treasury implies that all tax increases are growth retarding, a bias confirmed during oral presentations in Parliament.

Raising wealth taxes is particularly important considering the large amounts of wealth accumulated under apartheid, that this wealth is passed between generations, and that black earners have less assets to begin with and must support a higher number of dependents (see the detailed study undertaken for the Davis Tax Commission[35]).

Some possible approaches include:

- Institute a permanent net wealth tax in the international range of 0.5%-2.5%.
- Raise the CGT inclusion rate to 100% (so all capital gains are taxed) and the tax rate to comparative rates to PIT.
- Raise the STT rate and broaden applicability to include bond markets. Investigate the best modalities of a universal financial transactions tax (FTT).
- Institute a land property tax, particularly on vacant land, and a property rate or transfer duty surcharge for second and foreign owned homes.
- Significantly raise the estate duty tax and close loopholes.

Projections for some of these measures are given in Table 7.

Table 7 Possible tax revenue from wealth taxes

Rbn	2017/2018		Scenario		Difference
	Rate	Tax revenue	Rate	Tax revenue	
Capital gains tax	Ind 16% / Comp 22%	17.06	Ind 18% / Comp 24% + full inclusion	22.35	5.29
Estate duty	20%	2.41	30%	3.61	1.2
STT	2.50%	5.45	3%	6.54	1.09
Property tax (residential > R1mn)*			0.50%	11.94	11.94
Property tax (commercial > R5mn)*			0.50%	3.98	3.98
Property tax (unused urban land)*			0.10%	0.64	0.64
Property tax (farm)**			0.10%	1.57	1.57
Net wealth tax***			2%	130.212	130.21
Net wealth tax***			1%	65.106	65.11
Net wealth tax***			0.50%	32.553	32.55
*Property Sector Charter Council (2014/5): Res: R3900bn / Com: R1300bn / unused: R580bn					
**Agri Land Group (2015): R5.58bn					
***Momentum/Unisa study HH wealth (2017Q3): R7.2bn					

Recommendations of PIT, CIT and wealth taxes:

[35] SACTWU and COSATU, 'Submission to the Davis Tax Committee on Possible Wealth Taxation in South Africa'.

- National Treasury should be recommended to close any revenue shortfalls associated with increased zero-rating or the expanded social programmes through increasing PIT on high-income households and/or raising CIT and/or raising existing wealth taxes and/or instituting a net wealth tax.
- The need for a net wealth tax should be reaffirmed.
- The principle of progressive taxation should be reaffirmed.
- The reduction of VAT to 14% in 2019 should be recommended based on increases to PIT, CIT and wealth taxes.
- National Treasury should be tasked with fully costing different tax proposals and making public the findings.

12 Efficient tax collection and expenditure

We agree with the Parliamentary Committee when they insisted that "government needs to do much more to reduce corruption and wasteful and unnecessary expenditure and significantly improve the efficiency and quality of spending". While we believe there are areas of the government budget that can be reduced in a progressive and pro-poor manner we caution against: a. using this as a backdoor to impose austerity; b. punishing municipalities that are unable to effectively spend their allocations by reducing those allocations rather than improving skills, management and systems in those municipalities, and clamping down on corruption, to ensure effective spending. The Committee notes that this falls under the National Treasury's PFMA mandate and that National Treasury "is urged to address the root causes of underspending rather than confiscating and reallocating the monies unspent".[36] In addition an audit of provincial resource allocation strategies, as well procurement strategies, needs to be undertaken, together with the release of provincial human resource plans – ensuring value for money will contribute towards service delivery and expanding coverage.

We also support the need to clamp down on tax evasion and avoidance and improve the efficiency of tax collection. The majority of revenue foregone from such activities is due to the actions of corporations and the wealthy as well as corrupt political leadership in cahoots with SARS officials. We support not only more effective investigation but also stiff penalties for such unconscionable behaviour. We welcome the recent administrative changes at the South Africa Revenue Service (SARS) and support the rooting out of corrupt officials and the re-hiring of competent staff with the investigation skills necessary to ensure increased revenue collection.

We are encouraged by the recent moves and investigations launched to root out corruption within SARS and to rebuild taxpayers confidence, substantial resources should still be provided to SARS in order to rebuild its special investigative units with capable staff. The recent revelations that the SARS workforce has 'declined from over 14 000 a few years ago to about 12 600 now'[37] is extremely worrying.

[36] Standing Committee on Finance, 'Report of the Standing Committee on Finance on the 2018 Fiscal Framework and Revenue Proposals', 31.
[37] Finance Standing Committee, 23 May 2018 - https://pmg.org.za/committee-meeting/26479/

Since the fight against tax evasion and aggressive tax avoidance is first of all a battle against secrecy, the National Treasury should be in the leading position to advocate for decisive tax transparency reforms. Amongst many possible measures, corporations' reporting on a 'country-by-country, subsidiary-by-subsidiary' basis, the creation of a public register of trusts, as well as the disclosure of personal tax returns of the main South African public representatives and government officials, should be the top priorities.

Recommendations regard tax collection:

- Recommend establishing a high level panel on tax avoidance and evasion.
- Note the urgent need to strengthen the capacity of SARS to tackle tax avoidance.
- Recommend the need for new measures to achieve tax transparency.

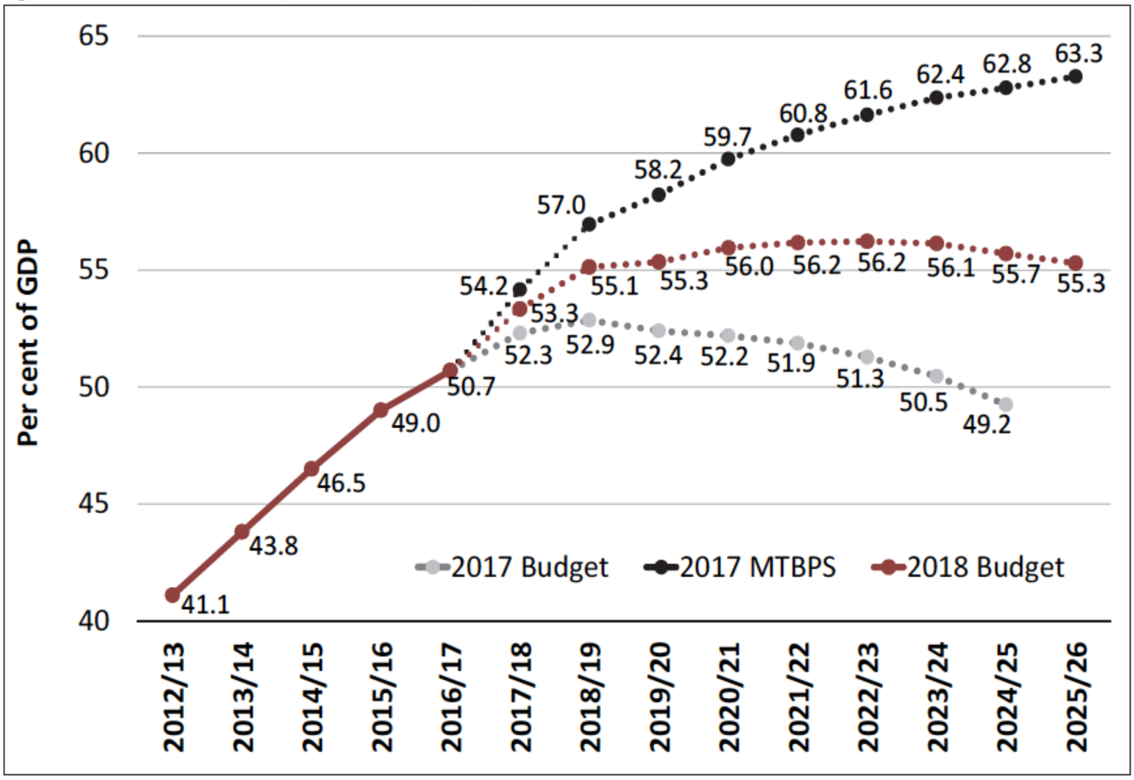
13 Debt levels

By international standards South African debt is moderate, the speed and gusto with which National Treasury aims to reduce debt levels is therefore concerning, although we do not favour unchecked borrowing. International evidence is also unequivocal in indicating that austerity following reduced borrowing retards growth, hurts poor and low-income households and increases inequality, as acknowledged by even the International Monetary Fund (IMF).[38] Effective expenditure of borrowed funds, particular on activities that expand the economy and spur economic growth – is a far more effective means of reducing the debt-to-GDP ratio than harsh cuts in borrowing and subsequent spending.[39] The 2018 Budget Review showed even tighter debt reduction measures than in the 2017 MTBPS, as shown in Figure 4.

[38] Jonathan David Ostry, Prakash Loungani, and Davide Furceri, 'Neoliberalism: Oversold?', *Finance & Development* 53, no. 2 (June 2016), http://www.imf.org/external/pubs/ft/fandd/2016/06/ostry.htm; Brad Plumer, 'IMF: Austerity Is Much Worse for the Economy than We Thought', *Washington Post*, 12 October 2012, sec. Wonkblog, https://www.washingtonpost.com/news/wonk/wp/2012/10/12/imf-austerity-is-much-worse-for-the-economy-than-we-thought/.

[39] CSID, 'Mitigating the Impact of South Africa's Debt Downgrades: International Experiences' (University of the Witwatersrand, September 2017).

Figure 4 Debt-to-GDP levels (2012/13 - 2025/26)

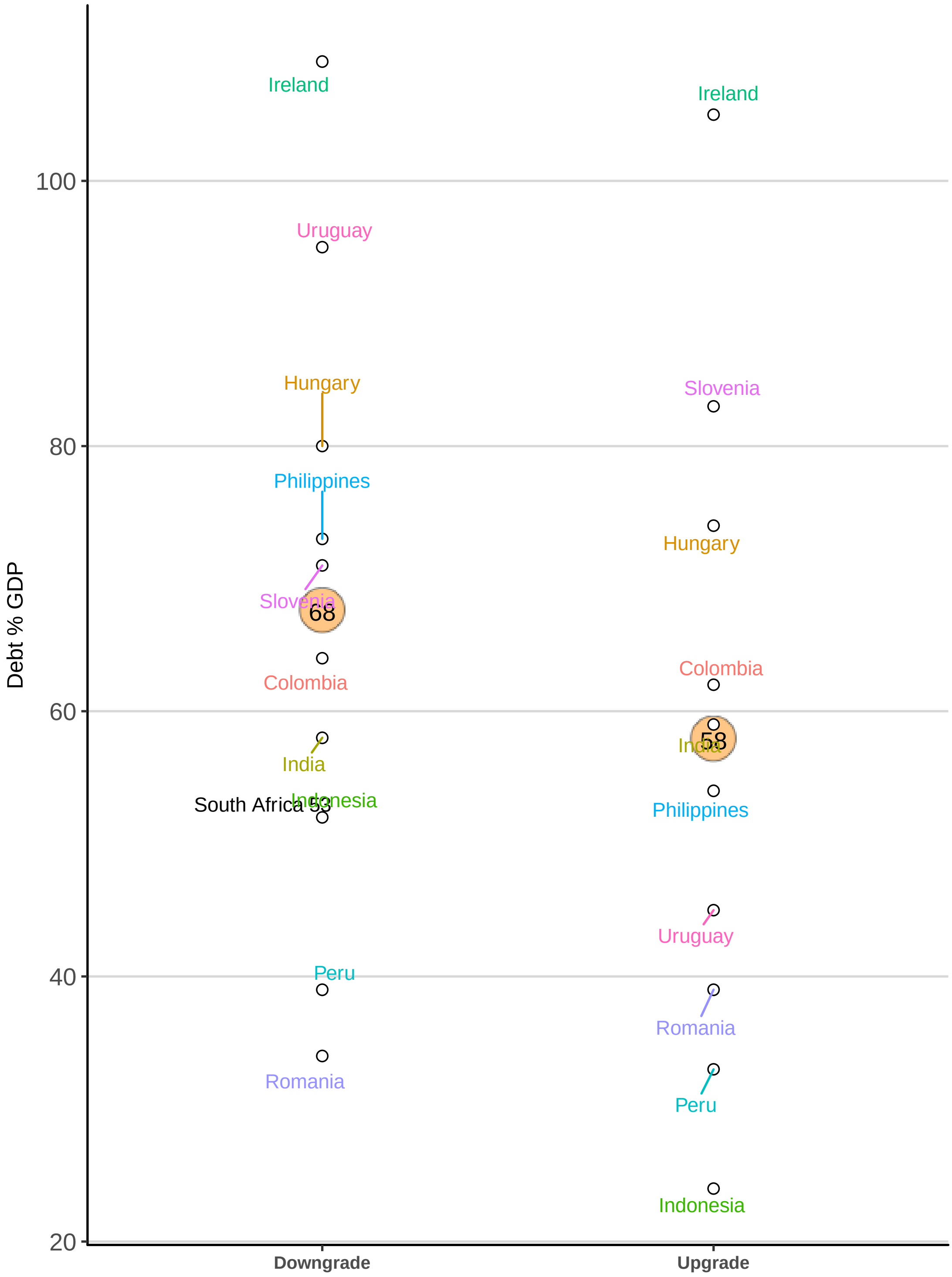


Source: National Treasury, 2018 Budget Review

We are aware of the realities of rating agency downgrades but it should be pointed out that debt levels is not the sole, or even most important factor, in debt downgrades and upgrades. Using a sample of comparator countries who have experienced recent downgrades and then recovered their investment grade rating, Figure 5 shows: a. South Africa's current debt levels were well below the average debt levels at time of downgrade (53% compared to 68%) and that South Africa's current debt levels are already below the average levels at which the countries regained their investment grade rating (58%). Similar findings exist for debt service costs and the budget deficit. This draws from a detailed and extensive cross-country study of debt dynamics and rating agency decisions.[40]

[40] CSID.

Figure 5 Debt as a percentage of GDP, at time D (when the country got downgraded) and time U (when the country got upgraded)



Source: CSID (2017) [41]

The research also clearly indicates that sharply curtailing borrowing in the short-run does not lead to rating agency upgrades and can have a strongly negative impact on economic growth; economic growth is the most important factor in recovering investment-grade ratings.

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[41] CSID.

We believe that debt levels should not be used a ‘bogey man’, nor rating agencies as a sword of Damocles, to justify harsh spending cuts and that it is possible to stabilise debt at moderately higher levels over the medium-term rather than pursue the debt targets laid out by National Treasury.

We further believe that the public pension system could be leveraged to diminish our debt ‘burden’. Surplus secured by the Government Employees Pension Fund does not necessarily benefit workers as (fixed) retirement annuities do not necessarily depend on high returns being earned by *all* investments made by the Public Investment Corporation (PIC) that manages the funds. Currently, the surplus, around R50 bn, supports funding of a tiny minority of historically disadvantaged persons through the Black Economic Empowerment scheme. We argue that this money could be used instead to benefit a much greater number of people by filling the tax gap, through no or low-interest government lending, thereby avoiding the VAT rate increase. This would effectively transform the PIC into a sovereign fund and, so long as aggregate returns are sufficient, could be done without disadvantaging pension holders. Last year, this could have saved up to R26bn.

Recommendations on debt:

- Allow debt to peak at a level of 60% of GDP, this would more than accommodate increased fiscal pressure from expanding zero-rating and allow for the expansion of important social programmes.

PART 5: CONCLUSION

The establishment of the Expert Panel is recognition that the revenue and expenditure proposals in the 2018 National Budget have the potential to harm poor and low-income households. The task of the panel – to recommend ways of mitigating this – is a hefty one. We recognise that the panel cannot revise national fiscal policy. At the same time the panel can make important targeted recommendation while also flagging items that need consideration by government and the social partners and strongly emphasising the progressive potential of these policies. Our submission is made in this spirit.

14 Summary of recommendations

Recommendations regarding currently zero-rated items:

- Zero-rating be retained for rice, brown bread, maize meal, mealie rice, samp, dried beans, canned pilchards, powered milk, sour milk, cooking fat (veg), edible oils, paraffin.
- Retain zero-rating on vegetables and frozen vegetables and add canned vegetables in line with explicit recommendations in Jansen et al.[42]
- Retain zero-rating for milk, eggs and fruit. The cases of milk, eggs and fruit raise health considerations. Removing the zero-rating of these items would make

[42] Jansen, Stoltz, and Yu.

relatively cheap sources of protein, iron and vitamins, that are essential for nutritional diets (especially for young children under 5), more expensive.
- Dried lentils and mealie rice appear poorly targeted. In the case of dried lentils, we recommend it remain for health considerations as it is an affordable healthy protein that should be encouraged.

Recommendations regarding expanding zero-rated items:
- Given that the items in table 2 meet one or more of the tests applied, they are excellent candidates for zero-rating (inappropriate candidates have also already been removed from the list). Zero-rating these items disproportionately benefits poor and low-income households, and, in a number of instances, very poor female headed households in particular. They also take account of various socio-economic imperatives, for example making school uniforms, children's clothing, basic medicines, and female sanitary pads, less expensive. In addition, zero-rating these items would further reduce the regressivity of VAT and make the tax mix more progressive. All of the above items should, therefore, be zero-rated.

Recommendations regarding social grants:
- Further increases to all social grants should be instituted in October 2018 to adequately compensate for the impact of the VAT increase.
- The child support grant should receive additional attention for a substantial increase to enable caregivers to provide children with a basic nutritional diet.
- The October 2018 Medium Term Budget Policy Statement (MTBPS) should outline a three-year schedule of increases that are based on food and fuel price inflation and not CPI.
- The Nedlac process on universal social security should be strengthened and accelerated and progress should be reported publicly and to Parliament every three months.
- A process exploring the implementation of a universal basic income grant involving all social partners should be instigated.

Recommendations regarding essential social services:
- Recommend the raising of taxes (see below) to reverse cuts to essential social services and public goods.
- Support the instruction by Parliamentary Committee that National Treasury undertake spending reviews and put in place a framework that "quantifies and manages the impacts of cutting capital budgets on service delivery, schools, clinics, and hospitals, given the current backlog".
- As noted above, we support the zero-rating of public transport, various medical care items and school uniforms.
- Reaffirm the detrimental consequences of austerity particularly when it comes to basic social service.
- Institute a scholar transport conditional grant.

Recommendations regarding the national minimum wage:

- The Panel should flag all the items listed in Section 0 as issues which have the potential to undermine the NMW and reduce the incomes of poor and low-income households.
- The Panel should recommend to government and Parliament that these issues are seriously considered when the Bill comes before the National Council of Provinces.

Recommendations regarding the public sector wage bill:
- The Expert Panel note the approach given in Section 8.4 regarding the review stipulated by the Parliamentary Finance Committees.

Recommendation regarding a luxury VAT:
- A VAT rate of 25% be recommended to be applied to the list of luxury goods.
- A VAT rate of 25% be recommended to be applied to goods over a pre-determined value on a list of items to be established.

Recommendations regarding tax breaks:
- National Treasury should be recommended to partially close any revenue shortfalls associated with increased zero-rating or the expanded social programmes through reducing PIT tax breaks for higher-income households.

Recommendations of PIT, CIT and wealth taxes:
- National Treasury should be recommended to close any revenue shortfalls associated with increased zero-rating or the expanded social programmes through increasing PIT on high-income households and/or raising CIT and/or raising existing wealth taxes and/or instituting a net wealth tax.
- The need for a net wealth tax should be reaffirmed.
- The principle of progressive taxation should be reaffirmed.
- The reduction of VAT to 14% in 2019 should be recommended based on increases to PIT, CIT and wealth taxes.
- National Treasury should be tasked with fully costing different tax proposals and making public the findings.

Recommendations on debt:
- Allow debt to peak at a level of 60% of GDP, this would more than accommodate increased fiscal pressure from expanding zero-rating and allow for the expansion of important social programmes.

We look forward to more detailed engagement with the Panel.

15 Appendix

15.1 The restrictive and broad measures.

Table 8 shows the distribution of consumption/benefit across deciles for items given in Table 2 above.

Table 8 Share of consumption by decile groups

ITEM	LOWEST 4	LOWEST 7	FEMALE HEADS - LOWEST 7
Cake flour	0.49	0.80	0.88
Bread flour	0.59	0.88	0.90
Sorghum meal/powder	0.46	0.82	0.86
Other meal and flour	0.36	0.67	0.68
Mabella	0.42	0.74	0.81
Poultry (incl heads and feet)	0.34	0.66	0.75
Mopane worms	0.53	0.78	0.81
Beef extract cubes	0.38	0.75	0.81
Dried fish	0.36	0.64	0.59
Other canned fish	0.35	0.70	0.84
Whiteners (Cremora; Ellis Brown)	0.33	0.71	0.81
Amageu	0.34	0.70	0.82
Yellow brick margarine	0.30	0.64	0.72
Other edible animal fats (eg lard)	0.33	0.60	0.74
Smooth peach jam	0.21	0.70	0.75
Preserves; specify	0.17	0.97	0.67
Salt	0.45	0.75	0.87
Curry powder	0.36	0.74	0.81
Baby food Predominantly grain	0.48	0.78	0.87
Baby food Predominantly meat	0.22	0.69	0.48
Baby food Predominantly vegetables	0.23	0.56	0.79
Baby food Predominantly fruit	0.31	0.73	0.85
Baby food Predominantly milk	0.35	0.73	0.83
Powder soup	0.41	0.72	0.81
Instant yeast	0.51	0.81	0.88
Soya product (excluding soy milk)	0.44	0.70	0.77
Tea leaves	0.49	0.82	0.94
Tagged tea bags	0.38	0.68	0.75
Tag less tea bags	0.37	0.70	0.81
Rooibos tea leaves	0.30	0.55	0.74
Infants' clothing	0.40	0.68	0.82
Girls' clothing	0.36	0.63	0.78
Boys' clothing	0.35	0.63	0.74
School uniform	0.39	0.66	0.80
Girls' school footwear	0.46	0.72	0.84
Boys' school footwear	0.46	0.75	0.85

Girls' footwear	0.38	0.65	0.79
Boys' footwear	0.35	0.65	0.80
Infants' footwear	0.42	0.74	0.85
Repair of footwear	0.23	0.59	0.73
Candles	0.52	0.83	0.90
Coal (including anthracite)	0.57	0.90	0.95
Other household fuel	0.00	0.79	1.00
Refrigerators	0.35	0.68	0.85
Stoves (gas and paraffin)	0.21	0.39	0.80
Hotplates	0.44	0.77	0.88
Soap; (bars and cakes; not toilet soap); washing powders; liquid detergents and bleaches; dishwasher tablets	0.29	0.59	0.71
Scouring powders; pot scourers; etc	0.32	0.62	0.75
Floor shoe and furniture polish	0.32	0.62	0.76
Matches	0.50	0.88	0.92
Medicine purchased with prescription in public institutions	0.30	0.64	0.67
Medicine purchased without prescription in public institutions	0.21	0.49	0.51
Pharmacy dispensing fees in public institutions	0.21	0.50	0.42
Pharmacy service fees in public institutions	0.75	0.87	0.75
Other medical products (bandages; syringes; knee supports etc) in public institutions	0.08	0.36	0.73
Medical services in public institutions	0.39	0.81	0.76
Flat rate in respect of services and medicine obtained at hospital/clinic in public institutions	0.44	0.84	0.88
Other medical services in public institutions	0.14	0.28	0.51
Consultations of traditional healers in private institutions/work places	0.43	0.71	0.97
Consultations of traditional healers in public institutions	0.24	0.61	1.00
Doctors' consultation fees public	0.14	0.42	0.72
Dental service (service of dentists include oral-hygienists) in public institutions	0.15	0.34	0.80
Medical analysis laboratories and X-ray service in public institutions	0.25	0.35	0.58
Service of medical auxiliaries (freelance nurse; midwives; freelance optometrist; physiotherapist; speech therapist etc) in public institutio	0.02	0.03	0.05
Non hospital service (ambulance service other than hospital) in public institutions	0.29	0.85	0.99
Hospital service fees (eg wards; beds and theatre fees) in public institutions	0.25	0.80	0.90
Train for attending educational institutions	0.21	0.59	0.61
Train for non-educational institutions	0.24	0.63	0.67
Bus (including school bus) for educational purposes	0.20	0.56	0.69

Bus (including school bus) for non-educational purposes	0.30	0.73	0.72
Bus for when away from home	0.19	0.55	0.51
Other (including bakkies used as taxis) for education purposes	0.43	0.71	0.65
Other (including bakkies used as taxis) for non-education purposes	0.39	0.85	0.88
Calls (including airtime for cellular phones)	0.22	0.51	0.61
Textbooks for public institutions - Loans	0.06	0.22	0.33
Stationery	0.18	0.39	0.54
Body soap (including Sunlight; liquid soap)	0.28	0.59	0.69
Disposable nappies	0.40	0.71	0.83
Sanitary towels and tampons	0.20	0.46	0.58
Day-care; creches and playgroups in public institutions - Loans	0.30	0.58	0.77
Funeral policies	0.24	0.52	0.63
Maize (own production)	0.69	0.93	0.94
Wheat (own production)	1.00	1.00	1.00
Other grains (own production)	0.00	0.78	1.00
Milk (own production)	0.18	0.26	0.21
Eggs (own production)	0.85	1.00	1.00
Fruit (own production)	0.54	0.85	1.00
Vegetable (own production)s	0.65	0.94	0.98
Other produce; specify (own production)	0.78	0.83	1.00
Cattle (own production)	0.24	0.68	1.00
Sheep (own production)	0.30	0.30	1.00
Pigs (own production)	0.84	1.00	1.00
Goats (own production)	1.00	1.00	
Poultry (own production)	0.66	0.95	1.00

Source: Statistics South Africa, Living Conditions Survey 2014/15, own calculations

15.2 Progressivity

Tables 9 and 10 show the share of their own total consumption expenditure that each decile group spends on a particular item. Where decile1-4 > deciles5-10 and/or deciles1-7 > deciles8-10 the zero-rating of that item is progressive. All currently zero-rated items (Table 9) are progressive, meaning that if these item were no longer zero-rated the tax mix would become more regressive. Almost all of the proposed zero-rated items (Table 10) would make the tax mix more progressive (as shown in Table 2)

Table 9 Share of total expenditure on that item by decile groups – currently zero-rated items

Consumption item	Deciles 1-4	Deciles 5-10	Deciles 1-7	Deciles 8-10
Rice	1.45	0.26	1.00	0.15
Brown bread	2.53	0.45	1.82	0.24
Mealie meal/Maize flour	3.50	0.39	2.21	0.17
Mealie rice	0.00	0.00	0.01	0.00
Samp	0.14	0.02	0.09	0.01
Beans dried	0.27	0.03	0.16	0.01

Lentils dried	0.00	0.00	0.00	0.00
Canned pilchards	0.48	0.10	0.37	0.05
Vegetables	3.34	0.97	2.52	0.73
Powdered milk	0.10	0.02	0.08	0.01
Sour milk/maas	0.43	0.07	0.30	0.03
Milk	0.22	0.12	0.21	0.10
Cooking fat (vegetable)	0.00	0.00	0.00	0.00
Edible oils (eg cooking oils)	1.02	0.17	0.71	0.09
Fruits	0.36	0.32	0.36	0.32
Eggs	0.17	0.06	0.14	0.04
Paraffin	0.33	0.03	1.00	0.21

Source: Statistics South Africa, Living Conditions Survey 2014/15, own calculations

Table 10 Share of total expenditure on that item by decile groups – new zero-rated items

ITEM	DECILES 1-4	DECILES 5-10	DECILES 1-7	DECILES 8-10
Cake flour	0.62	0.09	0.41	0.04
Bread flour	0.19	0.02	0.12	0.01
Sorghum meal/powder	0.04	0.01	0.03	0.00
Other meal and flour	0.04	0.01	0.03	0.01
Mabella	0.06	0.01	0.04	0.01
Poultry (incl heads and feet)	4.34	1.14	3.47	0.72
Mopane worms	0.01	0.00	0.00	0.00
Beef extract cubes	0.09	0.02	0.07	0.01
Dried fish	0.01	0.00	0.00	0.00
Other canned fish	0.03	0.01	0.03	0.00
Whiteners (Cremora; Ellis Brown)	0.15	0.04	0.13	0.02
Amageu	0.03	0.01	0.02	0.00
Yellow brick margarine	0.12	0.04	0.10	0.02
Other edible animal fats (eg lard)	0.01	0.00	0.00	0.00
Smooth peach jam	0.00	0.00	0.00	0.00
Preserves; specify	0.01	0.01	0.02	0.00
Salt	0.10	0.02	0.07	0.01
Curry powder	0.08	0.02	0.07	0.01
Baby food Predominantly grain	0.06	0.01	0.04	0.00
Baby food Predominantly meat	0.00	0.00	0.00	0.00
Baby food Predominantly vegetables	0.01	0.01	0.01	0.00
Baby food Predominantly fruit	0.03	0.01	0.03	0.00
Baby food Predominantly milk	0.34	0.09	0.29	0.04
Powder soup	0.25	0.05	0.18	0.03
Instant yeast	0.03	0.00	0.02	0.00
Soya product (excluding soy milk)	0.03	0.00	0.02	0.00
Tea leaves	0.03	0.00	0.02	0.00
Tagged tea bags	0.04	0.01	0.03	0.01
Tag less tea bags	0.17	0.04	0.13	0.02
Rooibos tea leaves	0.01	0.00	0.01	0.00
Infants' clothing	0.63	0.12	0.43	0.08

Girls' clothing	1.02	0.24	0.72	0.18
Boys' clothing	1.11	0.28	0.81	0.20
School uniform	0.87	0.18	0.60	0.12
Girls' school footwear	0.21	0.03	0.13	0.02
Boys' school footwear	0.26	0.04	0.17	0.02
Girls' footwear	0.36	0.08	0.25	0.06
Boys' footwear	0.42	0.11	0.32	0.07
Infants' footwear	0.13	0.02	0.09	0.01
Repair of footwear	0.01	0.00	0.01	0.00
Candles	0.12	0.02	0.08	0.01
Coal (including anthracite)	0.02	0.00	0.01	0.00
Other household fuel	0.00	0.00	0.00	0.00
Refrigerators	0.01	0.00	0.01	0.00
Stoves (gas and paraffin)	0.02	0.01	0.02	0.01
Hotplates	0.06	0.01	0.04	0.01
Soap; (bars and cakes; not toilet soap); washing powders; liquid detergents and bleaches; dishwasher tablets	1.09	0.36	0.90	0.26
Scouring powders; pot scourers; etc	0.02	0.01	0.01	0.00
Floor shoe and furniture polish	0.09	0.02	0.07	0.02
Matches	0.04	0.00	0.03	0.00
Medicine purchased with prescription in public institutions	0.03	0.01	0.03	0.01
Medicine purchased without prescription in public institutions	0.06	0.03	0.05	0.02
Pharmacy dispensing fees in public institutions	0.00	0.00	0.00	0.00
Pharmacy service fees in public institutions	0.00	0.00	0.00	0.00
Other medical products (bandages; syringes; knee supports etc) in public institutions	0.00	0.00	0.00	0.00
Medical services in public institutions	0.01	0.00	0.01	0.00
Flat rate in respect of services and medicine obtained at hospital/clinic in public institutions	0.13	0.02	0.10	0.01
Other medical services in public institutions	0.01	0.01	0.01	0.01
Consultations of traditional healers in private institutions/work places	0.02	0.00	0.01	0.00
Consultations of traditional healers in public institutions	0.00	0.00	0.00	0.00
Doctors' consultation fees public	0.01	0.01	0.01	0.00
Dental service (service of dentists include oral-hygienists) in public institutions	0.00	0.00	0.00	0.00
Medical analysis laboratories and X-ray service in public institutions	0.00	0.00	0.00	0.00
Service of medical auxiliaries (freelance nurse; midwives; freelance optometrist; physiotherapist; speech therapist etc) in public institutio	0.00	0.02	0.00	0.02
Non hospital service (ambulance service other than hospital) in public institutions	0.00	0.00	0.00	0.00

Hospital service fees (eg wards; beds and theatre fees) in public institutions	0.00	0.00	0.01	0.00
Train for attending educational institutions	0.03	0.02	0.04	0.01
Train for non-educational institutions	0.21	0.09	0.22	0.05
Bus (including school bus) for educational purposes	0.17	0.09	0.19	0.06
Bus (including school bus) for non-educational purposes	0.69	0.21	0.68	0.10
Bus for when away from home	0.13	0.07	0.15	0.05
Other (including bakkies used as taxis) for education purposes	0.11	0.02	0.08	0.01
Other (including bakkies used as taxis) for non-education purposes	0.17	0.03	0.15	0.01
Calls (including airtime for cellular phones)	3.03	1.40	2.77	1.11
Textbooks for public institutions - Loans	0.03	0.07	0.05	0.07
Stationery	0.11	0.07	0.10	0.06
Body soap (including Sunlight; liquid soap)	0.32	0.11	0.28	0.08
Disposable nappies	0.89	0.18	0.64	0.11
Sanitary towels and tampons	0.07	0.03	0.06	0.03
Day-care; creches and playgroups in public institutions - Loans	0.46	0.14	0.36	0.11
Funeral policies	2.28	0.98	2.02	0.77
Maize (own production)	0.03	0.00	0.02	0.00
Wheat (own production)	0.00	0.00	0.00	0.00
Other grains (own production)	0.00	0.00	0.00	0.00
Milk (own production)	0.00	0.00	0.00	0.00
Eggs (own production)	0.00	0.00	0.00	0.00
Fruit (own production)	0.00	0.00	0.00	0.00
Vegetable (own production)s	0.04	0.00	0.03	0.00
Other produce; specify (own production)	0.00	0.00	0.00	0.00
Cattle (own production)	0.00	0.00	0.00	0.00
Sheep (own production)	0.00	0.00	0.00	0.00
Pigs (own production)	0.00	0.00	0.00	0.00
Goats (own production)	0.00	0.00	0.00	0.00
Poultry (own production)	0.02	0.00	0.01	0.00

Source: Statistics South Africa, Living Conditions Survey 2014/15, own calculations

15.3 Luxury VAT

Shows items consumed heavily by decile 10 or items in which decile 10 is assumed to consume more expensive versions of the good. It also shows potential *extra* tax revenue (the difference between the current 15% VAT rate and a 25% rate) from either raising VAT on all goods in that category or only for the subsection of the good consumed by decile 10. This method and the list is indicative.

Table 11 Indicative items for luxury VAT rate and fiscal benefit

ITEM	PERCENTAGE CONSUMED BY DECILE 10	EXTRA TAX AT 25% VAT RATE APPLIED TO ALL GOODS IN CATEGORY (R MN)	EXTRA TAX AT 25% VAT RATE APPLIED DECILE 10 CONSUMPTION ONLY (R MN)
Security systems (including alarms; panic buttons)	80%	46	
Swimming pool maintenance (excluding wages of persons who maintain pools; but including chemicals)	83%	83	
Security services (including reaction services and neighbourhood watch)	86%	47	
Garden and patio furniture	79%	13	
Vacuum cleaners; polishers and carpet cleaning machines	72%	15	
Power driven garden tool (e.g. lawnmowers; etc.)	82%	26	
Garden water sprinkler (e.g. sprays; irrigation systems; etc.)	90%	29	
Other garden equipment	82%	6	
Aircraft educational trips	100%	7	
Aircraft other than educational	97%	134	
Aircraft for when away from home	91%	349	
Boat/ship for when away from home	78%	4	
Fax machines and telephone answering machines for household purposes	80%	1	
Boats (including outboard motors) aircrafts; go-carts	100%	50	
New caravans and trailers including motorised caravans	100%	3	
Quad bikes	84%	1	
Repairs and maintenance services to recreation; entertainment and sports equipment	92%	4	
Holiday tour package	75%	255	
Hotel	81%	339	
Bed and breakfast	81%	69	
Guesthouses	73%	73	
Lodges	70%	60	
Schools boarding fees in private institutions – Loans	77%	17	
Expenses occurred as owner of a holiday home ie after deduction of income received from letting	83%	27	
Motor cars	85%	4 445	3 765
Station wagons	81%	278	226
Mini buses	100%	23	23
New bakkies	84%	545	455
New four wheel drive vehicles	89%	767	682
Used four-wheel drive vehicles	95%	310	255

Cameras; video cameras; projectors and flashes	73%	51	37
eReader	74%	3	2
Other consumables (e.g. toners; ink cartridges)	81%	8	6
Firearms and ammunition	85%	7	6
Special sports clothes and shoes	70%	42	30
Swimming pool equipment and repairs of equipment	75%	63	47
Loose carpets and rugs	52%		16
Refrigerators; deep freezers and refrigerator/deep-freeze combinations	19%		66
Refrigerators	24%		1
Washing machines; dishwashers and tumble dryers	26%		36
Stoves and ovens; including microwave ovens	20%		36
Heaters; air conditioners/fans	60%		14
Heaters (gas and paraffin)	31%		2
Kettles and percolators; coffee makers	26%		11
Cellular phones (pre-paid hand set)	24%		117
Cellular phones accessories e.g. chargers; pouches; earphones; prepaid sim-cards)	30%		5
Mobile device; Modems (e.g.3G; Wi-Fi)	44%		129
Radios (including motor car radios) tape recorders; compact disk players; sounf system; MP3 players; iPods and and similar equipment (including for cars)	26%		11
Television sets; decoders (e.g. M-net; PVR; Explorer; etc.); video recorders; Blu-ray and DVD player	27%		90
Aerials and satellite dishes	28%		10
Personal desktop computers (excluding laptops)	55%		33
Laptops/notebooks	40%		115
Tablets/mini tablets (e.g. iPad; galaxy tabs; etc)	52%		84
Laptops; MP3 players; tablets for educational purposes in public institutions - Loans	33%		8
Laptops; MP3 players; tablets for educational purposes in private institutions - Loans	61%		6
Printers/scanners/copiers	52%		6
Modems	50%		8
Computer parts (e.g. motherboard; CPU; memory/RAM; graphics card; hard drives)	40%		3
Flash disks; SD cards and portable external hard drives	66%		5
	0%		
Other musical instruments; sound equipment and accessories	29%		1
Musical instruments: Pianos; organs and other musical instruments	38%		9
Purchase of hunting dogs	63%		4

Video games CDs/DVDs/Blu-ray/downloaded apps (include downloaded games: X-box; play-station; wii games)	62%		19
Fire works	10%		1
Firearms and ammunition (for security services)	29%		2
Tennis rackets and balls; fishing rods; soccer ball; bats; etc	65%		11
Camping equipment (tents; sleeping bags etc)	66%		14
Watches and personal jewellery	57%		108
TOTAL		8 197	6 514