**6. Report of the Select Committee on Finance on the *Rates and Monetary Amounts and Amendment of Revenue Laws Bill* [B26 - 2017] (National Assembly- section 77), dated 01 December 2017.**

The Select Committee on Finance, having considered and examined the ***Rates and Monetary Amounts and Amendment of Revenue Laws Bill*** [B26 - 2017] (National Assembly – section 77), referred to it, and classified by the JTM as a Money Bill, reports that it has agreed to the Bill.

1. **Introduction**

The Rates and Monetary Amounts and Amendment of Revenue Laws includes major tax changes that were announced in the 2017 Budget, most of which were implemented to raise an additional R28 billion in tax revenues to ensure the sustainability of the public finances.

The tax changes in the Rates Bill include the changes to the personal income tax tables, such as the new 45 per cent rate on taxable incomes above R1.5 million, that were effective from 1 March 2017, an increase in the dividend withholding tax rate from 15 per cent to 20 per cent, increases in excise duties on alcohol and tobacco, changes to transfer duties on the sale of property and increases in the medical tax credit. The Bill also includes the introduction of a Health Promotion Levy.

1. **Consultation processes followed in processing the Bill**

**2.1 Consultation process followed by the National Treasury**

Before the draft Bill was brought to Parliament on an informal basis, National Treasury and the National Department of Health had consultations with the industry associations and other stakeholders on the Health Promotion Levy. In July 2016 NT published a draft Policy paper for public comments and subsequently, together with the National Department of Health, hosted a workshop on 11 November 2016.

The National Treasury received 144 written comments, plus 113 one page identical petitions, which appear to have been orchestrated by the industry; and13 short emails / petitions.

The National Treasury had consultation with the public on the other parts of the Rates and Monetary Amounts and Amendment of Revenue Laws, as follows:

* The 2017 Draft Rates and Monetary Amounts and Amendment of Revenue Laws (Draft Rates Bill) was initially published for public comments on 22 February 2017;
* The Draft Rates Bill deals with changes in tax rates and monetary thresholds, excise duties on alcoholic beverages & tobacco products and SARS reporting requirements;
* The Draft Bill also contains proposals that introduce a Health Promotion Levy to be imposed on Sugary Beverages;
* National Treasury and South African Revenue Service (SARS) briefed the Standing Committee on Finance(SCOF) on the Draft Rates Bill on 23 May 2017;
* Public comments to the SCOF were presented at hearings that were held on 31 May and 06 June 2017;
* With regards to the proposed changes in the Draft Rates Bill (excluding proposed changes to the introduction of the Health Promotion Levy), NT and SARS received written comments from 4 commentators, 3 of which presented their responses orally during the public hosted by the SCOF on 06 June 2017;
* On 14 June 2017, NT and SARS presented a draft document to the SCOF containing a summary of responses to comments received on the Draft Rates Bill (excluding proposed changes to the introduction of the Health Promotion Levy);
* The 2017 Rates Bill was introduced by the Minister of Finance in the National Assembly on 25 October 2017;
* The SCOF adopted and voted on the 2017 Rates Bill on 07 and 08 November 2017;
* The 2017 Rates Bill was debated in the National Assembly on the 21 November 2017; and
* On the 28 November 2017, National Treasury and SARS briefed the Select Committee on Finance on key issues in the Rates Bill.
  1. **Consultation process by NEDLAC**

On 17 February 2017 NT presented the draft Policy document to NEDLAC for engagement. Nedlac convened a task team to engage on the matter. The task team comprised of organised business, organised labour and government.

The Social Partners agreed to work together in a collaborative manner to address job losses, measures to mitigate job loss and create jobs. They have also agreed to work together to address health issues. Responses on the engagements with stakeholders was also presented to the Select Committee on Finance.

**2.3 Consultation process followed by the Select Committee on Finance**

* The National Council of Provinces referred the Rates and Monetary Amounts and Amendment of Revenue Laws Bill to the Select Committee on Finance on the 21 November 2017;
* The Committee used Parliamentary internal communication (Announcement, Tabling, and Committees Reports) to inform the public about it processing the Rates and Monetary Amounts and Amendment of Revenue Laws Bill;
* The Committee received a briefing from the National Treasury on the 28 November 2017 on the above mentioned Bills;
* Public hearings were held on the 28 November 2017, and interested stakeholders made inputs to the Committee on the Rates & Monetary Amounts and Amendment of Revenue Laws Bill specifically on the Health Promotion Levy, and those being Priceless South Africa, Healthy Living Association (HEALA), Congress of South African Trade Unions (COSATU), Tiger Brands, Doctor S Ruder (Clinical Endocrinology), and Beverage Association of South Africa (BEV SA); and
* On the 29 November 2017, the Committee deliberated on the Rates & Monetary Amounts and Amendment of Revenue Laws Bill; Taxation Laws Amendment Bill; and Tax Administration Laws Amendment Bill, and concluded to adopt the Bill without amendments.

1. **Tax Design Features**

Following public consultations, the initial HPL proposal was amended as follows:

|  |  |
| --- | --- |
| **Initial Proposal (July 2016)** | **Current Proposal**  **(revised after consultations)** |
| **Scope:**  Beverages with added sugar: sucrose, high-fructose corn syrup (HFCS), or beverages sweetened with fruit-juice concentrates | **Scope:**  A broader WHO definition will be applied to cover both ‘intrinsic’ and added sugars in a sugary beverage (i.e. total sugar content) |
| **Tax Base:**  Total sugar content of sugary beverages (grams) | **Tax Base:**  **•** Sugar content of sugary beverages  (grams)  • Tax-free threshold of 4g/100ml  (i.e. almost a teaspoon of sugar per 100ml) |
| **Tax Rate:**  **•** R0.0229 (i.e. 2.29 cents) per gram  of sugar  • This equates to 20%, based on the  most popular sugary beverage | **Tax Rate:**  **•** R0.021 (i.e. 2.1 cents) per gram of  sugar in excess of 4g/100ml  • This equates to around 11%,  based on the most popular sugary  beverage |
| **Exemptions:**  **•** 100 fruit and vegetable juice  • Milk products with no added sugar | **Exemptions:**  **•** 100 fruit and vegetable juice  • Milk products with no added  sugar  (Inclusion of 100% fruit juice will be considered in future) |

The HPL will be administered through the Customs and Excise Act (Act 91 of 1964) and follow the current administration system of excise taxes where duty is paid at the source (i.e. factory gate or importation). It will also rely on the food labelling of the sugary beverages as prescribed in terms of the Foodstuffs, Cosmetics and Disinfectants Act, No. 54 of 1972. For sugar-sweetened beverages (SSBs) that do not apply nutritional labelling, a penalty will be applied where a sugar content of the sugary beverage will be assumed to constitute 20 grams per 100 millilitres.

It is anticipated that the HPL will be implemented on 01 April 2018, after it was originally planned for implementation in June 2017, and before that in April 2017.

1. **Observations**

4.1 The Committee welcomes the progress in NEDLAC and acknowledges it is crucial that the NEDLAC agreement should be implemented.   The Select Committee for Finance and Standing Committee for Finance with the committees on Health in both Houses will monitor progress in this regard;

4.2 The Committee noted that there were further engagements with stakeholders outside NEDLAC and that the differences between the parties were managed and reduced even though there the agreement was not completed; and

4.3 The National Council of Provinces requires more time to deal with the Revenue Bills which can be prescribed during the review of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009.

1. **Recommendations**

5.1 The Committee recommends that section 11 of the Money Bills Amendment Procedure and Related Matters Act, which deals with the Revenue Bills be reviewed to allow the Finance Committees to hold joint public hearings on the revenue Bills;

5.2 The Finance Committees would engage National Economic Development and Labour Council on a quarterly basis to report on progress made with regards to the socio-economic impact of the proposed tax on sugar-sweetened beverages;

5.3 The Select Committee on Finance and the Select Committee on Health will monitor the implementation of the Health Promotion Levy. The Levy’s provisions in the Bill should be reviewed three years from their implementation following a socio-economic impact assessment; and

5.4 The Committee recommends that some of the Revenue from the Levy be used to implement health promotion interventions targeting Non Communicable Diseases.

The DA reserves its position on this report.

Report to be considered.