AFASA
AFRICAN FARMERS' ASSOCIATION OF SOUTH AFRICA
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COMMENTS ON THE REMOVAL OF THE ZERO RATE ON SELECTED AGRICULTURAL INPUTS

Preamble

South African agriculture is dual in nature, with a sophisticated, technologically advance and globally competitive commercial sector and on the other hand a subsistence sector that is under resourced, unsophisticated and with a low technology uptake.

Since the advent of democracy in 1994 a new intermediate category of farmers came into foe. The table below illustrate and describes these 3 categories of farmers in South Africa.

Categories of Farmers in South Africa

CATEGORY A: Established Commercial Farmers (ECF)	**CATEGORY B:** First Generation Commercial Farmers (FGCT)	**CATEGORY C:** Subsistence Communal Farmers (SCF)
Mainly white farmers farming for national and global markets.	Mainly black farmers who are developing first generation commercial farmers for local and national markets.	Only black famers farming on a communal farming system for household food security.
About 30 000 farmers	About 2 000 farmers	About 2 800 000 house holds
Most of the title deeds transferred from generation to generation	Most farm on state land with short term leased agreements (5 years)	All farm on tribal land with no security of tenure
Well organised collective action policy and legislative matters	Weak farmers structures with inadequate capacity on policy and legislative matters	Ineffective farmer structure on policy and legislative matters
Mostly highly mechanised and use latest technology	Mostly rely on manual labour to greater extent and use outdated technology	Most rely on government mechanisation programmes

		and technology

The African Farmers Association of South Africa (AFASA) is a farmer association which represents the interests and aspirations of category B and C, in the table above. During the past dispensation Category A farmers received numerous special concessions from government which were meant to ensure food security and sustainability of the agricultural sector in South Africa. Taxation laws were part of the benefits that the Category A farmers enjoyed, especially in reducing administrative burden and cost of production. Category B and C farmers never enjoyed any of these benefits, hence their production costs were always 14% higher than their counterparts and hence they were not competitive.

Heads of Argument

AFASA represents approximately three million small scale farmers across the country. Of the total number of farmers that we represent only 1% are registered VAT vendors and the 99% are not registered for VAT.

Regarding the removal by SARS of the ZERO RATE on agricultural inputs, this will have a negative financial impact on the 1% of the farmers that we represent. The additional cost of 14% will have to be financed by the farmers, either from a loan or bank overdraft. The additional loan will result in additional interest which the farmer will incur and which will result in the increase in production costs. This will also have a negative effect on the consumer as they will have to pay more for their food.

Although the farmer can claim back the additional 14%, this will only happen once his VAT return is due, which could be anything from 1 month to 6 months depending on his vat period. The additional interest incurred on the loan to finance the VAT will depend on the VAT period and how quickly the farmer receives his refund from SARS to repay the additional amount financed.

SARS has suggested reducing the VAT period for farmers to 1 month, but that will result in additional administration for the farmer and additional admin costs. This will also result in the increase in production costs indirectly. This will also go against the initial aim of reducing the VAT administration burden on farmers when the ZERO rate was initially introduced.

The removal of the ZERO rating does not have an effect on the 99% of the farmers not registered for VAT. They will continue purchasing inputs at plus 14%. The current VAT rules do not benefit the smaller farmer currently as they pay a higher price for inputs purchased. They are too small and don’t have the capacity and know-how to register for VAT. Registration for VAT for these farmers is an unnecessary admin costs, as they will have to employ an accountant to submit these VAT returns, which will result in additional costs to them. The benefit of claiming back the 14% in relation to the accountant fees is much less as these farmers don’t buy on a large scale.

Recommendation and Conclusion

AFASA suggests an alternative to the removing of the ZERO rate to make the six input items under discussion as an exempt supply, where no farmer pays VAT on these items. All farmers including Category C, would then benefit from the exempt supply rule.

SARS reasoning for the removal of the ZERO rate was because of the wide spread fraud, but the fraud that is being committed is most of the time not committed by farmers. If fraud is being committed it will continue to be committed by those individuals at a different level until they are caught.

The removal of ZERO Rate will act against food security and sustainability of the sector, as commercial farmers will be out of business due to the cash flow problems, additional administrative costs, additional finance costs which will all increase the cost of production.

With regard to the 99% of the Category C farmers the state instead should consider a 14% subsidy in order to level the playing field on production costs of farming. This means that no farmer pays the 14% or non-registered small scale farmers be subsidized by 14%.

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