

RE: We call on parliament to withhold their approval for a hike in VAT to 15%.

A 1% hike in VAT is, in real terms a 7% increase in the VAT rate ($15-14 = 1. \ 1 / 14 \times 100 = 7\%$). The implications of a 15% VAT rate on food, electricity and water (amongst other important basic needs) together with the 52 cents per litre on the fuel levy will have severe implications for millions of South African households. The measures as argued in Budget 2018 to mitigate the negative impact of the VAT hike, as evidenced below, will not protect the working class.

Food is core to our bodies, our minds and our health. All of South Africa's developmental outcomes (education, health, social and economic) rest on the ability of households to afford proper nutritious food. Food is not like other goods and services. Treating food like any other commodity subject to VAT may have far reaching negative implications.

Budget 2018 argues that the impact of the 15% VAT rate on working class households will be limited by the current zero-rating of basic foods. The data below shows that the basket of zero-rated foods will not compensate for the VAT increase:

- PACSA tracks 38 foods on a monthly basis that working class households have identified as the foods which they would buy should they have sufficient money to do so. 20 out of the 38 foods are vatable; and 18 are zero-rated. Of the total cost of the basket of R3 129.84, a **15% VAT component is R221.59**. The total contribution of VAT to the overall PACSA Food Basket is 7.08%. See Table 1 and Appendix 1.
- Vatable foods contribute **R1 698.87 or 54%** to the total cost of the PACSA Food Basket.

Table 1: The implications of increasing VAT to 15% on the PACSA Food Basket.

Variables	Feb_2018 @14% VAT	Feb_2018 at 15% VAT
Total cost of zero-rated food stuffs in PACSA Food Basket	R 1 430.97	R 1 430.97
Total cost of vatable food stuffs (excl. VAT)	R 1 477.28	R 1 477.28
VAT on vatable food stuffs	R 206.82	R 221.59
Total cost of vatable foods (incl. VAT)	R 1 684.10	R 1 698.87
Total PACSA Food Basket (incl. VAT)	R 3 115.07	R 3 129.84
VAT as a % of total PACSA Food Basket	6.64%	7.08%

It is not true that “The current zero-rating of basic food items such as maize meal, brown bread, dried beans and rice will limit the impact on the poorest households.” The food baskets of low-income households, as shown by our data, include more Vatable foods than zero-rated foods. VAT at R221.59 has a substantial impact on the monies available for households to put food on the table. **By arguing that increasing the VAT rate will have no impact on working class households because certain foods are zero-rated reveals a lack of understanding on what people eat and how meals are put together.** There is just no way in which households are able to escape this increase in VAT when it comes to food. The only way in which households can escape the impact of VAT is if all foods are zero-rated.

- In order to provide a meal working class households don't just use zero-rated foods. A mother does not send her child to school with a few slices of brown bread; she sends her child to school with a sandwich that in addition to the brown bread will require margarine, peanut butter, or jam, cheese, polony – these are all subject to VAT.
- The same applies to cooking a meal for a family. Working class households do not only use maize meal, brown bread, dried beans and rice which are zero-rated. Mothers prepare meals with more than just these zero-rated foods. They also require other foods in order to create a meal. A chicken stew served with maize meal requires salt and spices and chicken. None of which is zero rated.
- All of our basic foods (even the zero-rated foods) require a cooking process to be made into a meal and this requires water and electricity which is subject to VAT.
- Because our staple foods need to be cooked an increase in VAT on electricity may mean that households switch to quicker cooking foods which, in all likelihoods, would be subjected to VAT (example households may stop cooking sugar beans and move to quicker cooking, less nutritious foods).

The only way in which working class households will escape the VAT increase announced by the Minister is if all foods are zero-rated.

The current reality of household purchasing patterns and the projected trends make households more vulnerable to raising VAT rates. VAT should not be increased as it directly hurts low-income households.

Budget 2018 argues that the impact of the 15% VAT rate on working class households will be lessened by “an above average increase in social grants.” The data below shows that the increases in the value of social grants will not compensate for the VAT increase:

- Budget 2018 increased the Child Support Grant [CSG] from April 2018 to September 2018 by R20 to R400 per month. This is an increase of 5.3%.
- Budget 2018 increased the Old-age grant [OAG] from April 2018 to September 2018 by R90 to R1 690 per month. This is an increase of 5.6%.
- Between March 2017 and January 2018 the CPI's Food & Non-alcoholic Beverage inflation averaged 6.09%.

- PACSA’s Food Basket from September 2017 to February 2018 saw the cost of a basket of food that working class households have identified as the foods which they would buy should they have sufficient money to do so, increase by 8% (from R2 885.73 to R3 115.07, an increase of R229.34).

Households relying on social grants spend most of their money on food. The increase of the first tranche of social grants (from April 2018 to September 2018 of 5.3% on CSGs and 5.6% on OAGs) is below the average inflation on food as measured by STATS SA’s CPI (6.09%) and even further below the PACSA Food Price Barometer (8%) which is specifically designed to measure food price inflation as experienced by working class households.

- The Child Support Grant of R400 in April 2018 is set below Statistics South Africa’s Food Poverty Line of R531 (as at April 2017).
- The Child Support Grant of R400 in April 2018 is even further below the actual monthly cost of R583.35 of feeding a small child aged between 10-13 years a basic but proper nutritious diet in February 2018 (See Table 2).

Table 2: The cost of feeding a child a basic but minimum nutritious monthly diet from PACSA Minimum Nutritional Food Basket (Sep 2017 to Feb 2018).

Variables	Child aged 3-9 years	Child aged 10-13 years	Girl child aged 14-18 years	Boy child aged 14-18 years
Sep_2017	R 494.46	R 535.94	R 568.31	R 636.32
Feb_2018	R 540.58	R 583.35	R 615.58	R 682.01
Difference ZAR	R 46.12	R 47.41	R 47.27	R 45.69
Difference %	9.3%	8.8%	8.3%	7.2%

- In In 2016, Statistics South Africa found that nearly a third (30%) of boy children under the age of five years were stunted and a quarter (25%) of girl children were stunted. Stunting has immediate and long term health and developmental consequences.
- Statistics South Africa’s latest Poverty Trends in South Africa: An examination of absolute poverty between 2006 and 2015 Report (2017) shows that one quarter of South Africa’s population (25.2% or 13.8 million people) live below the food poverty line; and 55.5% (30.4 million people) live below the upper bound poverty line. For Black South Africans, 64.2% (around 29 million people at mid-year population estimates for 2017) live below the upper bound poverty line.

PACSA’s latest food price data show that:

- Over the past six months the PACSA food basket which women living on low incomes with households of seven members say they try and buy each month increased by R229.34 or 8% to R3 115.07 in February 2018 (See Figure 1).
- PACSA’s February 2018 food basket of R3 115.07 for a family of seven is broken down as R445.01 per capita per month. It means that households are spending below the food poverty line (R541 per capita per month)
- Women have told us that they are struggling to put food on the table. The food budget is low and households underspend on food. Food runs short before the end of the month. Women absorb these food shortfalls in their bodies and by taking on debt. Women are getting sick.
- **Our data shows that households are already underspending on proper nutritious food by 25%.** The difference in cost between the foods which families living on low-incomes try and buy each month vs. what they would like to buy and should buy to meet basic nutrition is R1 045.97 (R3 115.07 vs. R4 161.04).

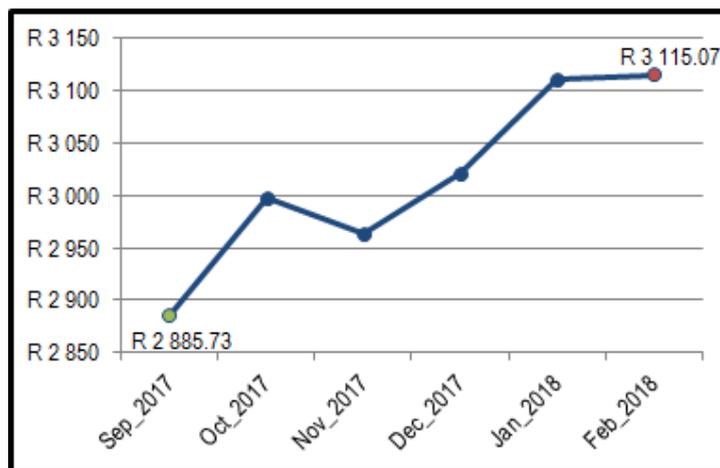


Figure 1: The cost of the PACSA Food Basket (Sep 2017 to Feb 2018).

There are numerous other reasons why increasing VAT on food is not a good idea:

- Food price inflation is highly volatile and unpredictable as seen by the impact of the recent drought. For example, between November 2015 and September 2017 the cost of the PACSA Food Basket increased by 16.1%. Given the volatility of food price inflation, it is not possible to accurately predict the extent of the negative impact of raising VAT for working class households.
- Just because foods are zero-rated does not mean that these foods are affordable.
- The current affordability context means that working class households are already struggling to afford food. An increase in VAT will make putting food on the table even more difficult.

There is too much wealth amongst too few people. We do not think that the answer lies in whether zero-rated foods protect the poor or whether the zero-rated basket should be expanded. It is not correct that millions of South African households cannot afford to put proper nutritious meals on the table. On principle we believe that all foods should be zero-rated as food should be a public good. If however the state seeks to recover higher revenue off VAT than instead of working class households having to fight for an expanded basket of zero-rated foods; it should be the wealthy that argue about what foods should or should not be included in a higher VAT band.

It seems to us that a multipronged approach should have been taken to raise additional revenue rather than increasing VAT. For example an increase in Company Income Tax could have been considered. Going forward, any approach to revising our tax system should be guided by the principle that we don't choose any instrument which deepens inequality – even if marginal. That is, if there is a burden to be shouldered that working class households be excluded from sharing in this burden. Black South African households have carried this burden too heavily and for too long. The burden of inequality and injustice must be shifted to those who can afford it, and in solidarity, so that by paying a bit more; all can at least live at a basic level of dignity.

RECOMMENDATIONS:

- 1. We call on parliament to withhold their approval for a hike in VAT to 15%.**
- 2. In order to recover revenue we suggest an increase in the Corporate Income Tax**

We would like our input to be considered by the Standing Committee and Select Committee on Finance with respect of the proposed National Budget 2018. We would be open to having a conversation with you should you feel that this would be useful.

Yours sincerely



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Appendix 1: The PACSA Food Basket for February 2018, showing the actual cost of the food basket and the projected cost at a 15% VAT hike.

Type of tax	#	Foods tracked	Quantity tracked	VAT 14%	VAT 15%	14% total	15% total
Zero-rated foods	1	Maize meal	25kg + 10kg			R 246.81	R 246.81
	2	Rice	10kg			R 79.82	R 79.82
	3	Samp	5kg			R 31.32	R 31.32
	4	Sugar beans	5kg			R 87.49	R 87.49
	5	Cooking oil	5L			R 81.99	R 81.99
	6	Maas	4L			R 39.49	R 39.49
	7	Eggs	60 eggs (2 trays)			R 101.49	R 101.49
	8	Potatoes	10kg			R 59.13	R 59.13
	9	Onions	10kg			R 79.99	R 79.99
	10	Tomatoes	10kg			R 113.58	R 113.58
	11	Carrots	5kg			R 23.79	R 23.79
	12	Butternut	10kg			R 37.37	R 37.37
	13	Spinach	8 bunches			R 39.92	R 39.92
	14	Cabbage	1 head			R 10.59	R 10.59
	15	Tinned pilchards	400g x6			R 94.97	R 94.97
	16	Bananas	2kg			R 21.31	R 21.31
	17	Apples	1.5kg			R 16.16	R 16.16
	18	Brown bread	30 loaves			R 265.75	R 265.75
Vatable foods	1	Cake Flour	10kg	R 9.37	R 10.04	R 76.32	R 76.99
	2	White sugar	10kg	R 17.21	R 18.44	R 140.16	R 141.39
	3	Frozen chicken portions	10kg	R 41.45	R 44.41	R 337.49	R 340.45
	4	Chicken feet	5kg	R 19.62	R 21.02	R 159.72	R 161.12
	5	Gizzards	2kg	R 6.08	R 6.51	R 49.48	R 49.91
	6	Beef	2kg	R 18.47	R 19.79	R 150.44	R 151.75
	7	Wors	2kg	R 10.07	R 10.79	R 81.98	R 82.70
	8	Inyama yangapakhathi	2kg	R 8.59	R 9.21	R 69.98	R 70.59
	9	Salt	1kg	R 1.61	R 1.72	R 13.08	R 13.19
	10	Stock	24 cubes x2	R 3.93	R 4.21	R 31.98	R 32.26
	11	Soup	400g x2	R 2.64	R 2.83	R 21.48	R 21.67
	12	Curry powder	200g	R 3.23	R 3.46	R 26.32	R 26.55
	13	Tea	250g (100 bags)	R 2.41	R 2.59	R 19.66	R 19.83
	14	Cremora	800g	R 3.58	R 3.84	R 29.16	R 29.41
	15	Canned beans	410g x6	R 7.16	R 7.67	R 58.31	R 58.82
	16	Margarine	1kg	R 3.60	R 3.86	R 29.32	R 29.58
	17	Peanut butter	400g	R 3.11	R 3.33	R 25.32	R 25.55
	18	Polony	2.5kg	R 6.16	R 6.60	R 50.16	R 50.60
	19	Apricot jam	900g	R 2.76	R 2.96	R 22.49	R 22.69
	20	White bread	30 loaves	R 35.77	R 38.32	R 291.25	R 293.80
	38	Total PACSA Food Basket		R 206.82	R 221.59	R 3 115.07	R 3 129.84