REPORT OF THE SELECT COMMITTEE ON FINANCE ON THE 2018 FISCAL FRAMEWORK AND REVENUE PROPOSALS, DATED 06 MARCH 2018.

The Select Committee on Finance, having considered the 2018 Fiscal Framework and Revenue Proposals, reports as follows;

PART 1

1. INTRODUCTION AND BACKGROUND

1.1. The former Minister of Finance (the Minister), Mr. Malusi Gigaba, tabled the 2018/19 National Annual Budget (the Budget) before Parliament on 23 February 2018 in line with section 27 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA) and section 7 (1) of the Money Bills Amendment Procedure and Related Matters Act, Act No. 9 of 2009 (Money Bills Act).

1.2. The Minister briefed the Committees on 24 February. The Committees received the post-budget input from the Parliamentary Budget Office (PBO) and the Financial and Fiscal Commission (FFC) on 27 February, in line with their statutory mandates. Public hearings were held on 28 February and the National Treasury (NT) responded to the inputs and submissions made on 2 March, addressing the specific requirements of section 8 (3) of the Money Bills Act. Civil society participants then replied to the submissions by NT and members of the Committees engaged with both the participants and NT.

1.3. The Committees received written and oral submissions from the South African Institute of Chartered Accountants (SAICA), the South African Institute of Tax Professionals (SAIT), PriceWaterhouseCooper (PwC), the Fiscal Cliff Study Group (FCSG), the Congress of South African Trade Unions (COSATU), the National Union of Metalworkers of South Africa, Amandla.Mobi, the Pietermaritzburg Agency for Community Social Action (PACSA), the Rural Health Advocacy Policy (RHAP), the Organisation Outdoing Tax Abuse (OUTA), Parliament Watch, the Civil Society Coalition (CSC), the Quaker Peace Centre (QPC), Mr. Guy Harris and, Manufacturing Circle.

1.4. We further received written submissions from the following individuals and organisations who could not come to give oral presentations: the National Education, Health and Allied Workers' Union (NEHAWU), the Public and Environmental Economics Research Centre of the University of Johannesburg's Public and Environmental Economics Research Centre (PEERC), Ms Christa McEvoy, Ms Christine Cameron-Dow, Mr. Peter Meakin, Mr. Dirk Streicher, Business Unity South Africa (BUSA), Shukumisa, Makukhanye Rural Movement, Equal Education, Alternative Information and Development Centre (AIDC), South African Catholic Bishops' Conference, Ntsindiso Nongcavu, Unite Behind Coalition, Imraan Valodia and David Francis**.**

PART II

2. MINISTER'S OVERVIEW OF THE NATIONAL BUDGET (2018/19)

2.1. Minister's Briefing to the Committee

2.1.1. The former Minister of Finance said that although the 2018 Budget was tough it was also hopeful. It supports the implementation of government policy decisions outlined by the President in the State of the Nation Address (SONA) address and will contribute to radical socio-economic transformation of the country.

2.1.2. He said that Budget 2018 supports economic cohesion through increased education, health and social development funding in the face of economic constraints and challenges such as low economic growth, increasing poverty and high unemployment.

2.1.3. He said that hard choices were made to balance the budget and ensure that government continues to consolidate its debt, balances the books and focuses on economic growth while dealing with the revenue shortfall challenges. He emphasized that the message from the 2018 Budget was the stabilization of debt so that its burden is not deferred to future generations. He said the current generation would have to endure the pain necessary so that future generation have a better life.

2.1.4. He said that the Budget announced structural reforms which included interventions in the mining sector to bring about policy certainty, telecommunications reforms including the release of additional broadband spectrum, State-Owned Entities (SOEs) reforms, financial sector transformation and procurement policy reforms. These were meant to boost consumer and investor confidence and encourage economic growth.

2.1.5. He said the reforms on SOEs involve the reestablishment of a coordinating council, to be chaired by the Minister, to focus on streamlining the architecture of SOEs; addressing

structural challenges and remodelling shareholder pacts through the Shareholder Management Bill which will be tabled in Parliament this year.

2.1.6. He said that the budget should be viewed in its totality, rather than focusing on individual items such as the Value Added Tax (VAT) hike of 1% to be introduced on 01 April. He said that, contrary to the popular view that the budget is not poor-friendly, it addressed itself very firmly to the needs of the poor, and the VAT increase is also directed at that. The funding of fee-free higher education, allocations to the National Health Insurance and the generous increases in social grants were pro-poor.

2.1.7. He explained that even the stabilisation of debt was itself pro-poor as it ensured that unsustainable debt is not inherited by future generations. He said we needed to pre-empt a situation where the country will have to approach multi-lateral institutions to raise debt as that would erode our fiscal sovereignty.

2.1.8. The Director-General of National Treasury, Mr Dondo Magajane, added to the Ministers' overview. He said that there is a renewed sense of optimism following a difficult year for the economy. He said that the budget responded to revenue shortfalls presented in the 2017 MTBPS and the announcement of fee-free higher education and training.

2.1.9. He said the new tax measures will raise an additional R36 billion in 2018/19 through the VAT and adjustments to personal income tax for the lower three tax brackets. He explained that the impact of a VAT increase will be mitigated by the zero-rating of basic food items and paraffin and the above inflation adjustments in social grants.

2.1.10. He explained that the expenditure ceiling was revised down over the next three years, leading to spending cuts of R85 billion and an allocation of R57 billion for fee-free higher education. He emphasised that with an improved growth outlook, the revenue and spending measures reduce the consolidated deficit from 4.3 per cent of GDP in the current year, to 3.5 per cent by 2020/21. He said that the main budget primary deficit closes, helping to stabilise debt at 56.2 per cent of GDP by 2022/23.

2.1.11. He warned that there were still risks to public finances which included an uncertain growth outlook, wage pressures, and the weak finances of SOEs. He said that government has undertaken immediate steps to improve SOEs governance and reduce liquidity constraints over the medium term, outlining that where appropriate, private-sector participation SOEs was being considered.

2.1.12. On the domestic growth front, there has been a recovery on commodity prices. National Treasury is estimating real GDP growth of 1.5 percent in 2018 up to 2.1 percent in 2020 mainly through strong growth in agriculture and improved investor confidence.

2.2. DOMESTIC ECONOMIC OUTLOOK

2.2.1. South Africa's economy is experiencing a modest recovery and in recent months the growth outlook has improved. In MTBPS 2017, the growth rates projection were revised downwards to 0.7 percent for 2017, 1.1 percent for 2018 and 1.5 percent for 2019. In the 2018 budget, GDP growth of 1 percent in 2017/18 is forecast, growing to 1.5% in 2018/19 and improving to 2.1 percent by 2020.

2.2.2. The official unemployment rate reached 27.7 percent for a third successive quarter in the third quarter of 2017. Private sector jobs remain the only sustainable way to reduce unemployment. The current account of the balance of payments stood at 2.3 percent mainly largely due to a higher trade surplus ratio of exports to imports prices.

2.2.3. At this juncture, the inflation outlook remains stable but there are risks for 2018 as headline inflation is projected at 5.3 percent, which includes 0.6 percentage points as a result of the 2018 Budget revenue proposals.

2.3. THE CONSOLIDATED FISCAL FRAMEWORK

2.3.1. Table 1 below reflects the consolidated general government revenue, expenditure and deficit anticipated in the 2018 Budget. Consolidated general government balances are the broadest definition of public sector revenues and expenditures, and include national, provincial and local government revenues and expenditures as well as those of social security funds and extra-budgetary government institution.

Table 1: Consolidated fiscal framework

R'billion/Percentage of GDP	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Outcome			Revised	Medium Term Estimates		
Revenue	**1,095.3**	**1,215.3**	**1,285.7**	**1,353.6**	**1,490.7**	**1,609.7**	**1,736.9**
	28.3%	29.5%	29.2%	28.8%	29.7%	29.9%	29.9%
Expenditure	**1,235.0**	**1,366.3**	**1,441.8**	**1,558.0**	**1,671.2**	**1,803.0**	**1,941.9**
	31.9%	33.1%	32.7%	33.2%	33.3%	33.4%	33.4%
Non Interest Expenditure	**1,113.6**	**1,227.8**	**1,285.0**	**1,387.6**	**1,483.4**	**1,596.9**	**1,718.0**
	28.8%	29.8%	29.2%	29.5%	29.5%	29.6%	29.6%
Debt Service Costs	**109.6**	**121.4**	**136.3**	**153.4**	**169.3**	**187.6**	**206.4**
	3.0%	3.1%	3.3%	3.5%	3.6%	3.7%	3.7%
Budget Balance	**-139.7**	**-151.0**	**-156.1**	**-204.3**	**-180.5**	**-193.3**	**-205.0**
	-3.6%	-3.7%	-3.5%	-4.3%	-3.6%	-3.6%	-3.5%
Primary Balance	**-25.8**	**-13.2**	**-5.9**	**5.5**	**20.3**	**45.7**	**60.6**
	-0.7%	-0.3%	-0.1%	0.1%	0.4%	0.9%	1.1%

Source: National Treasury and Financial and Fiscal Commission (FFC)

2.3.2. NT proposes measures to reduce the budget deficit by raising an additional R36 billion in tax revenues through an increase in the VAT rate by 1 percent from 14 to 15 percent, limited personal income tax bracket adjustments and other measures. The largest contribution is R22.9 billion from the increase in the VAT rate.

2.3.3. It also proposed to reduce 2017 MTBPS baseline expenditure by R26 billion and allocate R12.4 billion for fee-free higher education and training in 2018/19, R20.3 billion in 2019/20 and R24.3 billion in 202/21.

2.3.4. Set aside to replenish the contingency reserves is an additional R5 billion and a R6 billion provisional allocation for drought management and public infrastructure.

PART III

3. INPUT FROM STATUTORY INSTITUTIONS

3.1. Parliamentary Budget Office

3.1.1. The Parliamentary Budget Office (PBO)'s input focused on the significant revenue shortfall and additional revenue to be raised, changes to revenue and expenditure to stabilise debt over the medium-term and how the 2018 Budget attempts to return to the debt stabilisation path.

3.1.2. The PBO provided an overview of the potential effects of a VAT increase. It stated that research has shown that a VAT increase changes consumption patterns. Citing the Davis Tax Commission (DTC), it said that an increase in VAT is more inflationary, in the short-term, compared to increases in personal and corporate income taxes.

3.1.3. It warned that an increase in VAT could lead to slower growth and increase unemployment and could have a greater negative impact on inequality than an increase in personal and corporate income taxes. In addition, VAT and other consumption related tax increases would likely exaggerate the wage bill demands during wage negotiations. The PBO said that an increase in VAT could be partially mitigated by increases in social grants.

3.1.4. With respect to fuel tax increases, the PBO said that these taxes have been found to be regressive. It said they will lead to increases in transport costs from a larger share of poor households' expenditure given the spatial legacies. The PBO further argued that fuel taxes were becoming less effective at raising revenue as there were more fuel efficient vehicles in the market. This then leads to larger fuel levy hikes in order to raise the same amount of revenue, PBO argued. The PBO submitted that a viable alternative will need to be found.

3.1.5. The PBO further highlighted key risks to the fiscal framework, saying that domestic levels of employment, investment and economic growth could be constrained by continued high levels of household and corporate debt. It said that the financial and operational health of SOEs, effects of drought and the effectiveness of the revenue collection agency, and the uncertain costs of fee free higher education remained major risks to the fiscal framework.

3.2. Financial and Fiscal Commission (FFC)

3.2.1. The FFC noted that economic growth remained muted amid an upward trend in the ratio of public debt, threatening the stability of the fiscal system. It welcomed the improvements in the current account deficit, noting that these improvements were not occurring in a sustainable and sufficient scale to address the slow pace of export growth.

3.2.2. It said that while it understood the necessity of consolidation and expenditure moderation, it was concerned that the composition of expenditure reductions disproportionately affects capital transfers which are essential in laying the foundation for future growth. The FFC submitted that government should develop a transparent framework for capital expenditure cuts to avoid widening capacity constraints, especially within local economies.

3.2.3. With respect to the contentious of VAT increase, the FFC said it understood the necessity to increase VAT given the magnitude of revenue shortfalls and circumstances the economy finds itself in. It said that the potential for poverty reduction is more pronounced when VAT revenues are recycled to pro-poor allocations through social protection spending. It said that this would cushion the impact on low income groups, along with a continued regime of zero-rating which is well targeted.

3.2.4. The FFC said it supports the VAT increase as it would signal structural reform to the rating agencies and prevent a further downgrade by Moody's. The FFC said that it would be important to broaden the tax base through a varying combination of taxes to support economic growth, while concurrently supporting fiscal sustainability. This will be a more sustainable stance to adopt in plugging the revenue shortfalls.

3.2.5. The FFC submitted that contingency reserves should be set at sustainable levels in an environment of increased uncertainty and rising social demands. It said that reserves should serve as a fiscal buffer to protect public finances.

PART IV

4. INPUT FROM STAKEHOLDERS

Written and Oral Submissions

4.1. We provide summaries of the submissions for those who made written and oral presentations. Their full presentations are available from the Committee Secretaries at awicomb@parliament.gov.za and zrento@parliament.gov.za**.** To seek to ensure that the summaries are as accurate and representative as possible, we requested that the participants provide a summary of up to 300 words each. Some did.

4.2. South African Institute of Chartered Accountants

4.2.1. SAICA said that South Africa needs sustainable economic growth, accountable leaders and tangible solutions, including addressing poverty and inequality through difficult but necessary trade-offs. Continued concerns over unsustainable debt levels, fiscal expenditure morality and prudent funding of the state must receive urgent attention.

4.2.2. It said that the proposed VAT increase is an unfortunate consequence of inevitable decisions resulting from the budget deficit crises and unsustainable decision-making. The detrimental impact on the poor, as a result of the proposed VAT rate increase, cannot be effectively 'cushioned', since VAT is a broad based (and regressive) tax instrument. The most effective way to protect the poor is not to implement the proposed change at all. However, expenditure cuts by government totalling R22.9 billion were necessary to fund the budget deficit.

4.2.3. It submitted that an urgent announcement to delay the 1 April 2018 implementation date of VAT hike be made, since industry is incurring costs in preparation of implementing the rate change, whilst alternative measures to satisfy the R22.9 billion requirement are explored and agreed upon.

4.2.4. SAICA said that South Africa should not continue to burden compliant taxpayers. It further said that the debt crisis and increasing budget deficit cannot be solved by continually increasing taxes. The impact of debt to enhance spending plans, the national consequences of over-indebtedness and potential subservience to creditors must be addressed.

4.2.5. SAICA submitted that fiscal discipline is of paramount importance to create an environment where economic growth is prioritised and stimulated, which can be achieved by a meeting-of-minds and collaboration with business and labour and policy certainty. It further submitted that uncertain material expenditure items threaten the achievement of future targets and need to be clarified (such as the funding for free tertiary education, NHI, SOEs and other critical infrastructure spending). The proposals to address some of the causes of the tax morality

issues (such as a commission of inquiry into SARS) and the education crisis must be addressed holistically and through a proper consultation process with all stakeholders.

4.3. South African Institute of Tax Professionals

4.3.1. SAIT said that while cutting wasteful and fruitless government expenditure is urgently required, tax increases are the only viable option to cover most of the R48.2 billion revenue gap in 2017/2018. It said the VAT increase was the only quick and certain way to raise revenue and should be seen as an unavoidable and last-ditch measure after having covered the gap with a variety of other tax measures over the last number of years.

4.3.2. It said that other options have been tapped out as there was R21.1 billion expected shortfall in 2017/2018 personal income tax collection and CIT rate is high in comparison and the global trend and could damage South Africa's competitiveness as an investment destination.

4.3.3. It said that taxes on luxury goods, such as *ad valorem* and a multi-tier VAT system simply will not generate the revenue. It further argued that South Africa's VAT rate is relatively low compared to Africa (38 countries have higher rates) with even less well-off people than here and is far lower than the rest of the world (Europe is at around 20%).

4.3.4. It said that contrary to popular belief, a 2015 World Bank study titled 'The distributional impact of fiscal policy in South Africa' found that VAT is broadly neutral in South Africa; that households across the income brackets pay roughly the same proportion of their income on VAT; that VAT does not make inequality better or worse in South Africa and that higher income earners pay a slightly higher proportion of their income on VAT when zero-rated goods are taken into consideration than lower income earners.

4.3.5. SAIT recommended that the list of zero-rated basic food items be carefully reviewed to eliminate any perceived adverse impact on the poor.

4.4.PriceWaterhouseCooper

4.4.1. PwC observed that the budget was delivered under a tough economic environment of slow economic growth, unemployment, revenue shortfalls, narrowed fiscal consolidation space, spending pressures as a result of free higher education, National Health Insurance and dought relief and a possible ratings downgrades by Moody's.

4.4.2. It welcomed the reduction in deficit since the MTBPS although the rate of deficit reduction was still a concern. It said that the problem of was government expenditure rather than revenue as revenue collection was at record highs. The problem with spending was the government wage bill which has increased from 9% to 11% of GDP. It said that limiting salary increases to inflation could save the country R34 billion over the medium-term.

4.4.3. It said that while the tax increase of R36 billion will hurt economic growth, this was less damaging than a credit rating downgrade that could occur if the tax proposals are not implemented. It noted that gross tax revenues as a share of GDP were becoming unsustainable and crowding out other policy initiatives. PwC said that the R7.5 billion increase in PIT for the lower three tax brackets was unjustifiable. It further said that South Africa has the highest CIT burden of all countries. It submitted that South Africa has no choice by to increase VAT if it wants to raise the sought revenue, although VAT was a regressive.

4.4.4. PwC raised concerns over the increase in the RAF levy, environmental taxes, and alcohol and tobacco taxes.

4.5. Fiscal Cliff Study Group

4.5.1. The FCSG said that its research focusses on the point where social assistance payments, civil service remuneration and debt-service costs will absorb all government revenue. Based on information contained in the 2018 Budget, the sum of compensation of employees, social assistance payments and debt-service costs amounted to 70,4% of tax revenue in 2018/19. This ratio was 55,0% in 2007/08.

4.5.2. It said that a fiscal cliff barometer was compiled which indicated an improvement in the trend between 2014 and 2018. The FCSG said that despite the improvement, the crowding-out effect that these three items are already exerting on other expenditure items remains concerning. It highlighted the impact on infrastructure projects expected due to the unavoidable reduction plans over the medium-term.

4.5.3. The FCSG said that a picture of a continued tight fiscal position emerges, which is linked to subdued economic growth. The Budget therefore rests on two pillars which are that the economic growth projections and spending cuts (R86 billon over the medium term) must materialise. Based on this, the FCSG submitted that: the deficit before borrowing must be

contained, bonus payments for executives at SOEs and government institutions (e.g. SARS) must be abandoned as bonuses drive behaviour, government expenditure must be reprioritised, e.g.: official cars; a smaller Cabinet; and a moratorium on civil service employment, expenditure cuts in the Budget Review must be specified with detailed time lines to ensure monitoring of progress.

4.5.4. The FCSG submitted further that civil service employment figures in Annexure B to 2017 MTBPS Budget Review and the December 2017 Quarterly Bulletin of the SA Reserve Bank will have to be reconciled and more disclosure is necessary regarding annual increases in civil service remuneration, specifically related to structural remuneration changes, notch adjustments, promotions, seniority increases, performance bonuses (if any) and annual general adjustments (cost-of-living).

4.6. Congress of South African Trade Unions

4.6.1. COSATU expressed its disappointment with the budget and said it had no correlation with the 2018 SONA which unveiled a vision for economic growth, job creation, anti-corruption, SOEs reforms and expansion of critical service delivery. It said that it rejects National Treasury's attacks upon public servants needs and rights to earn a living wage.

4.6.2. COSATU said that the government's key commitments have not been fleshed out in the budget; there are no jobs targets, plans or timeframes and only a few departments have jobs targets. It further said that there is no comprehensive plan to clean up, stabilise and place the SOEs on a sustainable path beyond the board changes at Eskom and the SABC. It called for a comprehensive forensic audit of Eskom, SABC, SAA, Transnet, SASSA, DENEL and the State Security Agency.

4.6.3. The leadership of the state, public service and SOEs must be subject to life style audits, banned from doing business with the state and required to declare their taxes publicly. COSATU said that the commission of enquiry at SARS should resume its work immediately and the leadership of SARS must be immediately removed as it is deeply implicated in state capture.

4.6.4. COSATU said it is deeply angry with government for now trying to balance the budget upon the backs of the working and middles classes by increasing VAT, adjusting income tax brackets for the bottom three tax brackets at below inflation levels, increasing the fuel levy and reducing the public service head count, yet no tax increases are exacted upon the rich. COSATU said that this is an anti-worker and anti-poor budget where the 'elite stole and now the poor must pay back the money!'

4.6.5. COSATU called upon Parliament to reject the VAT increase and to modify the fuel levy increases. It further called for an increase in corporate and personal taxes for those earning more than R1 million and to increase import and luxury goods taxes. Alternatively, government must expand the list of zero-rated items to include more food items, medicines, sanitary pads, essential toiletries, school uniforms and text books. It threatened that if none of these calls are heeded, it will be forced to increase its wage demands and to mobilise workers to go on strike.

4.7. National Union of Metalworkers of South Africa

4.7.1. NUMSA said that it believes that the starting point for the growth of the local market is the development of supportive macro-economic policy that drives industrialisation as a core economic imperative. At a macro-level, radical changes to economic policy need to take place in order to effectively deal with the triple crisis of poverty, unemployment and inequality.

4.7.2. On tax proposals, NUMSA said that it would support an increase in corporate income tax as opposed to VAT given that 80 per cent of the child support grant amounts are already spent on food. NUMSA argued that the zero-rated list should be expanded to include items such as candles, soap, basic medicines, pay-as-you-go airtime and education related goods if a VAT increase is implemented.

4.7.3. It submitted that it was now time to increase duty rates for imported goods such as imported vehicles, especially in the segments where most purchases take place. NUMSA submitted that the fuel levy and Road Accident Fund levy increases will affect not only those travelling by car or taxi but will also affect the cost structure of transport and logistical companies that are delivering food, clothes, appliances and other goods.

4.7.4. On revenue collection, NUMSA called on SARS to decisively address tax avoidance by big corporates. It said there should be clear legislation that addresses sophisticated crimes

committed by 'white monopoly capital' of illicit financial outflows, base erosion and profit shifting.

4.7.5. NUMSA urged government to implement reforms in SOEs. It said that there should be a shared responsibility between the Ministry of Public Enterprises and institutions such as the Development Bank of Southern Africa, the Independent Development Corporation and the Public Investment Corporation. It further said there must also be transparency on how the new boards of SOEs are appointed, particularly the new Eskom board. NUMSA further said that there must be a reconstitution of Eskom and SAA boards so that all social partners are represented.

4.8. Amandla.mobi

4.8.1. Amandla.mobi, which said that it represented 202 000 members and had a petition signed by over 55000 people who opposed the VAT hike, said that it rejects the proposed VAT and fuel levy increases. It submitted that instead there should be increases in corporate and personal income taxes, sin taxes, ad valorem excise duties on luxury goods, an introduction of carbon tax, net wealth tax, removal of tax breaks for the rich and an increase to the Health Promotion Levy to 20%, expanding it to all sugary products, an increase in land property tax.

4.8.2. It said that instead of increasing VAT, the zero-rated items should be expanded. It also submitted that public participation in the budget process should be improved by allowing more time for participation.

4.8.3. Amandla.mobi said that the budget is supposed to renew economic growth, but it will essentially erode the spending power of the poor, and take money away from those who need it most and 'give' it back to some through social grants and lower costs for tertiary education. It said that this will not offset the impact of a VAT hike which along with the fuel levy and social spending cuts will hurt its constituency.

4.8.4. It submitted that its revenue proposals could easily raise well beyond the R22.9 billion needed. It said that on personal income tax alone, raising the top three tax brackets by 2% could raise R30.8 billion.

4.9. Pietermaritzburg Agency for Community Social Action

4.9.1. PACSA said it would like Parliament to withhold its approval for a VAT because of its implications on food, electricity, water and other basic needs. Combined with the 52 cents per litre on the fuel levy, these increases will have severe implications for millions of South African households, PACSA submitted.

4.9.2. PACSA said that it tracks 38 foods on a monthly basis that working class households have identified as basic to them. It said that 20 out of the 38 food items are not VAT exempt. Of the total cost of the basket of R3 129.84, a 15 % VAT component is R221.59. It said that the total contribution of VAT to the overall PACSA food basket is 7.08%. Vatable foods contribute R1 698.87 or 54% to the total cost of the PACSA food basket. PACSA said it believes that households can escape the impact of VAT if all food items are zero-rated.

4.9.3. PACSA said that a VAT hike could be lessened by 'an above average increase in social grants.' It explained that households relying on social grants spend most of their money on food. It said that the increase of the first tranche of social grants from April to September 2018 is below the average inflation on food as measured by StatsSA'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).

4.9.4. PACSA decried the country's income inequalities and submitted that government should consider alternative measures of raising revenue, such as taxing the wealthy and increasing the rate of corporate income tax.

4.10. Rural Health Advocacy Policy

4.10.1. RHAP said that it is concerned that the proposed increase in VAT has the potential to reduce disposable income of poor communities and could increase poverty and inequality. They are further concerned by the proposed increase in fuel levy as well as carbon tax on motor vehicles. It said that these taxes have the potential to decrease real disposable income of the poor and contribute to greater ill health amongst the rural communities.

4.10.2. RHAP urged Parliament, the National Treasury, the Department of Health to investigate measures to minimise the impact of increased transport costs. The investigation should

include measures on increased investments planned for patient transport and improved efficiency of emergency medical services.

4.10.3. On revenue forecasts, RHAP called on the National Treasury to provide details on the risk mitigation strategies that will be put in place to ensure that social expenditure is not negatively affected by changes in the economic outlook.

4.10.4. RHAP raised concerns that provinces have significant discretion in the manner in which resources are ultimately allocated. It said that the proposals to reduce transfers to provinces over the medium-term was therefore concerning given that front health services are funded from the provincial equitable share allocation.

4.10.5. It said that the failure of the budget to specifically address retention and protection of critical front line health posts is concerning. It further said that as the government considers the public sector wage bill, it must be reminded about the essential role that skilled and committed health workers play in the health system. RHAP said that it will be presenting its concerns to the Appropriations Committees on the Division of Revenue and Appropriations Bills.

4.11. Organisation Undoing Tax Abuse

4.11.1. OUTA submitted that South Africa must reduce sovereign debt. It said that reasons for the bloating of the debt-to-GDP ratio is not acknowledged in the budget. Non-compliance with the PFMA, unskilled leadership, abuse of preferential procurement mechanisms and contrived crises that ostensibly justified deviation from normal procurement processes were some of the reasons for poor overall financial performance in the public sector, it said.

4.11.2. OUTA warned that increasing taxes year after year without material improvement in governance poses a major risk to the economy. It said that any increase in the tax burden on society was frustrating in the context of persistent maladministration and widespread corruption. It said there was a need to roots out corruption and maladministration, whilst optimizing spending efficiency to justify the tax burden on the narrow base of taxpayers.

4.11.3. It warned that increased allocations to national organs of state will not necessarily alleviate poverty and inequality or achieve higher levels of financial performance and frugal investment practices. It submitted further that government must reduce its overall expenditure and facilitate decentralized service delivery models and lawful public-private partnerships in the energy, transport and water sectors.

4.11.4. OUTA recommended the deployment of a high priority task team to focus on getting financial management systems on track in financially failing municipalities across all provinces. It said it believed that continued reliance on large infrastructure project spend cannot address employment challenges, but effective social spending at local level through public works infrastructure spend has had a greater impact and should be increased.

4.11.5. OUTA said it fully supports central government's commitment to the reduction of Cabinet and the elimination of unaccountable, financially incompetent and overpaid human resources in all organs of state. It also implored government to plan for zero tax increases in the 2019 Budget.

4.12. Parliament Watch

4.12.1. Parliament Watch, which represented ten independent civil society organisations, emphasized that the poor and working class people should be given enough space to participate on the fiscal framework and the revenue proposals. It cited the *Doctors for Life International vs The Speaker of the National Assembly* which established the reasonableness test to establish the appropriate extent and nature of public participation which included the nature and importance of legislation and the intensity of its impact on the public. It said that there was a constitutional obligation to provide meaningful opportunities for public participation and taking measures to ensure that people can take advantage of the opportunities provided.

4.12.2. Parliament Watch said it considers the proposed VAT increase to be regressive and argued that it will impact the poor and working class people significantly. It strongly urged Parliament to extend the period for decision-making regarding the question of increasing VAT.

4.12.3. It submitted that should the Committees decide not to extend the period of decision-making regarding the proposed VAT, Parliament should reject this VAT increase proposal. Should the VAT hike be rejected at this or a later stage, alternative measures taken must not cut social spending further or any other measures that disproportionately affect poor and working class people.

4.12.4. Parliament Watch said that it doubts the constitutionality of the participation process regarding the VAT increase. It proposed that to improve public participation in future; the dates of the fiscal framework and revenue proposal hearings should be communicated to the public in January, the National Treasury should prepare the necessary and accessible information and make it publically available along with the text of the Minister's budget speech, the National Treasury should reconsider its limited participation strategies preceding the announcement of the annual budget. It lastly proposed that public information on engaging in parliament processes linked to public finance should be improved.

4.13. Civil Society Coalition

4.13.1. CSC, which represented ten independent civil society organisations, said that it was alarmed by the regressive taxation measures proposed alongside social spending cuts in the 2018 budget. Of the additional revenue the budget hopes to raise, over 70% comes from three indirect taxes: VAT, fuel and excise (sin) taxes. It said that this will increase the regressivity of the tax regime and had a strong likelihood of exacerbating poverty and undermining the role that tax can play in reducing inequality.

4.13.2. CSC submitted that in the South African context, tax and spending plans *must* be redistributive. This submission follows from Section 9 of the Constitution as well as the fact that reducing inequality and poverty and investing in pressing social needs is essential for inclusive economic growth. It said that effective rates of corporate and personal income taxes have fallen significantly since 1999. For example, a tax payer earning R1.5million today pays R110 000 less tax than s/he would in 1999 – and room thus exists for increasing these (direct and progressive) taxes, it said. It submitted that taxes on property are low and given extreme wealth inequality and the accumulation of wealth under apartheid, these can play an important redress and revenue raising role.

4.13.3. It said that it is important to note that tax rates faced by South African corporates are not high by international standards. South Africa ranks 172 out of 213 countries for company tax contributions (where 1 is the highest).

4.13.4. CSC said that the increase in VAT is made in the context of the real value of social grants barely keeping pace with Consumer Price Index inflation and, in recent years, often not with food price inflation. It said that modest increases to social grants will not ameliorate the impact of the hike in VAT.

4.13.5. Zero-rating of a limited number of basic foodstuffs makes VAT less regressive. However, many products consumed by the poor are not zero-rated and further zero-rating, particuarly for products essential to women and children, should occur.

4.13.6. CSC's written submission costed and proposed alternative revenue raising measures that would increase the progressivity of the tax system while ensuring that revenue shortfalls and social needs are met. It called on Parliament to: withhold approval of the tax proposals; require National Treasury to provide evidence for its claims that raising direct taxes would be more harmful to poverty, inequality, unemployment and economic growth and; institute a proper process of public engagement on optimal revenue raising measures.

4.14. Quaker Peace Centre

4.14.1. The Centre raised concerns about the proposed increases in VAT and the fuel levy, and the apparent non-availability of funds for the delivery of services which are planned for the 2018/2019 fiscal year. It said that although the increases in social grants amounts are welcomed, it feared that they will be entirely wiped out by increases in food and transport costs.

4.14.2. The Centre said that poverty lies at the root of violence in the country. Citing Stats SA, it said that 50% of South Africans are poor and a $^{1}/_{3}$ live on less than R800 a month. It said that this is an untenable situation as poverty is robbing children of a chance at a decent life. It submitted that the effects of malnutrition and stunting are life-long and irreversible. Poverty is leaving vulnerable women and children with limited options and fuels despair, hopelessness and violence at every level.

4.14.3. It submitted that the proposed increase in VAT will have a significant impact on a large number of poor people and is a regressive step. It said that the poor pay a higher share of their income in VAT than the rich. It noted that during periods of sluggish growth in household incomes that South Africa currently faces, an increase in VAT reduces real income. The combined increases in VAT and the fuel levy will erode the already inadequate increases in social grants, leaving social grants recipients with less money than before.

4.14.4. The Centre submitted that the issue of VAT increases should be subjected to a more intensive and lengthy consultation process, and that more creative ways be found to fill the gap, such as recouping some of the significant losses due to corruption. It said it was deeply concerned about service delivery, particularly services to combat and protect children from violence. The Centre said that government should not be reducing expenditure in service delivery. It warned that NGOs delivering services that the state is constitutionally bound to provide are struggling to keep going in the face of dwindling resources and that is unacceptable.

4.15. Mr. Guy Harris

4.15.1. Mr Harris said that ratings rerating must achieved quickly as downgrades of the previous year were impacting the country negatively. He submitted that education was the key driver for reducing inequality sustainably but needed a much stronger and well-funded early childhood development. Mr Harris argued that investing in free tertiary education without building a stronger early childhood development was akin to investing in prisons instead of dealing with social ills that drive crime. He said that there must be more allocation and support for early childhood development as it is the base.

4.15.2. Mr Harris said that in a knowledge-based economy and the fourth industrial revolution, the economy needs effective education and far more than the existing 4% matriculants who get 50% or more, including good reading, writing, arithmetic, coding and social skills.

4.15.3. Mr Harris submitted that job creation was key to increasing economic growth and reducing unemployment and if focussed on entry level 'up-skillable' jobs, it will reduce poverty. He said that to fund government expenditure without impacting on government ratios and tempting further rating downgrades, government would have to use selected, targeted commercialisation, additional sin taxes and import surcharges where locally manufactured products or substitutes were available.

4.15.4. He decried that 30 day SME payment by all tiers of government was not working and was not enforced. Mr Harris submitted that there should be a tax incentive for 'angel investments'. He said that there should be large scale deregulation to enable start-ups and growth to critical mass for new business.

4.15.5. He submitted further that SARS should dramatically simplify tax registration and compliance for small and medium businesses, especially those that create a large number of jobs. He submitted further that entrepreneurship visas should be more acceptable, subject to a graduated delivery of local jobs. .

4.16. Manufacturing Circle

4.16.1. Manufacturing Circle highlighted that the contribution of the manufacturing sector on GDP growth has fallen from 24 per cent in the early 1980s to 13 per cent in 2017 and that it is lagging behind emerging market economies. It said that this decline was caused by increased competition from imports, increased labour costs, high energy costs, infrastructure, policy and regulatory uncertainty and asymmetrical compliance with the World Trade Organisation (WTO) rules.

4.16.2. Manufacturing Circle explained that the decline in manufacturing correlates closely with a dramatic loss of jobs. It said that since 1989, manufacturing has shed half a million jobs in South Africa and without a virtuous cycle of investor and consumer confidence supported by stable policies, South Africa will continue to de-industrialise.

4.16.3. Manufacturing Circle recommended that government boosts demand for goods manufactured locally through; supporting local procurement, investing in catalytic projects, reconsidering administered prices such as petrol, pursuing import substitution, and enhancing export competitiveness by implementing export incentives amongst other things.

4.16.4. It added that it would also benefit the manufacturing sector if the cost base can be lowered to improve competitiveness. It said this this can be done through a reduction of input costs, fiscal policy implementation (reconsider carbon, sugar and packaging taxes) and through labour reform initiatives such as easing work permit processes for scarce skills.

4.16.5. Manufacturing Circle said it would like to see fiscal policy that is aligned with industrial objectives, an application of an inclusive approach that includes incentives, infrastructure upgrades, improved labour relations, addressing high costs, low skill labour, reduction of tax burden on the industry and an increase in manufacturing allowances in line with the mining sector. It said that initiatives such as the Black Industrialist incentive and the budget increase for Special Economic Zones (SEZs) is welcomed as a key driver for economic transformation.

Written Submissions

4.17. National Education, Health and Allied Workers' Union

4.17.1. NEHAWU said that it is deeply disappointed by the proposals contained in the 2018/19 budget, in particular the macroeconomic framework and the tax proposals. NEHAWU argued that this budget is anti-poor and lacks courage in tackling social inequality, poverty and the ever growing levels of unemployment. It argued that the budget constitutes a radical departure to the much celebrated SONA which promised a "new dawn" of radical socio-economic transformation.

4.17.2. NEHAWU said this budget must be rejected by Parliament, particularly its regressive proposals to increase VAT and the fuel levy. It viewed these proposals as attempts to shift the burden of adjustment to the poor, working people and their families. It called upon the public representatives to protect and defend the poor by rejecting these tax proposals.

4.17.3. The hope for a "new dawn" as set out in the SONA speech has been defeated by this anti working class and anti-poor budget. The increase in VAT by 1% is an indication that the tax system is regressive and not progressive, and is anti-poor. Parliament must reject these tax proposals.

4.17.4. NEHAWU said that the National Treasury seems to have not internalised the mistakes of the past where the size of the public service was drastically reduced largely on the basis of consideration of fiscal ratios, without taking into account the consequences on the quality of services whereby many experienced teachers, nurses and other professionals left the service enticed by voluntary severance packages.

4.17.5. It said that it is disturbing that in the middle of wage negotiations, National Treasury was blackmailing workers and turning the public opinion against workers' demands for decent wages.

4.18. Public and Environmental Economics Research Centre

4.18.1. PEERC noted that the proposed fiscal framework reflects a return to a policy of fiscal consolidation abandoned in the 2017 MTBPS but the sequence of events by which this occurred reflects poorly on the Executive. It said that the debt-to-GDP ratio is now expected to stabilise over the medium-term, although at higher levels than promised in previous Budgets. It warned that the abandonment of fiscal consolidation without an alternative and credible fiscal policy contributed to the country's recent credit rating downgrades.

4.18.2. PEERC said that it is doubtful whether the sizeable additional R57 billion allocation for 'free higher education' is consistent with the Constitution and lack of clarity on this fee-free higher education funding remains a concern. It said that it was concerning that the Budget refers to future higher education costs as 'uncertain' and fails to fully state the assumptions on which the current proposed allocation is based. It said the problematic prioritisation of education over other socio-economic rights was particularly evident from associated cuts to key areas of social expenditure.

4.18.3. PEERC warned that the increasing reliance on the tax instruments proposed in order to raise the revenue of R36 billion in 2018/19 will reduce the 'progressiveness' of the tax system. It said that tax proposals relied heavily on increases in indirect taxes – VAT, the fuel levy and excise duties – which are among the least progressive instruments available.

4.18.4. PEERC said the Budget Review provides inadequate information on the distributional effects of taxation, limits to collection and tax buoyancy. It said that claims about limits to personal and corporate income tax collection are poorly substantiated. It also said that revenue buoyancy figures were potentially misleading because they include tax proposals.

4.18.5. PEERC said that the Money Bills Act does not provide adequate time for deliberation and public consultation on the fiscal framework and this is compounded by significant differences between the 2017 MTBPS and 2018 Budget Review proposals. Nevertheless, it said, there is scope for greater consideration of revenue proposals.

4.19. Business Unity South Africa

4.19.1. BUSA said that it recognised that difficult trade-offs were required in the development of the 2018 National Budget in order to place South Africa's fiscus on a sustainable basis over the medium-term. Considering this, BUSA believed that government has presented a balanced budget that largely succeeds in identifying key priorities whilst seeking to reduce or eliminate unnecessary expenditure.

4.19.2. It welcomed National Treasury's achievement of maintaining real average growth of 1.8 per cent in non-interest spending over the next three years. It said that significant risks to South Africa's public finances, however, remained. These include possible sovereign ratings downgrades; financing of State-Owned Enterprises (SOEs) and economic growth performance. BUSA said it supports government plans to address shortcomings in the operations, procurement practices and corporate governance of SOEs. Lower than expected economic growth may have negative consequences on the 2018 Budget in terms of revenue under-collection, widening budget deficit and credibility of government's fiscal consolidation plans.

4.19.3. BUSA said it broadly supported the tax proposals in the 2018 Budget. It said it would like to see future tax increases maintaining an optimal balance between direct taxes (PIT and CIT) and indirect taxes (VAT). It submitted that tax increases need to maintain an efficient, diversified and sustainable tax system that should be aligned with government's economic growth objectives and job creation in line with the NDP.

4.19.4. While BUSA recognised that consumers will come under greater pressure with a VAT hike, it believed that this is the least damaging of available options. In this regard, National Treasury's decision to ensure that a suitable proportion of the revenue generated from the VAT increase will be directed towards real increases in social grants is welcomed. BUSA proposed that consideration be given to accompanying the VAT increase by a further zero-rating of basic goods as an additional compensatory mechanism to protect the most vulnerable.

4.20. Shukumisa Coalition

4.20.1. Shukumisa wrote a short letter two register its concerns about the proposed increase in VAT. It said that its organisation was a network of 75 organisations working on sexual violence issues. It said that it members were experiencing enormous financial challenges that affect their work on sexual violence.

4.20.2. It said that an increase in VAT will worsen their situation and their work will be further affected, resulting in more people, especially women and children, not getting the services they need to recover and heal from sexual violence.

4.20.3. It said that the timeframes given for the submission and participation in the fiscal framework did not allow Shukumisa to engage meaningfully with its members to provide them with more information and insight into a very complex issue. It requested Parliament to allow for more time for engagement and said they expect hear from Parliament if this will be possible.

4.21. Makukhanye Rural Movement

4.21.1. The Makukhanye Rural Movement, a small-scale farmer's association, which includes women and youth forums, wrote to reject the proposed VAT increase. The movement is of the opinion that the Minister did not consider the unemployed in this decision. It said that the VAT increase, along with the increase in fuel prices will directly affect the amount of money households spend on food, household goods, public transport and essential services. It said that the VAT increases will hit the poorest of the poor the hardest.

4.21.2. It said that the increase in the pension and child care grants will not compensate all VAT related price increases.

4.21.3. The Makukhanye Rural Movement wants the government to take serious action towards land reform and redistribution. It proposed that government should provide the poor with fertile plots of land for productive use and self-sustainability.

4.22. Equal Education

4.22.1. EE said that the proposed VAT increase is one of the least progressive tax instruments, especially alongside cuts to social sectors such as basic education. It said that while it welcomed increased higher education funding, diverting money from basic education pits the needs of poor black students against those of poor black learners. It further said that the common belief that South Africa spends an unusually high amount of its national budget on basic education was not true and decried that National Treasury has consistently downwardly revised projected basic education funding.

4.22.2. EE said that the initial projections in the 2015 MTBPS saw basic education funding increase between 2017 and 2018 by 16.98%. However, the 2018 budget reflects a mere 6.93%

increase – barely enough to keep up with inflation and increased VAT. It decried the fact that funding to school infrastructure grants has also been slashed arguing that in a country with infrastructure backlogs that see schools built of mud and asbestos, where 78% of grade four learners cannot read for meaning, these cuts were a travesty.

4.22.3. EE welcomed the investment into higher education and the re-capacitation of NSFAS. It said that however, for many learners, fees are not the only or primary barrier to higher education – poor quality basic education is. It submitted that underfunding basic education will only render fee-free higher education for the poor inaccessible.

4.22.4. EE said that when it comes to VAT, low-income households carry a relatively greater tax burden than affluent households It said that although zero-rated goods assist in mitigating the effects on poor families, many necessary goods are not zero-rated. These include products such as poultry, bread flour, pay-as-you-go airtime, and sanitary pads. It submitted that government should reconsider the VAT increase – other, more equitable and possibly more effective revenue collection methods exist.

4.23. Alternative Information and Development Centre

4.23.1. AIDC argued that President Ramaphosa's SONA address, which it described as "sunrise for mining" speech, was relaunching "export led growth" which had failed dismally in the past. It said "export led growth" neglects domestic economic development and leads to increased inequality; economic growth that is "exclusive"; and normalises mass unemployment which then leads to high levels of violence and crime.

4.23.2. It submitted that discussions on macroeconomic policies and the NDP need to be reopened in order to find "wage led and sustainable development" solutions.

4.23.3. It decried expenditure cuts in the budget and the proposed increases in VAT. It argued that National Treasury justifications that the 30% of the population contributed 85% of VAT was a reflection of the country's inequalities. It said that if 70% of the population account for only 15% of consumption, then it is not VAT that should be increased if more revenue is needed. Instead wealth taxes and corporate income taxes should be increased.

4.23.4. AIDC said that there is an urgent need to tackle corruption and state capture as these led to inefficient spending. It recommended that Parliament establishes a debt audit commission made up of academics, labour and civil society to audit public debt, including the debt of SOEs.

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4.24. South African Catholic Bishops' Conference

4.24.1. The South African Catholic Bishops' Conference said that the increase in VAT is due largely to gross mismanagement of the economy over the last number of years, along with the looting of state resources. It accepted that further borrowing in order to fund state expenditure would be irresponsible.

4.24.2. It submitted that government must find ways to relieve the tax burden on poor people, urging Parliament to insist on a widening of the list of VAT exempt items to include basic school uniform, children's clothing items, basic school stationery, basic toiletries and sanitary items. It warned that now that the National Treasury has raised VAT for the first time in 24 years, there could be a temptation to do so again and urged Parliament to makes it clear that this increase is 'once off' and no future increases would be approved.

4.24.3. It proposed that land tax should be introduced, explaining that land values rise because of the location of the land and due to public inputs such as the building of roads, railways, etc. It said that this rise in the values of land was a pure windfall for landowners and should be paid back to the public purse. It said that land tax would be highly redistributive (progressive) as it would tend to impact mostly the richest people and corporations.

4.24.4. The Catholic Bishops' Conference submitted that Parliament should send a strong message to government that there are too many ministries, Cabinet posts and deputy ministers. Since President Ramaphosa had himself alluded to this in his SONA speech, he should be encouraged to make bold cuts, arguing that this would send a strong message that citizens do not have to shoulder the burden of austerity alone.

4.25. #UniteBehind Coalition

4.25.1. #UniteBehind, which represented more than 20 independent organisations, strongly objected to what it said was an anti-poor budget. It said that it objected to the hike in VAT which, when combined with increases in fuel levies, will almost certainly off-set the 6.6% increase in social grants. It decried that VAT was being increased when there were other alternatives such as personal and corporate income and property taxes.

4.25.2. It said that it is clear that the poor were bearing the cost of an austerity budget, whilst it is largely business as usual for the wealthy in society.

4.25.3. It said that the there appears to have been no studies by the National Treasury to support the fuel levy increase. Citing a travel survey published in 2013, it said that 68% of travel by public transport was by minibus taxis. Two-thirds of households in the lowest income quintile spent about 20% of their monthly household income on public transport fares and it was clear that the poor will suffer massive costs they can't afford under the proposed budget.

4.25.4. Instead of the proposed regressive tax regime, #UniteBehind submitted that the National Treasury should instead be considering increases in tax rates of those that can afford them. This should include increases on corporate income tax, introduction of progressive wealth and land taxes and clamp-down on tax evasion.

4.25.5. It highlighted that there are various tax experts who have made submissions to the Davis Tax Commission on how these latter measures could be introduced. It said that the regressive tax regime and spending cuts make it clear that this budget can only deepen inequality in society.

4.26. Ms Christa McEvoy

4.26.1. Ms McEvoy sent a short email to register her objections to the proposed increase in VAT. She said that there was room for huge savings by government through streamlining government departments, ministries and deputy ministries.

4.26.2. She submitted that government failed South Africans by allowing the looting of state coffers on an industrial scale. She said it was time for government to check its moral compass.

4.27. Mr Ntsindiso Nongcavu

4.27.1. Mr Nongcavu, of Coastal Links, wrote a short email to reject the proposed VAT increase. He said that the Minister did not consider the poor in his decision. The VAT increase along with increase in fuel levy will directly affect the little money that the households spent on food, household goods, public transport and essential services.

4.27.2. He said that the poor and unemployed do not have money. The increase in the pension and child care grants will be taken immediately to accommodate all VAT related price increases.

4.27.3. He urged government to take serious action towards small scale fishing and implored government to provide support.

4.28. Ms Christine Cameron-Dow

4.28.1. Ms Cameron-Dow sent a short email to register her concerns about the proposed increase in VAT. She said that VAT already adds a considerable amount to the cost of every commodity and service, other than the zero-rated items which carry hidden production VAT charges.

4.28.2. She said that the economy has been brought to the brink of collapse while those who caused this calamity still walk free and live in luxury.

4.29. Mr Peter Meakin

4.29.1. Mr Meakin wrote that in 2017/18, income taxes and VAT will cost South Africans ±R1.1 trillion in lost GDP. He suggested that government should abolish all taxes and introduce land tax. He further suggested that South Africa could follow the example of Hong Kong where there is no VAT and personal and corporate taxes are capped at 16% per annum.

4.29.2. He alleged that the Minister showed contempt for the Constitution, particularly section 228, which prohibits taxes which "materially and unreasonably prejudice national economic policies" of job creation, access to land and economic growth.

4.29.3. Mr Meakin explained that the Minister was oblivious to the damage which personal taxes inflict on the economy. He said that the reduced corporate tax rate and employment tax incentives in the new special economic zones, which the Minister said "will encourage exports, job creation and economic growth" should be replicated throughout the country and the country should follow the Hong Kong model.

4.29.4. Mr Meakin went on to say that having affordable land could boost state revenues from land rents.

4.30. Mr Dirk Streicher

4.30.1. Mr Streicher said that SARS should re-instate its (so-called rogue) investigative unit in order assist in dealing with tax crimes and bring in more revenue.

4.30.2. He submitted that the capital gains tax should be lowered, as it puts a tremendous damper on sales of property.

4.30.3. He said that there should be a focus on expenditure taxes such as VAT and taxes on luxury goods. He said that estate duty should be abolished as it was an unethical tax. He argued that money that is left in an estate is what is left after it was taxed in the first place. He proposed that taxes which cumulatively contribute less that 1.0% of the total revenue should be abandoned.

4.30.4. Mr Streicher said that the dividends tax is far too high and forces investors out of the country and also freezes money in companies which could have been applied elsewhere if it could be liquidated out of the company at no penalty. He said that a study should be conducted on the sustainability of pensions and grants given the ever changing population average age of the country. In his opinion, people with more than two kids must pay an additional tax or must be penalised so that population growth can be controlled.

4.30.5. He proposed that South Africa's tax system be made less complicated and have less tax categories. He said this will make it easier to get the money from less sources with less administration and costs.

4.31. Imraan Valodia and David Francis

4.31.1. Imraan Valodia and David Francis focused on the tax proposals and did analysis of the country's tax system. On VAT, they stated that in a country that relatively equal distribution of wealth, it may be appropriate to increase indirect taxes and expect the burden to be borne equally among all classes. However, South Africa's income distribution was among the most unequal in the world, where the top income decile earned 60% of all income and owned 95% of all the assets.

4.31.2. They said that the goal of a sustainable economy and humane society would be to increase the levels of income and assets for the lower income groups.

4.31.3. Valodia and Francis pointed out that the 2018 budget, government was making minor adjustments on personal income tax. They noted that if government were to increase the tax rate of the highest tax bracket, it will affect only about 109, 783 individuals who are within that bracket. It said that this would generate the amount of revenues needed to cover the revenue shortfall.

4.31.4. On corporate income tax, which is currently at 28% from 50% in the 1990s, they pointed out arguments that increasing it would hurt the country's competitiveness as an investment destination. They further pointed out that a 2% increase in corporate income tax could only raise about R13 billion in 2018.

4.31.5. Valodia and Francis pointed out that arguments that keeping the company tax rate low boosts private investment has been made since the early 1990s, but throughout that period private investments have been low and falling. They submitted that the National Treasury failed to capitalise on the positive political moment to raise corporate income tax. They submitted that this would have been progressive and would have ensured that those most able to contribute in plugging the hole in South Africa's public finances are the ones that carry a higher burden.

PART V
5. COMMITTEES OBSERVATIONS AND RECOMMENDATIONS

Macroeconomic issues

5.1. The primary focus here is on observations and recommendation on the Fiscal Framework. The Standing and Select Committees on Appropriations deal with the Division of Revenue Bill and the Appropriations Bill, and focus on allocations to the three spheres of government and the different national departments. It is the Appropriations Committees that carefully consider how money should be appropriated, what allocations were returned to National Treasury because they were not spent, in what areas spending can be curtailed and how to improve the quality and efficiency of spending.

5.2. This is probably the most difficult and challenging budget presented since the dawn of our democracy. It includes the first VAT increase since.

5.3. We note the former Minister of Finance Malusi Gigaba said that this is "a tough, but hopeful budget" and that it is "a platform for renewal, inclusive growth and job creation." We believe it can

be that if government, parliament, labour, business and other sections of civil society and the public more generally cooperate in making it so.

5.4. We fundamentally agree with Minister Gigaba that transformation "calls for more than growth alone, it requires a fundamental shift in the way the wealth is created and shared' and we fully support his view that "by deconcentrating the economy, we are radically transforming the structure of our economy". The majority in the Committees support radical socio-economic transformation in the country and believe that the budget should be directed towards this. We would have preferred a budget that more actively serves these transformative goals, but understand the challenging political and economic conditions in which this budget has had to be shaped. The Appropriations Committees in both Houses deal more with this, but we welcome the fact that over half of the budget is allocated to pro-poor programmes, including on social grants, education, health and housing.

5.5. The Committee acknowledges that the budget is tabled under difficult economic conditions of low growth, revenue shortfall, fee-free education bill and rising debt levels and the difficult choices it has to make. Some progress has been made in implementing the 14 confidence boosting measures that the Minister of Finance started implementing from 2017, The Committee urges NT to rigorously implement the rest of the 14 confidence boosting measures to unlock SA's growth potential and report progress quarterly to the Committee, taking into account the President's 10-point plan announced in the state of the nation address of 2018.

5.6. We need to build on the improvements in the exchange value of the Rand, business and consumer confidence, the recovery of commodity prices, and the marginal reduction in the unemployment rate in the last quarter. While the projected growth rate of 1, 5% in the new financial year is still too low, at least it is an improvement on the October 2017 projection of 0.7% and the actual growth rate of 0.3% in 2016. The Committee requires NT to provide a more detailed explanation, and provide more data, used to derive the projected economic growth rates as announced in Budget 2018 at its next quarterly briefing to the Committee. We welcome the emphasis on stabilizing debt at around 56% of GDP over the medium-term as opposed to the 60% that was forecast in the MTBPS, as we welcome too the reduction of the fiscal deficit from 4,3% to 3,5% by 2020/21. We note that debt service costs are expected to fall further as a result. We are however concerned that the public sector borrowing is expected to be R329.1 billion in 2017/18 or R77.4 billion higher than projected in the 2017 Budget and we will engage further on this in the Quarterly Briefings provided by National Treasury.

5.7. By NT's own admission, economic growth forecasts carry with them huge economic and fiscal risks which will most likely negatively affect the credibility of the fiscal framework, if they do materialise. There is an urgent need for NT to quantify, in monetary terms, and consistently monitor and manage the economic and fiscal risks identified and report progress made on quarterly basis to the Committee. The Committee will meet with NT to monitor progress in this regard.

5.8. We urgently need job-creating economic growth. We believe that the budget should have been clearer about how this can be stimulated and we will engage further with National Treasury on this. We also welcome the private sector's commitment to create a million internships for youth over the next 3 years

5.9. The Committees welcome and acknowledge the fee free education decisions and budget provided within the stringent deadline and tough conditions. Overall total expenditure on basic and higher education remains significant, with limited positive outcomes. NT and the DHET and Basic education must engage to address structural administrative challenges and inefficiencies at schools, institutions of higher learning including TVET colleges to ensure value for money in human capital investments made and that they address the skills required to grow the economy. We request the Appropriations and Higher Education Committees to consider how the figure of R57 billion over the medium-term for fee-free higher education was arrived at and how many beneficiaries there would be.

5.10. We note that over the past decade government has spent about R2,7 trillion on economic and social infrastructure. We are very concerned about the reductions in the infrastructure grants as

part of the expenditure saving. We request the Standing and Select Committees on Appropriations to look into this. We welcome the new Budget Facility for Infrastructure that aims to improve technical assessments and budgeting for capital, operational and maintenance costs of large infrastructure projects and programmes. It will seek to address the challenges in project preparation, execution and delivery which have, in the past, resulted in project delays and cost overruns. We believe that this facility will contribute to ensuring efficiency and value for money for the country's infrastructure expenditure through better coordination and management.

5.11. The Committee notes with concern a technical exercise that the NT embarked on to reduce expenditure over the medium term (R85 billion), which included percentage cuts on administration budgets, public entities, and penalising underspending. NT should enhance its fiscal oversight and support it provides to broader government departments in terms of its PFMA mandate and ensure that budget processes are credible and allocated monies are spent on time as planned.

5.12. In particular, a decision taken by NT 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. NT, working together with national departments, provinces and municipalities, must conduct a comprehensive spending review of (1) the composition of spending, (2) the efficiency of spending and (3) future spending priorities on the on national health insurance and free-fee education. We request the Standing and Select Committees on Appropriation to consider this. The Committee further recommends that NT quantifies and manages the impacts of cutting capital budgets on service delivery, schools, clinics, and hospitals, given the current backlog. NT is urged to address the root causes of underspending rather than confiscating and reallocating the monies unspent. Quarterly reports on progress on this must be provided to the Committees. The Committee will confer with the Public Service and Administration and the Energy Committees on the public sector wage bill and nuclear energy respectively. Quarterly reports on progress on this must be provided to the Committees.

5.13. The Committee acknowledges concerted efforts made by NT thus far in implementing cost containment measures in all spheres of government, however, there is still room for improvement. Given the likelihood of revenue shortfalls over the medium-term and limited scope for further tax increases, NT should increase its efforts in finding efficiencies in government departments; reducing duplications; limiting overseas travel and implementing consequence management in instances of financial misconduct by government officials. We request the Standing and Select Committees on Appropriations to look into this further.

5.14. National Treasury to provide a detailed 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.

5.15. The Committee believes that the contingency reserves are not adequate to cushion the economy against unforeseen circumstances and external shocks.

5.16. The Committee requires NT to provide regular progress reports on the review of the revenue sharing model employed by the South African Customs Union that was announced in Budget 2016.

On the need for more public participation

5.17. The Committees are aware of and sympathise with concerns civil society organisations and the public at large have that they did not have enough time to prepare submissions for the Fiscal Framework hearings. However, in terms of the Money Bills Act both Houses of Parliament have to finalise the Fiscal Framework within 16 days of the Budget being introduced to Parliament. A key reason for this is that the tax year begins on 1 March and the financial year on 1 April each year. It is only after the Fiscal Framework is adopted, that other aspects of the Budget such as the Division of Revenue Bill and the Appropriations Bill can be processed, and they must be finalised within 35 days following the adoption of the Fiscal Framework.

5.18. Civil society organisations, stakeholders and the public at large still have the opportunity to influence budget allocations of specific departments and provinces within the approved fiscal

framework through the Appropriations Committees as their processes are also open to public participation.

5.19. The Committee is in the final stages of amending the Money Bills Act to give both the public and parliament more time to process the budget.

5.20. The Committee notes that the processes of increasing taxes require more time for consultation with a wider range of stakeholders and civil society, outside of government, and that in future the MTBPS tabling can better prepare for such taxation changes. The Committee is fully aware of the market and other sensitivities about prematurely releasing tax increases figures, but believe more consultation is possible without undermining NT's concerns. The Committee recommends that NT presents quantified alternative measures, options and scenarios when introducing new or adjusting tax rates and utilise the MTBPS to enhance transparency of the budget processes, especially on indirect taxes which pose little risks for tax restructuring and avoidance.

5.21. While we understand the concerns of stakeholders about more access to budget information and public participation, we note that South Africa has been ranked number 1 in the 2017 Open Budget Index which includes 115 countries on the comprehensiveness and timely availability of budget documentation and information, the effectiveness of oversight of them and the opportunities available to the public to participate in national budget processes, achieving a score of 89 out of 100. However, this International Budget Partnership survey suggests that there is still space to do more to encourage public participation in budget processes. We welcome measures taken by the National Treasury to partner with civil society organisations to develop a budget data portal, known as *Vulekamali*, which is aimed at encouraging informed public debate on the budget, service delivery and accountability.

VAT increase – Process

5.22. Understandably, there is opposition to the 1% increase in VAT. In terms of the Value Added Tax Act, a VAT increase comes into effect on the date announced by the Minister of Finance in the budget speech - in this case, 1 April this year. Parliament has 12 months within which to accept, reject or amend the increase in some other way.

5.23. Parliament's decisions on the VAT increase are dealt with through the Fiscal Framework and the Rates and Monetary Amounts and Amendment of Revenue Laws Bill (available on the National Treasury website www.treasury.gov.za). The Rates and Monetary Bill deals directly with all rates and threshold changes announced in the Budget, including this year the VAT increases. It is the means through which various rates and monetary amounts of revenue are legally amended. The Fiscal Framework deals with the VAT increase in the sense that it indicates the source of revenue. The Fiscal Framework is a policy document and not a legal instrument that determines whether or at what rate a tax will be paid.

5.24. Should parliament reject the VAT increase through the Fiscal Framework we will have to propose alternatives to raise an estimated R22,9 billion during the 2018/19 financial year, instead of through the VAT increase. Given the tight timeframes and the onerous requirements of the Money Bills Act this is difficult to do. Even if we reject the VAT increase through the Fiscal Framework it will still be implemented on 1 April in terms of the legal provision in s7(4) of the Value-Added Tax Act. It will continue to apply for a 12-month period from the date of the budget and will only lapse at the beginning of the next financial year if it is not given effect through the passing of the Rates and Revenue Bill through which the VAT increase can be rejected.

5.25. The two Houses of Parliament normally vote on this Bill in November of each year following its formal introduction by the Minister with the Medium Term Budget Policy Statement, usually done in October. Usually tax increases in a Rates Bill are kept confidential until the budget speech. Consultation starts after the budget speech. After consultation the Bill goes to Cabinet and is then tabled in Parliament. The current practice is for the Minister for first release a DRAFT Bill and only table a FINAL Bill after the Finance Committees have completed their hearings and finalised the Bill.

5.26. In view of the strong views about the VAT increase our Committee has brought forward the briefing to the first week of the second quarter of the parliamentary term – and the hearings will begin before the end of April. The public will therefore have more time to make considered submissions on the VAT increase then.

VAT increase – some issues

5.27. The Committees understand the pressures on government to raise additional revenue. We note, among other issues:

5.27.1. The R48, 2 billion revenue shortfall in the 2017/18 financial year.

5.27.2. Concerns as SA may move towards an unsustainable debt-to-GDP ratio.

5.27.3. The threat of a further ratings downgrade, which will increase the cost of funding and hence of debt servicing.

5.27.4. The need to avoid approaching the multi-lateral institutions to raise debt and erode the country's fiscal sovereignty.

5.27.5. The risks that the SOEs pose.

5.27.6. The need to fund fee-free education for families earning less than R350 000.

5.27.7. The need to accelerate the rollout of National Health Insurance

5.27.8. The additional funding necessary for the Expanded Public Works Programme and the Community Works and Early Childhood Development programmes.

5.28. We will give concerted attention to the VAT increase in the processing of the Rates and Monetary Bill. We will take into account the further submissions we receive at the public hearings on the Bill. But based on the hearings on the Fiscal Framework and our consideration of the issues so far, we believe that the following issues need to be processed further:

5.28.1. While we accept that the VAT increase must be located in terms of the whole tax system which is, in fact, redistributive, we do not at this stage accept the argument that the VAT increase is 'neutral' or even mildly progressive. There may be some technical substance to some of the strands of this argument, but the fact is that the poor people and lower income earners will have to pay more for their basic needs. As MPs we have to be responsive to their needs and interests.

5.28.2. We are also not convinced by the argument that the VAT increase is justified as our current rate is lower than the global and African average as this does not take into account that our country has the most acute income inequalities in the world.

5.28.3. While we accept that the zero rating of basic food items, paraffin and the above inflation social grant increases will cushion the effects of the VAT increase on significant sections of the poor and low-income earners, these measures will not be enough. National Treasury has not provided evidence of this either.

5.28.4. We are aware of the concerns that businesses sometimes abuse zero-rating but strongly believe that the list of zero-rated items needs to be expanded taking into account the needs of the poor and low-income earners. This should not be restricted to food items, but should possibly include such necessities as school uniforms, text books, stationary, medicines, soap and sanitary towels. Other alternative measures such as linking the SASSA card to zero rated products, expanding school feeding schemes to include high school learners; food stamps and vouchers need to be explored. We need a full discussion on this and look into alternative sources of revenue to make up for the loss in VAT with this extension of zero-rated items.

5.28.5. While recognizing the administrative difficulties and complexities, we believe that consideration needs to be given to more effective targeting of basic food items to be zero-rated to ensure that it is the poor and lower income earners who benefit more. Consideration should also be given to what categories or types within the same item should be zero-rated. For example, while apples, bananas and oranges are zero-rated should kiwi-fruit be? While onions, potatoes and tomatoes are zero-rated, should Brussel sprouts and turnips be?

5.28.6. While recognizing the administrative difficulties and complexities, consideration needs to be given, over time, 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. We need to know why this is difficult to do in a phased manner.

5.28.7. We believe that government needs to do much more to reduce corruption and wasteful and unnecessary expenditure and significantly improve the efficiency and quality of spending. The Auditor General announced in November 2017 that over R45 billion was lost in the 2016/17 financial year through wasteful, fruitless and irregular expenditure, an increase of 55% from the previous year. The government also needs to stop funding programmes that are not making any progress and do not serve the country's developmental goals. While costs on travel, accommodation, catering, organizing of conferences, renting of buildings and the use of consultants has been declining in real terms much more needs and can be done to reduce unnecessary expenditure. We request that the Standing and Select Committees on Appropriations concertedly explore how this can be done.

5.28.8. Higher economic growth rates will contribute towards easing the pressure to rely on VAT increases for revenue. 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. We also urge that the Davis Tax Committee to finalise its work on a wealth tax reasonably soon.

5.28.9. National Treasury must fully engage in a variety of workshops and through other ways with stakeholders, especially those who oppose the VAT increase, before the late April public hearings on the Draft Rates and Monetary Bill.

5.28.10. National Treasury is required to conduct an ongoing impact study on the effect of the VAT increase on the poor and low-income earners and report to our Committees on this every quarter.

5.28.11. If there are sufficient measures to offset the negative consequences of the VAT increase, the Committees believe that it might be reasonable to accept the VAT increase provided it is reviewed within 2 years.

Fuel Levy increase

5.29. The Committees express their concern about the fuel levy increase and will engage further with National Treasury on the need for this in their Quarterly Briefings. We note that 30 of the 52 cents fuel levy increase is for the ailing Road Accident Fund. The Committees urge the Ministry of Transport to attend to the challenges of the Road Accident Fund and to process the tabled Road Accident Fund Benefits Bill that seeks to address some of these as soon as possible.

Illicit Financial Flows and the Illicit Tobacco Trade

5.30. As we have repeatedly said in previous reports, the government and the relevant agencies can do far more to reduce the staggering amounts of money leaving the country through Illicit Financial Flows (IFFs).

5.31. Far more also needs to be done to reduce the huge revenue losses from the illicit tobacco trade. The Committees will convene a briefing on this within 6 months.

State-Owned Entities

5.32. The Committees note that state-owned enterprises continue to pose significant risks to the fiscal framework due to, among other reasons, corruption, mismanagement, operational inefficiencies and rising financial costs. This resulted in government bailouts of R13.7 billion in 2017/18. We welcome measures to improve governance and leadership in state-owned companies, particularly at Eskom and South African Airways. We believe that this is key to turning the financial position of these entities and reducing their reliance on state bailouts.

5.33. We welcome the commitments in the Minister's Budget Speech to do much more to address the governance challenges in the SOEs, including through the creation of a coordinating council and more rigorous criteria for appointing board members and ensuring that effective managers are selected. We, once again, urge the government to finalise the long-delayed Shareholder Management Bill.

5.34. We support NT's view that financially stable state-owned companies can support economic transformation and strengthen the state's ability to accelerate national development, rather than impede it, as it is currently the case. We expect to see prosecutions against those who are allegedly involved in corruption at state-owned companies and asset recovery through the country's asset forfeiture mechanisms.

5.35. We note that government is considering a private-sector participation framework in state-owned companies. The Committees require more details on this framework. As the majority in the Committees have repeatedly said, we support private sector participation in SOEs, including through equity ownership, but we do not support privatization of SOEs that serve the country's developmental goals.

5.36. We welcome the proposals made in the Minister's Budget Speech but we feel far more needs to be done, and request the Portfolio Committee on Public Enterprises to take this further.

Sale of unnecessary government properties

5.37. The Department of Public Works audit revealed that the government owns about 195 000 properties estimated to be valued R40 billion. We feel strongly that those properties that are not core to service delivery and development should be sold as soon as possible to raise revenue. The Committee requires NT to provide clarity on the policy towards the sale of non-strategic assets as well as a list of assets identified for sale to the Committee on a quarterly basis.

Financial Sector Summit

5.38. We welcome the decision to convene the Financial Sector Summit in April. We hope the necessary groundwork is being done to ensure an effective summit. The Standing Committee on Finance and Portfolio Committee on Trade and Industry had major public hearings on financial sector transformation last year and produced a lengthy report on it. We once again urge that the recommendations in the report be considered in the Summit process. Certainly, we expect National Treasury to report to us within a month of the Summit on the responses by the Summit to the recommendations.

Commission on SARS

5.39. We urge the President to establish the Commission on SARS as soon as possible. Part of its mandate should include investigation into how SARS has managed the allegations against Mr Jonas Makwakwa and Ms Kerry-Ann Elskie. It should also investigate the legitimacy of SARS disbandment of the High Risk Investigation Unit - the so-called "rogue" intelligence unit – including through considering the significance of KPMG's withdrawal of its recommendations on this unit. While we fully support representivity in the senior management and SARS more generally, and have been constantly focusing on the need for this, we think the Commission should also look into the exodus of senior staff in recent years.

Other Issues

5.40. Given the severity of the drought and its consequence, the Committee does not believe that the R6 billion allocation is adequate and requests the Appropriations Committee to look into this. The Committee requires a more detailed breakdown on the purposes for which the R6,0 billion drought relief will be made available**.**

5.41. The Committee will write a letter to the President to request that members of the executive and Department officials be encouraged to buy cars manufactured in South Africa.

Conclusion

5.42. The majority in the Committees recommend that the Fiscal Framework be adopted, taking into account the qualifications raised in this report, in particular the concerns about the VAT

increase and the need for further consideration of these concerns in the processing of the Rates and Monetary Bill that deals with the VAT increases directly.

5.43. We thank the former Minister and Deputy Minister for their contributions, and welcome the appointment of the new Minister and Deputy Minister.

The UDM reserves its position on this Report.
The DA rejects this report