



Public comment on the Report by the Independent Panel on the review of the current list of zero-rated VAT items: The Pietermaritzburg Economic Justice & Dignity Group.

Thank you for the space to comment on the Panel Report on VAT. We base our submission on an analysis of South Africa's current socio-economic context and our research on household affordability: wage and grant levels and the cost of goods and services (with a specific focus on the food basket for households living on low incomes).

The scope given to the panel to deal with the VAT increase seems to have been too narrow to deal with the crux of the affordability problem facing millions of South African families. The heart of the problem is the low wage and low social grant regime. 64.2% ($\pm 29,9$ million) of Black South Africans live below the poverty line.¹ Wage levels are extremely low. Unemployment levels have stagnated at extremely high levels. Statistics South Africa's Quarterly Labour Force Survey data trends do not suggest that unemployment levels will improve, and such high levels of unemployment work to drive wages down and continue to hollow out any remaining economic activity as the majority of South Africans do not have money to spend. This situation is worsening.

The VAT increase has exacerbated the food affordability crisis however, VAT itself is not the only factor which is causing food to not be affordable. Increasing immiseration in such a large section of our population where the ability to absorb shocks has been decimated by decades of poverty-level wages whilst the cost of goods and services (increasingly subject to profiteering) have increased exponentially exposes South Africa to great vulnerability.

This underlying crisis of poverty-level incomes is now causing a downward spiral in the economy and driving itself deeper by throwing up one crisis after the next. We are now in a situation where the majority of South Africans cannot even afford to eat properly. The food affordability crisis, exacerbated now by the increase in VAT, fuel price hikes and electricity hikes is just one outcome of the problems caused by the low wage regime.

We are seeing a deterioration in our education, health, social and economic outcomes. Social disorder and violence appear to be escalating at an alarming rate. The proliferation of protests and labour strikes will escalate. It seems to us that the practice of outsourcing deliberations into every new emerging crisis to a panel of experts who are given such narrow parameters within an immutable economic framework in which to comprehensively tackle the underlining causes of the latest crisis; instead of the democratically elected state dealing head on with the cause of the problem is failing to provide any substantial resolution to what is fast becoming a situation of multitude crises all feeding on and driving deeper crises. It is not working. We must find another way. We must think differently and start dealing with the structural causes of our crises. There is no more space for tinkering. There is far too much at stake, and our long-term futures are now at considerable risk of being undermined.

In August 2018, the cost of foods in the Household Food Basket, a basket designed with women living on low incomes in Pietermaritzburg, was R3 009,65. 38 foods are tracked in this basket. Of these foods 18 are zero-rated and 20 are subject to VAT. The zero-rated foods totalled R1 355,38 and the foods subject to VAT totalled R1 654,27. Foods subject to VAT make up 55% of the total cost of the Household Food Basket. VAT on the foods subject to VAT in the basket came to R215,77, which is 7.2% of the total Household Food Basket (see Appendix 1).

R215,77 is equivalent in price to the cost of 32kg of maize meal. Given that households living on low incomes try and secure 35kg of maize meal a month; this amount of VAT on the basket is not insubstantial. Removing VAT off all foods could provide the possibility to ease the financial burden of households whilst ensuring that the majority of South Africans will be in a better position to secure the core staple food of maize meal. Even this however will not

¹ STATSSA (2017). **Poverty Trends in South Africa: An examination of absolute poverty between 2006 and 2015.** Report No. 03-10-06. Statistics South Africa, Pretoria, South Africa. P8, 14 & 58. See link: <http://www.statssa.gov.za/publications/Report-03-10-06/Report-03-10-062015.pdf>

be sufficient in making the Household Food Basket affordable as removing the VAT levied would only bring down the total cost of the basket to R2 793,88. This amount is still unaffordable for the majority of South Africans.

If, in line with Panel recommendations, that just a few items be added to the zero-rated basket then, using the example for white bread and cake flour; if these be zero-rated: the savings on the Household Food Basket would be R40,81 per month (R31,46 on 25 loaves of bread and R9.35 on 10kg of cake flour). This would bring the total cost of the Household Food Basket down to R2 968.84 a month (on the August 2018 basket). This amount is almost equivalent to the median wage for a Black South African household of R3 000 a month; and this is just food (not transport or any other critical household expenses). What this means is that zero-rating a few foods will not materially bring down the cost of the total Household Food Basket to a level which would make the household food baskets of the majority of South African households affordable.

This suggests that zero-rating a few food items will not address the core problem of low wages and grants and improve household affordability (including addressing what we see as a food affordability crisis in the homes of millions of South African households).

In August 2018, our data finds that households are underspending on proper nutritious food by a minimum of 26% or R1 062,73 (*the difference in cost between the Household Food Basket and the cost of a basket which would provide households living on low incomes with a basic but proper nutritious monthly diet: R3 009,65 vs. R4 072,38*). This level of underspend has substantial negative implications for the growth and development of children, the health and wellbeing of families (particularly women who eat last and eat the least amount of protein, calcium, fibre and other essential micronutrients), and productivity levels in the workplace. Not eating proper nutritious food undermines expenditure investment in education and health care and puts all of our economic and social outcomes at risk.

Underspending on women is resulting in an explosion of Non-Communicable diseases – women are getting sick and dying. Underspending on children is resulting in terrifying levels of stunting (Statistics South Africa, 2017² finds that 30% of boy children and 25% of girl children under the age of 5 years are stunted). Stunting in children is, in most cases, irreversible. Stunting puts our future education, health, social and economic outcomes at enormous risk.

The Child Support Grant of R400 per month, set below the food poverty line of R531 per capita per month and even further below the cost to feed a small child aged 10-13 years a basic nutritious monthly diet which we calculate as R569,98 in August 2018; cannot be allowed to continue. Mothers cannot feed their children properly. Underspend on a child's plate is 30%. We are forcing mothers to remove almost a third of a child's nutrition off the plate. Mothers are being forced to remove protein, calcium, fibre, fruits and vegetables off their children's plates so as to secure starches, sugars and fats that whilst filling bellies do not provide children with the nutrients they need to grow properly. Mothers are crying that they cannot fulfil their role as parents. There is no greater fear than seeing hunger in the bellies of your children. In 1939 John Steinbeck in *The Grapes of Wrath* captured the essence of the economic depression for workers and their families in California: "*How can you frighten a man whose hunger is not only in his own cramped stomach but in the wretched bellies of his children? You can't scare him – he has known a fear beyond every other.*"

We offer some insights which we hope will have value as Treasury works through the Panel Recommendations:

- Zero-rating foods do not guarantee affordability and inflation on these foods tends to run higher than foods which are subject to VAT. Over the last 3 months (June 2018 to August 2018), whilst food prices have declined in the Household Food Basket: zero-rated foods came down by a lower -0.3% (-R3,47) compared to foods subject to VAT, which came down by a higher -2.2% (-R37,46).
- Low income households purchase both foods subject to VAT and zero-rated foods.
- Household affordability is relative to income levels and the cost of goods and services (food being just one of these costs). Households living on low incomes do not prioritise food purchases first. Instead, food being one of the few expenses women can control, the money for food arises out of the money left over only after other

² STATSSA (2017). **South Africa Demographic and Health Survey 2016: Key Indicator Report**. Statistics South Africa. Pretoria. P27-28. See link: <http://www.statssa.gov.za/publications/Report%2003-00-09/Report%2003-00-092016.pdf>

non-negotiable expenses have been paid (e.g. transport to work, electricity, scholar transport and school fees, burial insurance and debt servicing). Dealing with the food affordability crisis therefore requires dealing with both income and the cost of goods and services.

We offer some comments on the Panel Recommendations if we have to go the zero-rated route:

- It appears that the panel privileged the loss of revenue to the fiscus, and in doing so, did not pay sufficient attention to the benefits to the populace of securing affordable nutritious food.
- We support the starches which have been identified for zero-rating.
- We are concerned that apart from starches no additional nutritionally-rich foods have been included. The inclusion of protein for example has not been sufficiently conceptualised as essential for nutrition, health and wellbeing. Here we would suggest the addition of peanut butter, an excellent source of protein and good fats on children's sandwiches.
- We would support a more reasonable consideration of chicken and other meats for zero-rating given protein's importance in the diet and the current deficiencies on the plate due to affordability. Animal proteins, unlike vegetable proteins, provide a complete protein and contain all the essential amino acids required by the body, including haem iron in a form which is more easily absorbed by the body.
- It does not seem reasonable to hold the whole country at ransom given that the state has been unable to regulate and crack the oligopolies in the poultry value chain. The poultry industry was forced to comply with a reduction in brining levels in 2017. It seems to us that all major players in the food value chains are prone to various forms of skulduggery to varying degrees. The state must bring them all to heel. Zero-rating chicken and meats will provide the state with a direct entry point to regulate these monopolies and the quality of the produce.
- We noted that many corporates supported the zero-rating of certain products in the submissions to parliament and the VAT panel. This makes sense as a lower supermarket shelf price could increase demand and therefore profits. However, to prevent what might be an intention to gain competitive advantage for certain products offered by certain corporates; zero-rating all food instead of just a few foods, would eliminate the advantage. This would be good for society, instead of just reinforcing the power of big players.
- We support the recommendation to increase Child Support Grants and Old Age Grants. The Child Support Grant should be increased to a level which allows mothers to feed their children properly. Our data shows that the food component alone in the grant is costed between R530 and R669 a month; the grant would have to be higher than this because mothers use the grant for other child expenses, and not just for food. Old Age Grants similarly are a critical income to support families and subsidise insufficient wages. Pensioners that we work with have indicated that they would require a living pension from R6 000 and above, at this level families may be able to secure proper nutrition and basic goods and services; ensure better health and education outcomes, whilst also providing money to spend and invest in the local economy. This, pensioners say, will support a recovery in the economy and provide for broad transformation of the economic structures currently framing the country.

We offer some general comments:

We feel that the Panel Recommendations are not enough to deal with the food affordability crisis. It is clear to us that the problem cannot be addressed just by adding 3 more foods into the zero-rated basket. We would have liked a consideration of other mechanisms such as:

- Removing VAT off all foods;
- Subsidising some critical foods to secure proper nutrition, this may include Maas, milk, eggs, peanut butter, oily fish, brown bread and maize meal;
- An intervention strategy to regulate the food value chains and particularly the retailers and the charges for foods on supermarket shelves;
- Considering food as just one expense amongst many others and looking at how where the state has some control on the cost of these goods and services, that the state intervenes to reduce costs e.g. transport to work; scholar transport and electricity prices. This would free up more money to be allocated to food;
- Present the real picture of the extent of the food affordability crisis to galvanise immediate political intervention to arrest short-term and long-term consequences of the apparent status quo of wavering and stalling and tinkering. Core to this is to elevate the problem of stunting in children as a political problem requiring intervention post-haste as it can move very quickly into a catastrophe, this includes serious intervention into

the hammering being taken by women's bodies as they carry the full burden of the economic crisis by cutting back on nutritious food, which is going to undermine the public health care system in a very substantial way.

In conclusion:

Tax policy should focus on collecting tax from those who can afford it. Food is not a commodity and it should not be subject to tax. It is better for all of us to be able to eat properly and to be healthy as this provides a basis for a strong society and strong robust economy.

If there is a need to recover revenue from food, then it is better if it be recovered off luxury foods which working class households do not buy and the wealthy do buy. It seems to us however that our problems around revenue lie in (1) the low wage regime; (2) the low level of corporate compliance with company income tax; and (3) problems of tax collection which lie with SARS. In focusing around getting revenue we suggest that these areas be targeted.

We are of the opinion that tinkering around with zero-rated foods is not the best way to approach the food affordability crisis as VAT is just one of the elements that are causing food to be unaffordable; and further removing VAT from some foods, is not enough to address the crisis.

About the knock-on crises that are thrashing at us from all sides and becoming increasingly complex, fuelling ever more crises, and which are deepening and becoming more entrenched due to the inability to deal substantially with South Africa's low-wage regime; we feel that it is time now to focus on the root cause of our problems directly. We must deal with the low wage regime and we must deal with it in a different way and through a different framework. We require a broad agreement in principle that all households be able to live well and thereafter find a way to make this happen.

We thank you for your consideration and for the space to comment on the report by the Independent Panel on the review of the current list of items that are zero-rated for VAT. We hope that the comments are useful as the consideration process into the Panel recommendations progresses. We are further available to participate in public hearings should they take place, including to have a conversation directly with Treasury, should that be seen to have value.

Please see Appendix 1 which shows the full data on which our figures in this document are based and the attached August 2018 Household Affordability Index, which provides comprehensive data on monthly household affordability.

Yours sincerely



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Appendix 1: August 2018 Household Food Index: zero-rated vs. VAT

Foods tracked	Quantity tracked	Index 2018			change in Rands		change in %	
		Jun_2018	Jul_2018	Aug_2018	Jul 2018 vs. Aug 2018	Jun 2018 vs. Aug 2018	Jul 2018 vs. Aug 2018	Jun 2018 vs. Aug 2018
Zero-rated foods								
Maize meal	25kg + 10kg	R 227,49	R 234,99	R 239,16	R 4,17	R 11,67	2%	5%
Rice	10kg	R 74,32	R 75,83	R 75,49	-R 0,34	R 1,17	0%	2%
Samp	5kg	R 30,99	R 29,49	R 29,66	R 0,17	-R 1,33	1%	-4%
Sugar beans	5kg	R 96,82	R 94,82	R 92,66	-R 2,17	-R 4,17	-2%	-4%
Cooking oil	5L	R 72,66	R 75,32	R 79,16	R 3,83	R 6,50	5%	9%
Maas	4L	R 40,83	R 41,33	R 39,16	-R 2,17	-R 1,67	-5%	-4%
Eggs	60 eggs	R 97,99	R 96,82	R 95,66	-R 1,17	-R 2,34	-1%	-2%
Potatoes	10kg	R 50,94	R 49,52	R 50,23	R 0,71	-R 0,71	1%	-1%
Onions	10kg	R 64,75	R 62,25	R 66,54	R 4,29	R 1,78	7%	3%
Tomatoes	6kg	R 76,58	R 64,99	R 68,38	R 3,39	-R 8,20	5%	-11%
Carrots	5kg	R 33,00	R 28,20	R 14,67	-R 13,54	-R 18,33	-48%	-56%
Butternut	10kg	R 40,94	R 49,35	R 61,90	R 12,55	R 20,96	25%	51%
Spinach	8 bunches	R 51,92	R 63,92	R 55,92	-R 8,00	R 4,00	-13%	8%
Cabbage	2 heads	R 25,32	R 23,98	R 22,33	-R 1,65	-R 2,99	-7%	-12%
Tinned pilchards	400g x6	R 87,32	R 88,32	R 89,97	R 1,65	R 2,65	2%	3%
Bananas	4kg	R 42,63	R 40,63	R 39,96	-R 0,67	-R 2,67	-2%	-6%
Apples	1.5kg	R 17,82	R 14,83	R 17,16	R 2,33	-R 0,67	16%	-4%
Brown bread	25 loaves	R 226,54	R 222,38	R 217,42	-R 4,96	-R 9,12	-2%	-4%
Subtotal of zero-rated foods		R1 358,85	R 1 356,95	R 1 355,38	-R 1,57	-R 3,47	-0,1%	-0,3%
VATable foods								
Cake Flour	10kg	R 70,82	R 72,49	R 71,66	-R 0,83	R 0,83	-1%	1%
White sugar	10kg	R 128,66	R 125,49	R 124,49	-R 1,00	-R 4,17	-1%	-3%
Frozen chicken portions	10kg	R 327,98	R 327,98	R 334,98	R 7,00	R 7,00	2%	2%
Chicken feet	5kg	R 155,97	R 154,72	R 140,97	-R 13,75	-R 15,00	-9%	-10%
Gizzards	2kg	R 55,99	R 50,99	R 47,48	-R 3,51	-R 8,51	-7%	-15%
Beef	2kg	R 152,98	R 150,98	R 145,48	-R 5,50	-R 7,50	-4%	-5%
Wors	2kg	R 80,98	R 79,48	R 77,98	-R 1,50	-R 3,00	-2%	-4%
Inyama yangapakhathi	2kg	R 49,44	R 50,49	R 50,49	R 0,00	R 1,05	0%	2%
Salt	1kg	R 13,74	R 13,74	R 13,74	R 0,00	R 0,00	0%	0%
Stock cubes	24 cubes x2	R 32,31	R 34,31	R 31,65	-R 2,66	-R 0,66	-8%	-2%
Soup	400g x2	R 24,98	R 26,31	R 25,98	-R 0,33	R 1,00	-1%	4%
Curry powder	200g	R 26,99	R 25,99	R 26,16	R 0,17	-R 0,83	1%	-3%
Tea	250g	R 23,49	R 23,49	R 23,99	R 0,50	R 0,50	2%	2%
Cremora	800g	R 32,49	R 32,32	R 33,66	R 1,33	R 1,17	4%	4%
Canned beans	410g x6	R 55,48	R 58,13	R 57,30	-R 0,83	R 1,82	-1%	3%
Margarine	1kg x2	R 62,98	R 60,65	R 62,65	R 2,00	-R 0,33	3%	-1%
Peanut butter	400g x2	R 49,31	R 52,98	R 47,98	-R 5,00	-R 1,33	-9%	-3%
Polony	2.5kg	R 50,82	R 51,32	R 52,16	R 0,83	R 1,33	2%	3%
Apricot jam	900g x2	R 49,31	R 46,65	R 44,31	-R 2,34	-R 5,00	-5%	-10%
White bread	25 loaves	R 247,00	R 244,50	R 241,17	-R 3,33	-R 5,83	-1%	-2%
Subtotal of VATable foods		R1 691,73	R 1 683,02	R 1 654,27	-R 28,75	-R 37,46	-1,7%	-2,2%
Vatable foods (excl. VAT)		R1 471,07	R1 463,50	R 1 438,49	-R 25,00	-R32,58	-1,7%	-2,2%
VAT total		R220,66	R219,52	R215,77	-R3,75	-R4,89	-1,7%	-2,2%
Total household food basket		R3 050,58	R3 039,97	R3 009,65	-R30,32	-R40,93	-1,0%	-1,3%

Month-on-month: the **zero-rated foods** in the household food basket **decreased** by R1,57 (-0,1%) to R1 355,38 in August 2018.

From June 2018: the **zero-rated foods** in the household food basket **decreased** by R3,47 (-0,3%) from R1 358,85 in June 2018 to R1 355,38 in August 2018.

Month-on-month: the **foods subject to VAT** in the household food basket **decreased** by R28,75 (-1,7%) to R1 654,27 in August 2018.

From June 2018: the **foods subject to VAT** in the household food basket **decreased** by R37,46 (-2,2%) from R1 691,73 in June 2018 to R1 654,27 in August 2018.

20/38 foods in the total household food basket are subject to VAT. Foods subject to VAT make up **55%** of the total cost of the household food basket. VAT on the total household food basket came to **R215,77** in August 2018. This means that **7,2%** of the household food basket is made up of VAT.