**MEDIA STATEMENT**

**FINANCE COMMITTEE RELUCTANTLY ACCEPTS VAT INCREASE**

**Parliament, Tuesday, 13 November 2018 –** After considerable consultation and deliberation, including three sets of public hearings, the Standing Committee on Finance has reluctantly accepted the 1% value-added tax (VAT) increase.

At the public hearings there was almost unanimous opposition to the increase from civil society. The committee has from the outset expressed serious reservations with the increase, among other reasons, for the negative impact on the poor and lower-income earners, who are already dealing with increases in fuel prices and the cost of living generally.

However, the committee is also acutely aware of the severe constraints on the budget and the desperate need to raise additional revenue. “The pressures have become more glaring following the introduction of the Medium Term Budget Policy Statement (MTBPS), which estimated 0,7% economic growth. The MTBPS also unexpectedly forecast that there will be a R27.4 billion shortfall of revenue this financial year, which includes R20 billion of VAT returns that have been withheld,” said Mr Yunus Carrim, Chairperson of the committee.

The committee welcomes the zero-rating of white bread flour, cake flour and sanitary pads, as well as the decision to provide free sanitary pads to learners. However, it believes that there can be more targeted expenditure to cushion the effects of VAT on the poor, by reprioritising within the expenditure ceiling. National Treasury needs to effectively consider the possibilities of increasing the allocation of free water and electricity to indigent households and vouchers for uniforms for learners at no-fee schools for locally produced school uniforms.

“More than ever, parliament and government have to ensure that more revenue is secured through considerably strengthening capacity at the South African Revenue Services to raise more revenue, drastically reducing wasteful expenditure and more effectively tackling the illicit economy and corruption. More revenue will also flow from investment, economic growth and job-creation,” said Mr Carrim.

The committee believes that the increase has to be reluctantly accepted, but should be reviewed at the end of the third year of its implementation, 1 April 2021, following an evaluation of the impact of the rate on revenue collection and the poor.

Mr Carrim said this approach provides both certainty for the fiscus, in raising the revenue required for the Medium Term Expenditure Frame period, and allows for a review, taking into account economic and financial conditions.

**ISSUED BY THE PARLIAMENTARY COMMUNICATION SERVICES ON BEHALF OF THE CHAIRPERSON OF THE STANDING COMMITTEE ON FINANCE, MR YUNUS CARRIM**