

02 March 2020

Hon. MJ Maswanganyi, MP, Chairperson: Standing Committee on Finance (National Assembly)
Hon. YI Carrim, MP, Chairperson: Select Committee on Finance (National Council of Provinces)
3rd Floor, 90 Plein Street
Cape Town 8000

Fiscal Framework and Revenue Proposals

Dear Sirs,

Limpopo Tobacco Processors (LTP) welcomes Finance Minister Tito Mboweni's announcement on slightly increased excise charges for cigarettes and related tobacco products. LTP appreciates the opportunity granted by the Standing and Select Committees on Finance to comment on the Minister of Finance's Budget Speech.

In our engagements with both the National Treasury and Parliament in 2019 on the Tax Laws Amendment Bills and the Medium-Term Budget Policy Statement, respectively, we called for two actions in order to ensure the survival of our industry and the protection of farmer and rural livelihoods that we represent.

First, we called on Treasury to consider holding excise rates to give us a chance to sell our tobacco crop to the legal industry, and not make products more unaffordable to consumers and thus drive them to illicit trade.

Second and related to the first action, we called for National Treasury to bring the excise tax rates on cigarettes back in line with the 40% targeted incidence, where currently it has crept up to over 43%. We also stated our belief that a freeze on excise duties over a period of at least three years will allow SARS and the prosecuting authorities enough time to implement strategies and controls to clamp down on all the illicit manufacturers and dealers in South Africa.

We recognize that the Minister for Finance had tough choices to make within a very challenging economic climate. We believe that the moderate tax increase is the first step towards ensuring our survival by making sure that legal tobacco products remain relatively affordable for South African consumers. It will also ensure that consumers will be able to stay with legally produced and manufactured tobacco products, rather than being tempted to use illegally produced and counterfeit products.

We once again encourage the Minister live by his commitment to policy certainty and return to his Department's policy target for a cigarette excise incidence of 40% of the most popular price category. Although the cigarette excise increase was measured, the excise incidence stands at 43.5%, up from 43.3%, and well above National Treasury's stated policy of targeting a 40% excise incidence based on the Most Popular Price Category (MPPC).

We also welcome the Minister's imposition of a 75% of the cigarette excise tax on tobacco heated products during his budget speech.

We believe that this is a fair approach that will ensure that revenue generation is not dependent on cigarettes alone. The excise introduction for this category will create further opportunities for government to generate revenue from categories that were up to now untaxed.

We also welcome the Finance Minister's commitment to rebuilding SARS, which plays a crucial role in clamping down on illegal tobacco product production and sales.

As the Minister correctly pointed out, it is crucial that the state increases its ability to fight criminal activity and outlaw the production and sale of illicit tobacco products. We are encouraged by his statement that government is focused on this and, in so doing, contributing to the survival of law-abiding tobacco farmers, producers and manufacturers.

Regards



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Christo Van Staden
Managing Director

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