

The submission to the treasury

Introduction

LTP [Limpopo Tobacco Processors (Pty) Ltd] is a company that processes tobacco leaves and sell it to cigarette manufactures like BATSA. It sources to tobacco leaves from the farmers through its subsidiary company TPD [Tobacco Producers Development (Pty) Ltd]. The company has 100 commercial farmers and 150 emerging farmers. Both companies including farmers employ 8000 people. The company has a programme of developing black emerging farmers to commercial farmers.

Impact of Covid-19 to the company

- The ban on cigarette has increased the illicit trading exponentially from 23% to 94%.
- The company has lost 20 farmers that translate to 400 ha lost to the primary tobacco industry.
- Some workers lost their jobs due to the impact.

The impact of increase in excise tax to the company

- Increase of illicit trading

With the current high illicit trading levels, the demand for tobacco drop significantly. Farmers struggle to be sustainable on smaller crop orders and prices are under pressure. In 2020, the total plantings were 3 306 ha, vs the hectares for 2021 are estimated to be 2 919 ha (10,5 m kg vs 9.5 m kg)

- Tax evasion

Greater increase on excise tax will invite tax evasion and avoidance and that would lead to tax reduction to the treasury.

- Cigarette smuggling

Throughout the lockdown we have experienced more cigarettes being rampantly smuggled in the country and law enforcement has also struggled to apprehend the perpetrators.

- Reduction of tax collection to the revenue

Low-income smokers face a greater financial burden as a result of higher cigarette excise taxes than higher income smokers. Increase in excise will affect the average income levels and that would translate to decrease to the revenue.

Suggestion for excise tax

- We urge the government to cap or freeze any increment on excise tax to ensure the survival of the company and the farmers.
- Zero (0) increase on excise tax will assist the company and farmers to protect and save existing jobs.
- Second option: Adopt a completely new excise tax model, not based on a targeted tax burden, but where the quantum of the excise tax increase is determined exogenously of the industry's pricing mechanism.

Conclusion

- There is evidence to indicate that the growth in illicit trade has significantly undermined government's excise revenue, for the past few years the state has lost 8-10 billion Rand every year.
- The decrease in the quantity of legal cigarettes consumed has perpetuated manufactures to reduce the volumes of tobacco that they buy and that has affected our company to an extent that we have reduced period of work to cut the cost and farmers has reduced their labourers.
- We therefore request our government to take all the above into consideration in order to save the industry and save the depleted jobs. Unemployment in this country is very high.



.....
C van Staden
Managing Director

Directors: RW OTTERMANN (Chairman), C VAN STADEN (MD), ZF VAN DER MERWE, MD SHIKWINYA, NP KOK,
MJ PRINSLOO, J MOLOTO Company Secretary: BJ de W VENTER

67 Molen Street P.O.Box 69, RUSTENBURG, 0300 North-West South Africa Tel no: 014 596 5090, Fax no: 014 596 6419
E-mail: anske@ltp.co.za