EIGHT PERCENT EXCISE DUTY ON ALCOHOL AND TOBACCO LIKELY TO INCREASE ILLICIT ECONOMY, STANDING COMMITTEE ON FINANCE HEARS

Members of the Standing Committee on Finance heard today that an increase of 8% of the excise duties on alcohol and tobacco will likely increase the illicit economy in these products. The committee heard presentations from industry representatives and interested parties who made oral submission through a virtual platform to the committee on three draft Tax Bills.

The Bills are the Rates and Monetary Amounts and Amendment of Revenue Laws Bill, also known as the Rates Bill; the Taxation Laws Amendment Bill (TLAB); and the Tax Administration Laws Amendment Bill (TALAB). They contain tax proposals announced on 24 February 2021 by the former Minister of Finance, Mr Tito Mboweni.

The draft Rates Bill contains two tax proposals. One makes changes to the rates and monetary thresholds in the personal income tax tables, while the other increases the excise duties on alcohol and tobacco.

The tax proposals contained in the draft TLAB include, among others, curbing the abuse of the Employment Tax Incentive, applying tax on retirement fund interest when an individual ceases to be a tax resident, and strengthening anti-avoidance rules in respect of loans between trusts.

The draft TALAB proposes, among others, administrative non-compliance penalties based on estimates for non-submission of six-monthly employees’ tax returns, amendments related to changes in the accreditation system, and increasing the caps for refunds and underpayments of duties.

Industry representatives and interested parties who made oral submissions include the Beer Association of South Africa (BASA) and British American Tobacco South Africa (BATSA).

According to the BASA Chief Executive Officer Ms Patricia Pillay, excise duty increases have been higher than inflation rate in the past five years, resulting in negative investor sentiment. “The impact of deviation from tax policy guidelines is a negative investor sentiment, which results in inability for business to forecast and plan, loss of jobs, and reduced investment and revenue,” said Ms Pillay.

BASA represents the country’s largest brewer, South African Breweries, as well as Heineken and the Craft Brewers Association of South Africa.

The General Manager of BATSA Mr Johnny Moloto echoed these sentiments, saying that the proposed excise duty on tobacco is not sustainable and did not take into account the impact of the five-month cigarette ban in 2020. “It is apparent that in setting the excise rate, the Honourable Minister of Finance did not fully take into account or at all, the impact of the unprecedented five months’ ban on cigarette trading in the prior year, which extensively destabilised South Africa’s cigarette industry,” he said.

The committee will invite National Treasury to respond to all the submissions. It will then deliberate and plan next steps, taking into account the submissions and the National Treasury’s response.

**Justice Molafo**
**31 August 2021**