SABs oral submission to the 2022 Revised Fiscal Framework and Revenue and Tax Proposals

SAB
The South African Breweries

A proud part of the
ABInBev family

Introduction

- Chapter 1 of the Budget Review is titled: ***"Supporting the recovery and building for the future"***. ***Recovery is top priority for the government and should materialize in multiple ways in the Budget Review.*** **The economy is expected to reach pre-pandemic levels of GDP this year. Reforms to boost investment, GDP growth and employment are under way. Faster implementation of these reforms will bolster confidence and economic recovery.**
- **Reducing regulatory constraints, providing effective services, and coordinating and sequencing economic interventions is intended to bolster public and private investment, which is directed at increasing and supporting economic transformation.**
- **On page 10 of the Budget Review the President is quoted as stating the following in his recent State of the Nation Address: "the key task of government is to create the conditions that will enable the private sector – both big and small – to emerge, to grow, to access new markets, to create new products, and to hire more employees". Reforms that promote growth and employment are needed to build on the recovery observed over the past year."**
- **Gross fixed-capital formation contracted in the third quarter of 2021. As a result, investment remains about R84.6 billion below pre-pandemic levels – with private investment, the largest component of fixed-capital formation, accounting for 84 per cent of the shortfall. Renewed investment in fixed capital is vital to economic recovery and growth.**

Macro-Fiscal position of South Africa: Revenue collection and tax relief in Budget 2022

- Despite an uneven economic recovery, tax collections over the past 12 months have outperformed expectations due to the strength of mining sector revenue and an upturn in earnings following the 2020 recession.
- Gross tax revenue for 2021/22 is expected to be R181.9 billion higher than projections in the 2021 Budget. For two years, policy has focused on broadening the tax base, improving administration and lowering tax rates
- The 2022 Budget proposals include inflationary relief through a 4.5 per cent adjustment in personal income tax brackets and rebates, no change to the fuel levies, and a 1 percentage point reduction in the corporate income tax rate.
- The 2022 Budget provides R5.2 billion in tax relief to support households and the economy by not adjusting the general fuel levy and the Road Accident Fund levy, while fully adjusting the personal income tax brackets and rebates for inflation. The employment tax incentive is expanded to encourage businesses to increase youth employment.
- Excise and customs duties are the only taxes by way of revenue collection, that have not grown above 2019/20 levels. Collections of excise duties are recovering from the trade restrictions imposed due to the COVID-19 ban on sales, especially on alcohol, with companies now paying duties deferred during the pandemic, yet no distinct tax break has been given to an industry that is still ailing and in need of relief.

2022 Tax proposals and specific excise duties related matters

- **The excise policy of 2014 provide differentiated excise tax burdens for wine, beer and spirits. This is set at 11 per cent, 23 per cent and 36 per cent of the weighted average retail price, respectively.**

- **The annual excise adjustment has continued in this differentiated approach, in particular granting a small smaller excise adjustment to unfortified wine, which had received an in line with inflation adjustment of the excise rate by 4.5% as stipulated in the excise policy.**

- **As SAB we would like to understand the rationale behind the (continued) concession to wine by way of the annual excise adjustment, similar to what has taken place in the tax incidence rates in the excise policy.**

- **In the Alcohol Pricing in the World Health Organisation (WHO) European Region Update Report on the evidence and recommended policy actions (2020) it was stated that:**

"From the perspective of improving public health, there is little justification for any approach other than specific taxation, through which the tax payable on a product is directly proportional to its alcoholic content. Such a system may be most effective at improving health if it has higher rates of taxation for stronger products for two reasons: first, drinkers can consume a greater volume of alcohol more quickly through stronger products, and such products may therefore be more closely associated with heavy episodic drinking and intoxication; and second, production and distribution costs may be lower, at least in some cases, for stronger products, meaning that the same volume of alcohol can be sold more cheaply in higher ABV products even at the same rate of specific duty"

- <u>**It is from this perspective that SAB, alongside other public health research, suggest that there should be greater incentivisation by way of price, for consumers to purchase lower strength alcohol products. Alcohol products with higher alcohol content should attract a higher excise tax burden. This would correctly influence consumers to reduce harmful consumption by purchasing cheaper, lower ABV products.**</u>

Upcoming Alcohol Excise Policy Review: Timelines and process

In last year's Budget it was announced that an Alcohol Tax Policy Review will take place. This has been reaffirmed in the contents of the 2022 Budget Review where it has been stated that the alcohol tax policy review will take place shortly.

What we would like to get is clarity around:

1. **What process will be put in place for stakeholders to comment on the revised policy before it is finalized and implemented?**
2. **What is the problem statement which the Policy Review will aim to address? Will the review merely constitute a review/change of the incidence levels for one or more alcohol products/categories or will the Policy Review have a wider scope?**
3. **When will the proposed changes to the alcohol excise policy be (i) announced and (ii) implemented? If the changes come into effect in this budget cycle could they affect the way in which the tax bills are amended since the bills only get enacted early next year?**

SAB The South African Breweries

Thank you