SUBMISSION TO THE STANDING AND SELECT COMMITTES ON FINANCE OF PARLIAMENT

ON THE DRAFT RATES AND MONETARY AMOUNTS AND AMENDMENT OF REVENUE LAWS “VAT” BILL

**Effect of VAT and other Indirect taxes on rural areas**

In addition to studies for exemption purposes on the effect of VAT on poor households given changing consumption patterns,

**Treasury needs to examine the long term effects of VAT and other indirect taxes on economic activity in the rural areas in particular the former Homelands.**

It is in these areas that rising taxation has unnecessarily, and severely, aggravated the spatial inequities of apartheid. **Prior to “tax harmonisation” beginning in the mid-Nineties there were hundreds of thousands of people in employment in industries in these areas**. The General Sales Tax of only 4% was easily and widely evaded in the informal context of much economic activity at the time. In addition, for all the wrong reasons (i.e. apartheid), personal and company tax rates were substantially lower than in the rest of South Africa. Fuel taxes were also much lower.

For whatever reasons, the point is that, in these mostly far flung reasons, whose locational disadvantage was reflected in low, negligible or non-existent land market values, economic activity was able to flourish as general tax levels, in effect, took locational advantage, or the lack thereof, into account.

**Briefly, as taxes rose**, i.e. the inefficient GST was replaced by the efficient VAT, personal, company and fuel taxes rose, these industries, which, because of their locational disadvantages had no taxable capacity, closed down and **a massive multi-year rural exodus commenced.** Butterworth, for example, had over 40000 people in industrial employment and this dwindled around to 3000 at present.

In the opinion of the writer, such a study would highlight the need to take location into account when considering any taxes. Ultimately, this would lead the conclusions propounded by the writer in various articles and a submission to the DTC (attached) as well as the book he co-authored *Our Land, Our Rent, Our Jobs.*

Conclusion

No study of the effect of VAT can be complete without an examination of its effect, not only on ultra-low income households, but on their location including the concomitant costs and disadvantages that this entails. **While there might be an emergency case for higher VAT, an examination of the long term effects thereof on marginal locations is long overdue.**

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