Tax Proposals: 2025 Budget Review

Federal Policy Unit

2024

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Summary

In response to the National Treasury's call for public input on technical tax proposals for the 2025 Budget Review, the DA hereby outlines the following proposed changes:

- Expanding the zero-rated food basket to include essential products to ensure they remain affordable for low-income households.
- Repealing the Health Promotion Levy (Sugar Tax) to mitigate its adverse economic impact.
- Reviewing the fuel price structure to provide relief to consumers and businesses.

Value-Added Tax (VAT)

Expanding the Zero-Rated Food Basket

Proposal

Expanding the zero-rated food basket to include bone-in chicken, beef, tinned beans, wheat flour, margarine, peanut butter, baby food, tea, coffee and soup powder. The cost of expanding the zero-VAT-rated food basket is estimated to be approximately R20.1 billion for the fiscal year, R21.5 billion next year, and R22.7 billion for the following year.[1]

Legal Nature of the Problem

The Value-Added Tax Act (VAT Act No. 89 of 1991) imposes a uniform VAT rate across goods and services, with specific exemptions and zero-rated items.

The zero rating of food items was introduced to relieve low-income households, who often spend a relatively high proportion of their income on zero-rated items.[2] The current VAT system allows 19 basic food items to be taxed at a rate of zero percent in terms of Section 11(1)(j) and Schedule 2 of the VAT Act. By expanding the list of zero-rated items under the Act, the government can further alleviate the financial burden on low-income households and improve food affordability.

Detailed Factual Description

South Africa's VAT rate of 15 percent, implemented in 2018, is uniform across most goods and services. While efficient in generating revenue, the structure places a heavier burden on low-income households, as they spend more of their income on VAT-inclusive goods.

Essential items like bone-in chicken, beef, tinned beans, wheat flour, margarine, peanut butter, baby food, tea, coffee and soup powder remain taxable. Eliminating the 15 percent VAT on these additional items will assist households in balancing their budgets and enable them to opt for more nutritious food options. This intervention would pay for itself in the medium to long term through improved health, productivity, and learning outcomes. Low-income South Africans need an affordable source of protein to prevent them from shifting to a less nutritious, high-carbohydrate diet.

The DA's [2024 Election Manifesto] outlined our proposal to expand the zero-VAT-rated basket. Several reasons for why the zero-rated food basket should be expanded include:

Firstly, lower-income households struggle to afford basic food items due to their limited income and high food prices. Widespread poverty and inequality mean that many households are unable to meet their basic needs, including the need for nutritious food. By expanding the zero-VAT-rated basket to include additional items, the government could make these items more affordable for poor households, which would help improve nutritional intake and overall well-being.

Secondly, the current basket does not adequately reflect the dietary needs of lower-income households. For example, including wheat flour and margarine in the basket would enable poor households to afford more varied and nutritious diets, as these items can be used to prepare a wider variety of meals. The zero-rating of baby food and peanut butter would help meet the nutritional needs of children while adding tea and coffee provides affordable options for hydration and a small energy boost.

The cost of expanding the zero-VAT-rated basket is affordable when compared to other government expenditures. The cost would be relatively small compared to previous costs of bailing out state-owned enterprises (SOEs). The total cost of bailing out SOEs over the past nine financial years was R456.5 billion, and the bill is set to rise to R520.6 billion rand by the end of March 2025.[34] Compared to such a figure, the cost of expanding the zero-VAT-rated food basket is minimal at approximately R20.1 billion for the fiscal year, R21.5 billion next year, and R22.7 billion for the following year.[5]

Nature of the Business/Persons Impacted

- Persons: Low-income households who are disproportionately affected by the tax burden on essential goods.

The Health Promotion Levy

Repealing the Health Promotion Levy (Sugar Tax)

Proposal

Repeal sections of the Rates and Monetary Amounts and Amendment of Revenue Laws Act (No. 14 of 2017) and the Customs and Excise Act (No. 91 of 1964) related to the sugar tax, formally known as the Health Promotion Levy (HPL). It is estimated that the cost of removing the Health Promotion Levy will amount to approximately R2.36 billion.[6]

Legal Nature of the Problem

The Rates and Monetary Amounts and Amendment of Revenue Laws Act (No. 14 of 2017) formally introduced the sugar tax in South Africa as part of a legislative effort to promote public health. This act amended the Customs and Excise Act, specifically establishing the HPL.

The Customs and Excise Act provides the regulatory framework for administering the HPL. It outlines the mechanisms for calculating, collecting, and enforcing excise duties and levies, including the sugar tax.

Detailed Factual Description

The sugar tax does not support South Africa's drive for inclusive economic growth. The tax, which was introduced in 2018, is currently applied to sugar-sweetened soft drinks. According to the proponents of a sugar tax, the logic was that reducing the consumption of sugary soft drinks would result in reduced levels of obesity and lifestyle diseases.

However, in the six years since the tax's introduction, no study has proven that the tax has directly affected diabetes and obesity rates.[7] Some studies indicate that a sugar tax alone cannot combat obesity and other non-communicable diseases (NCDs) because multiple factors contribute to these health outcomes and that nutrition interventions targeting specific foods or beverages may lead to adverse compensatory behaviour, such as increased consumption of alternative but similarly unhealthy foods and beverages.[8,9] This begs the question of whether the sugar tax is necessary. There is, though, undeniable evidence of the tax's adverse economic impact on South Africa and the sugar industry.

According to an independent 2020 study commissioned by the National Economic Development and Labour Council (Nedlac), in the first year of the sugar tax, the levy destroyed 16 621 sugar industry jobs and resulted in a cumulative reduction in GDP of R2.05 billion.[10] Of the 16 621 jobs, the study found that 9 711 jobs were lost at the start of the value chain, that is, with commercial and small-scale cane growers).[11]

The demand for sugar from the beverage industry has also fallen due to the sugar tax. After introducing the sugar tax, the SA Sugar Association estimates a 250 000-ton drop in domestic sales, which must be exported at a substantial loss.[12] The sugar tax also fails to generate significant revenue as producers of affected products may alter the formulation of their products to avoid paying the tax.[13]

The agricultural consultancy Bureau for Food and Agricultural Policy (BFAP) estimates that by continuing the current sugar tax regime, cane growers can anticipate a further loss of 10 percent of direct jobs by 2032.[14] BFAP found that the biggest job losses are among small-scale growers in KwaZulu-Natal and Mpumalanga rural areas. Sugarcane covers a substantial portion of field crops in these two provinces. The farmers who cultivate sugarcane are essential to their rural communities, providing jobs and opportunities. Additionally, they often play a significant role in maintaining local infrastructure, such as roads.[15]

It is logical to conclude that rural communities will feel the greatest impact of a maintained or increased sugar tax. According to BFAP, the impact of the sugar tax is significant for general wage-earning workers and small-scale farmers.[16]

The DA has consistently expressed criticism of the sugar tax.[17,18] The party believes that a review of the impact of sugar tax and its contribution to improving the population’s diets is required. The DA is concerned that this levy has reduced the competitiveness of the local sugar industry and its ability to act as a labour-absorptive industry.[19]

Nature of the Business/Persons Impacted

- Small-scale and commercial sugar farmers (particularly in rural areas) are directly impacted, as decreased demand for sugar results in lower prices and reduced profitability.

- Sugar-related industries, including packaging, distribution, and processing, face financial hardship due to decreased sugar consumption. Job losses in these sectors also have far-reaching implications.

- Agricultural workers, particularly those employed in sugar cane farming, face job insecurity due to the financial strain on producers.

The Fuel Price Structure

Reviewing the Fuel Price Structure

Proposal

Reviewing the fuel price structure to provide relief to consumers and businesses.

Legal Nature of the Problem

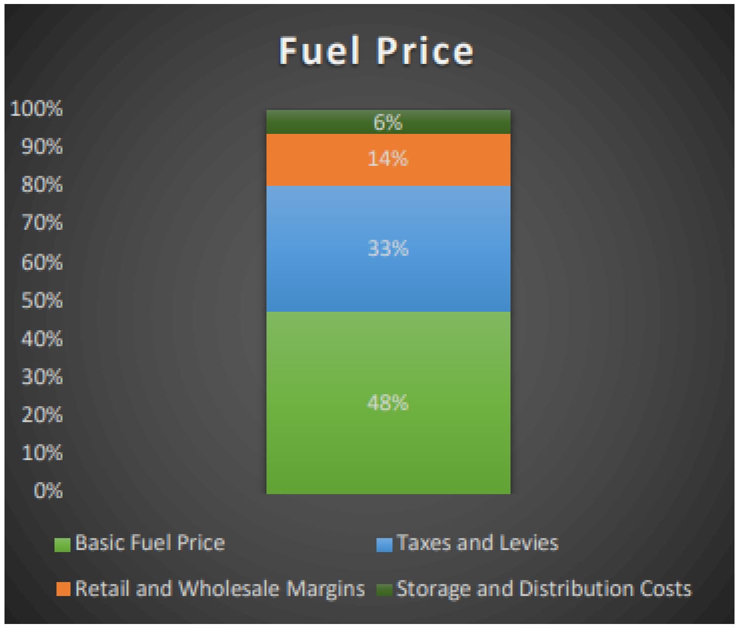
Fuel taxes, governed primarily by the Customs and Excise Act (No. 91 of 1964), include the general fuel levy and the Road Accident Fund (RAF) levy. These taxes contribute significantly to government revenue but disproportionately burden consumers and businesses, particularly during periods of high fuel prices. Therefore, there is an urgent need to review the fuel price determination model and identify where reductions can be made to ease the burden on consumers and businesses.

Detailed Factual Description

South Africa has been facing record-high fuel prices due to global oil price fluctuations and the depreciating rand. High fuel taxes exacerbate these costs, increasing transport costs and inflationary pressures.

A historical review shows staggering increases in fuel-related levies since 2008. The Road Accident Fund (RAF) levy has surged by 425%, the general fuel levy by 225%, and the basic fuel price by 119%. These hikes elevate the transportation costs of goods, including essential food items, limiting access to basic sustenance for a large population segment.[20] The DA maintains that administered prices negatively impact inflation dynamics and the effectiveness of monetary policy.

Figure 1: Fuel Price Composition[21]



The DA has been at the forefront of the fight against high fuel prices, consistently highlighting the devastating impact these prices have on ordinary citizens. The party's campaigns have included calls for reducing fuel levies, removing unnecessary regulatory costs, and reviewing the fuel pricing structure. The DA has argued that these measures are essential to bringing down the cost of fuel and easing the financial strain on South African households.[22]

Nature of the Business/Persons Impacted

- Business: The transport sector, especially the trucking and logistics industries, experiences significant cost increases, affecting the supply chain and consumer goods prices. Furthermore, small businesses in transport-reliant sectors such as agriculture and delivery services face rising input costs.

- Persons: Consumers, particularly low-income households who rely on public transport, which becomes costlier due to higher fuel prices.

Endnotes

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