

RE: Submission on the Draft Rates and Monetary Amounts and Amendment of Revenue Laws “VAT” Bill.

We greet you from Pietermaritzburg.

Thank you for the opportunity to make a written submission. We have made previous written submissions on the 26th February and 5th of March 2018, and we have engaged with the committee on Wednesday the 28th February 2018. We request that this current submission be considered as part of these previous submissions.

This submission of the 19th April 2018 now talks to the emerging impact of the VAT hike to 15% for South African households living on low wages and low grants and includes a call for food price regulation.

On the 1st of April 2018, despite massive resistance, government went ahead and increased the VAT rate to 15%. We have argued in the past that increasing the VAT rate on food was unwise.

This submission using our April 2018 data looks at the month-on-month impact of the VAT hike for households living on low incomes. It is a snap shot as the effect of the VAT hike will take time to run through the value chains however already it signals some worrying trends. Foods subject to VAT make up 54% of the total cost of the PACSA Food Basket. The submission finds that the increase in VAT by 1% resulted in a 6.5% increase in the total VAT levied on the foods subject to VAT on the PACSA Food Basket, moving the total VAT payable to R221.59. This substantial increase in the VAT percentage arose even despite an actual month-on-month drop in the total cost of foods subject to VAT in April 2018 by -0.6%. The VAT amount due is likely to change going forward when the full impact of VAT comes into effect. However, what the data does reveal is that even now, when the hike is in its early stages, households living on low incomes are highly exposed to VAT.

The submission finds that the PACSA Food Basket has now reached its highest level since we reviewed it in September 2017 - in April 2018 it costs R3 144.02, an increase of R258.29. It has increased by 9% over the past eight months. As the hike in VAT runs through the value chains we imagine the cost of the basket will continue to rise and households will continue to struggle to absorb the escalating costs. Hiking the VAT rate has made the affordability crisis deeper and will have a considerable negative impact on households living on low incomes, who are already in a very severe crisis.

The submission also finds that inflation on zero-rated foods runs much higher than the inflation on foods subject to VAT. Between September 2017 and April 2018 inflation on zero-rated foods increased by 13% compared to the lower 4.8% inflation rate of foods subject to VAT. It means that zero-rating foods does not guarantee affordability.

*We conclude our submission by looking at the broader problem the hike in VAT has revealed – that the crisis cannot be ameliorated by tinkering around the edges of the zero-rated foods; we have a massive food affordability crisis and this is created by structural causes. Affordability under a capitalist economy is related to the level of income (wages) and the cost of goods and services. To ensure affordability, intervention is therefore required either to increase wages or decrease the cost of goods and services. Here we propose that the crisis we face is so severe that both interventions are required – that a living wage is implemented and prices be regulated by the state to ensure affordability. If Government does not increase wages or reduce prices than we have to accept that it is abandoning its people. **We call for food to be made a public good; to remove all VAT from food; to increase wages to those of a living wage and to regulate food prices.***

PACSA tracks 38 foods on a monthly basis that working class households have identified as the foods which they would typically buy should they have sufficient money to do so. 20 of the 38 foods in the PACSA Food Basket are subject to VAT and 18 are zero-rated. This analysis below draws on PACSA's updated basket which we introduced as part of a new three-year review cycle from September 2017. Our data therefore only runs as far back as September 2017; it does however provide a sufficient timeframe to draw out trends.

1. The impact of the VAT hike on the food baskets of households living on low incomes.

Between March 2018 and April 2018 (when the VAT hike came into effect) the PACSA Food Basket showed a drop in the total cost of foods subject to VAT (EXCL VAT). The foods subject to VAT (EXCL VAT) dropped from R1 486.46 to R1 477.24 (a drop of -R9.22 or -0.6%). We collected our food prices on the 4th of April 2018. It is not yet known if this trend is likely to continue; it is however more likely that the effects of the VAT hike still requires time to move through the food value chains into the supermarket shelves and the full effect of the VAT hike is yet to be felt.

The combined total of all foods subject to VAT in the basket was R1 477.24 and increased to R1 698.83 with the inclusion of the 15% VAT rate. The VAT total on the foods subject to VAT was R221.59. These 20 foods contributed 54% of the cost of the total basket.

What is significant about the April 2018 data, is that despite the actual drop in the cost of the foods subject to VAT in the basket; the total VAT component on the baskets for households living on low incomes increased by 6.5% (with the VAT total increasing from R208.10 to R221.59). It means that the 1% hike in VAT from 14% to 15% resulted in a 6.5% increase in the total VAT on the foods subject to VAT in the basket.

If the cost of foods subject to VAT in the basket increases, as we believe they will, it will mean that the Rand-value of the total VAT payable will increase further. Already at R221.59 per month – this is a substantial amount for households living on low wages and on low social grants.

It is also important to note the rise in total VAT over the past several months. Our data shows that with the April VAT hike households living on low incomes are now paying 12.3% more VAT than they were in September 2017.

Figure 1 below shows the impact of the VAT hike in more detail for month-on-month (March 2018 to April 2018); before the VAT hike (from September 2017 to March 2018); and after the VAT hike (from September 2017 to April 2018). See annotations A-C below.

	New PACSA Food Basket: months								A Month-on-Month		B Before VAT hike		C After VAT hike	
VAT variables	Sep_2017	Oct_2017	Nov_2017	Dec_2017	Jan_2018	Feb_2018	Mar_2018	Apr_2018	ZAR	%	ZAR	%	ZAR	%
Total vatable food INCL VAT	R 1 606.87	R 1 663.10	R 1 642.47	R 1 625.56	R 1 684.00	R 1 684.10	R 1 694.56	R 1 698.83	R 4.27	0.3%	R 87.69	5.5%	R 91.96	5.7%
Total vatable foods EXCL VAT	R 1 409.54	R 1 458.86	R 1 440.76	R 1 425.93	R 1 477.19	R 1 477.28	R 1 486.46	R 1 477.24	-R 9.22	-0.6%	R 76.92	5.5%	R 67.70	4.8%
Total VAT component	R 197.33	R 204.24	R 201.71	R 199.63	R 206.81	R 206.82	R 208.10	R 221.59	R 13.49	6.5%	R 10.77	5.5%	R 24.26	12.3%

Figure 1: Making sense of the VAT hike – looking at the increases over certain periods (2017-2018).

(See A) Between March 2018 and April 2018 the actual cost of vatable foods (EXCL VAT) came down by -R9.22 (-0.6%). The real cost of vatable foods (INCL VAT) month-on-month increased by R4.27 (0.3%). However with the VAT hike, the total VAT component on the vatable foods increased by R13.49 (6.5%) to R221.59 on the PACSA Food Basket.

(See B) Before the VAT hike came into place, and between September 2017 and March 2018, the actual and real cost of vatable foods (EXCL and INCL VAT) increased by 5.5% by R76.92 and R87.69 respectively. The total VAT component on the vatable foods increased by R10.77 (5.5%) over this seven month period, with the total in March 2018 coming in at R208.10 on the PACSA Food Basket.

(See C) After the VAT hike, and between September 2017 and April 2018, the actual cost of vatable foods (EXCL VAT) increased by R67.70 (4.8%) and the real cost of vatable foods (INCL VAT) increased by R91.96 (5.7%). The total VAT component on the vatable foods increased by R24.26 (12.3%) over this eighth month period, with the total in April 2018 coming in at R221.59 on the PACSA Food Basket.

Our data shows that even if we confine our analysis of the VAT hike to food in the trolley at a particular moment in time and also ignore all the other myriad factors that influence the real cost of putting food on the table and all the competing expenses which take money out of the food budget; households living on low incomes are highly exposed to VAT on food. The hike of 1% in the VAT rate resulted in a 6.5% increase in the total VAT component on the vatable foods in the PACSA Food Basket. The total VAT component of the 15% hike came to R221.59. This is seen within a context of an actual decline in the cost of vatable foods in the PACSA Food Basket in April 2018. It means that the impact of VAT for the majority of households living on low incomes is not negligible now and nor will it be negligible in the future as the VAT increase works itself through the food value chains. Households living on low incomes are highly exposed to VAT. VAT eats away the little money households have in their pockets to be able to secure the basic content of life. It will continue to eat away the small increments to social grants and low baseline wages as the full effect of the VAT hike drives itself through all goods and services required by families and through the food value chains and onto the supermarket shelves.

2. Inflation on zero-rated foods runs higher than inflation on foods subject to VAT.

In April 2018 the actual cost of the 20 foods subject to VAT (EXCL VAT) in the PACSA Food Basket decreased by -R9.22 (-0.6%) month-on-month but increased when VAT was included by R4.27 (0.3%) month-on-month. In comparison, the 18 zero-rated foods in the basket increased by R35.81 or 3%. Combined, the month-on-month increase in April was R40.08 or 1.3%. The higher increase on the zero-rated foods is not inconsistent with the trends that we have seen over the past several months.

Food price inflation over the past several months has run higher on zero-rated foods than on foods subject to VAT. From September 2017 to April 2018; the total cost of zero-rated foods in the basket increased by R166.33 (13%) from R1 278.86 to R1 445.19. In comparison the cost of foods subject to VAT (EXCL VAT) in the basket increased by a lower R67.70 (4.8%) from R1 409.54 to R1 477.24. See Figure 2 below.

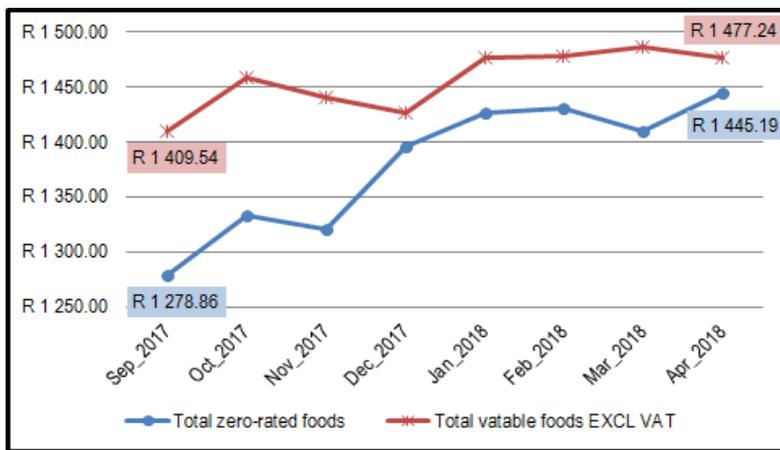


Figure 2: Price increases on the PACSA Food Basket: differentiating between foods subject to VAT (excl. VAT) and zero-rated foods (Sep 2017 to Apr 2018).

This higher run on inflation on zero-rated foods is a concern as many of these foods are relatively price inelastic and must be secured regardless of price hikes as they provide the core staples and basic starches for meals for the majority of South African households. The trends in this data further show that the assumption that zero-rated foods are cheap or affordable is not true. The proposals to compensate for the VAT hike by expanding the zero-rated basket is also contested by these findings – here again our data shows that zero-rating does not guarantee affordability, and other interventions would be required to deal with South Africa’s food affordability crisis.

The higher run of inflation on zero-rated foods in the light of the hike in VAT does raise further concerns. Women have told us that when zero-rated foods become unaffordable; some switches take place to foods which incur VAT charges. Desperate households become forced to drop off unaffordable zero-rated foods such as nutritionally-rich dairy products (milk and Maas), sugar beans, pilchards and brown bread and are forced to look for inadequate and poor substitutes amongst the vatable foods e.g. Cremora (which is not a dairy product), cake flour (not fortified and used to make own bread-type products), there is no real suitable nutritional equivalent of sugar beans and pilchards (households tend to drop beans and pilchards out the trolley or eat very little). More salt and soups and stocks are purchased to give flavour to meals and provide a semblance of authenticity to the diminishing and inferior vatable protein-type products.

It means that the level of VAT charged on food is important because households living on low incomes eat foods which are subject to VAT and as the limited variety of zero-rated foods become unaffordable, households look for substitutes amongst the foods subject to VAT. The relationship between the inflation rate on zero-rated foods and foods subject to VAT is therefore important; if inflation on zero-rated foods continues to run much higher than foods subjected to VAT then it means that more households will be forced into purchasing more foods subject to VAT – and with the VAT hike will find even these poorer nutritional substitutes more unaffordable.

Our analysis is important as it reaffirms the importance of ensuring that zero-rated foods are affordable. We hope to also have dispelled the myth that just because a food is zero-rated that affordability is guaranteed. Zero-rating just means that a food is not subject to VAT. It does not mean that the food is affordable. Other interventions would be required to ensure zero-rated foods are affordable; such as regulating the prices of foods.

3. The rising cost of the PACSA Food Basket.

In April 2018 the total cost of all foods subject to VAT in the basket was R1 698.83 (with the 15% VAT rate contributing R221.59 to this total cost). The total cost of the 18 zero-rated foods in the basket was R1 445.19. Combined the foods subject to VAT plus the zero-rated foods came to R3 1 44.02 in April 2018. The month-on-month increase in April was R40.08 or 1.3%.

At R3 144.02, the April 2018 food basket is at its highest level since we reviewed and updated our basket in September 2017.

Since September 2018, the PACSA Food Basket has increased by 9% or R258.29 (from R2 885.73 to R3 144.02). The zero-rated foods contributed R166.33 to this increase and the foods subject to VAT contributed R91.96 to the total increase on the basket

A 9% rise in the food baskets of households living on low incomes over the past several months is alarming. A monthly cost of R3 144.02 is well beyond the affordability capabilities of South Africa’s households. The VAT hike on top of the current food affordability crisis may be too much for households to absorb. It is expected that as the full effects of the VAT hike make its way through the value chains, that the cost of the food baskets of households living on low incomes will rise whilst household ability to afford the increase in food prices will fall due to the competing expenses of other non-negotiable goods and services on the food budget. We expect the household affordability crisis to deepen and for levels of nutrition (health and well-being) to continue to decline. See Figure 3 below.

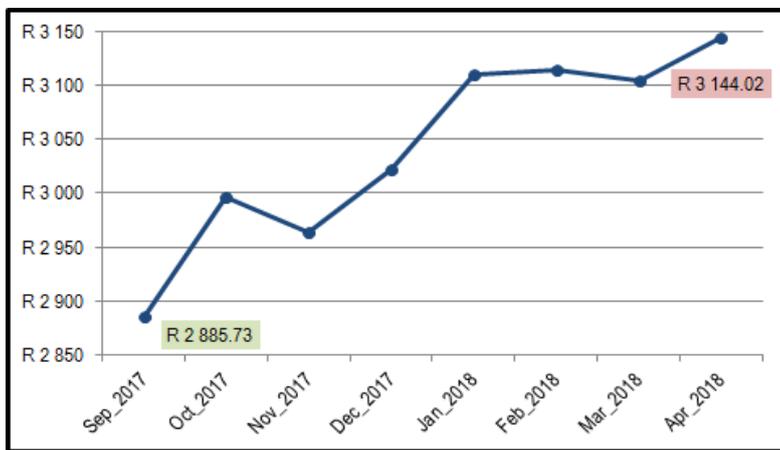


Figure 3: Total cost of PACSA Food Basket (including zero-rated foods and foods subject to VAT) (Sep 2017 to Apr 2018).

4. Broader arguments

The data shown above, even if limited in its scope, provides a solid basis to continue the resistance against the VAT hike but it also calls into question how the narrative of the VAT hike has been framed; including some of the suggestions as to how to make VAT less harmful through dropping the VAT rate and or expanding the zero-rated basket.

It seems to us that the problem is much broader than trying to make VAT less harmful, as important as this might be in the short-term. Expanding the zero-rated basket, as shown in our data, does not guarantee affordability. Government does not regulate food prices. South African food value chains continue to be highly concentrated and dominated by oligopolies. Retailers play and profiteer with food prices. South Africa's food is not in public hands. What South Africa requires is food regulation for affordability not zero-rating more foods.

Even dropping the VAT rate marginally does not seem sufficient to deal with the severity of the affordability crisis millions of our people face. Food is not affordable. Food should be a public good. There should be no VAT on food or the other important goods and services such as electricity, water, transport, health care, education, domestic and hygiene products, media and telecoms.

It seems to us that the introduction of a higher rate in VAT has created the space to look more carefully at the structural causes of our food affordability crisis, specifically our low wage regime which continues to pay workers poverty wages and poverty-level social grants.

We can tinker around the side lines and leave the heart of the issue unattended and end up in a deeper crisis or we can start dealing with the structural injustice by intervening. Affordability is related to money in the pocket and the cost of goods and services. It is about wages and prices. In a context of high levels of unemployment, low baseline wages and grants and high food prices; government is required to intervene. South Africa requires higher wages or food price regulation to ensure affordability. If Government is not going to increase wages; then it has to regulate food prices for affordability. It cannot allow baseline wages to be so low and allow prices to go through the roof. If Government does not increase wages or reduce prices then we have to accept that government is abandoning its people.

The above premises are embedded in our previous arguments which included that:

- Government does not control our food value chains or the prices of foods on supermarket shelves.
- Food prices are highly volatile if not wildly unpredictable. Government should not tax what it cannot control.
- Food is unlike any other good or service, it plays a particular role in our bodies, for our health and well-being and therefore increasing the cost of food puts all our developmental outcomes at risk.
- Already millions of South Africans are unable to put proper nutritious food on the table.
- Government does not seem to understand how households living on low incomes manage their budgets: that is that the food budget arises only after other non-negotiable goods and services have been paid (e.g. transport to work, transport to school, electricity, education, burial insurances and debt repayments). VAT impacts on the cost of non-negotiable goods and services which households need to function– this leaves less money for food. It means that the food budget is low and households underspend on food. Food runs short before the end of the month. Women absorb these shortfalls in their bodies (and are getting sick) and take on more debt.
- Because of the way households living on low incomes manage their monies; households are not able to escape the increase in VAT.
- Government does not seem to understand what foods people eat and how meals are prepared.
- Government does not seem to understand that zero-rated foods are not affordable.
- Government does not regulate the prices of zero-rated foods.
- Government does not regulate the prices of foods subject to VAT.

We have argued that the fundamental problem we face is much greater than an argument about VAT and trying to make it less harmful. The fundamental problem we face is that our baseline wage levels and social grants are too low; and millions of people do not have enough money in their pockets. Food is not affordable. The majority of South Africans are facing a food affordability crisis. Food is not in public hands and government does not regulate food value chains or the prices of foods on supermarket shelves.

We reiterate our call for food to be made a public good; to remove all VAT from food; to increase wages to those of a living wage and to regulate food prices.

We would like our input to be considered by the Finance Standing Committee with respect to the Draft Rates and Monetary Amounts and Amendment of Revenue Laws “VAT” Bill. We further request that we be given a space to make an oral presentation to the committee should you feel that this would be useful. We would request the later date of the 2nd May 2018, should that be acceptable.

Yours sincerely
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