THE SOUTH AFRICAN MEDICAL ASSOCIATION
SUBMISSION TO:

THE PARLIAMENTARY STANDING COMMITTEE ON FINANCE

In respect of:

The Draft Rates and Monetary Amounts and Amendment of Revenue Laws “VAT” Bill
(Published 21 February 2018)

April 2018

INTRODUCTION

The South African Medical Association (SAMA) of South Africa is pleased to submit its inputs on the Draft Rates and Monetary Amounts and Amendment of Revenue Laws “VAT” Bill which was published 21 February 2018.

This submission recognises the opportunities and challenges presented by the proposed tax changes.

The functions and role of the South African Medical Association

Role in the healthcare sector: The South African Medical Association NPC (SAMA) is a professional association for public and private sector medical practitioners. SAMA is a registered independent, non-profit company and a trade union for its public sector members. SAMA membership is voluntary and the organisation is the largest representative body for doctors in South Africa, with a membership of ± 17000-registered public and private sector doctors.

Relationship with its members: SAMA acts as a voice for its members, represents the interest of doctors at local, regional and national levels, and ensures that the professional expertise and voice of the medical profession has effective expression in national debates that shape healthcare in South Africa.

SAMA’s role in Health Policy in South Africa: SAMA is a major player in influencing health policy in South Africa and beyond. SAMA supports legislative and policy measures aimed at protecting and promoting public health, and enhancing access to comprehensive, affordable, and quality healthcare in South Africa through both the public and private sectors.

Evidence-based medicine

In our day-to-day work as a professional organisation, and throughout this submission, we endeavour to reflect and emphasize the principles of evidence-based decision-making.

COMMENTS:

In the following sections, we present our inputs on various aspect of the proposed taxation changes.

1. International comparative analysis of VAT levels [1, 2]

a) BRICS countries

Brazil	18%
Russia	18%
India	13.5%
China	17%
SA	15%

b) OECD Countries

VAT levels above South Africa's (25 Countries)

Iceland	24%	Portugal	23%	Ireland	23%
Austria	20%	Israel	18%	Italy	22%
Belgium	21%	Latvia	20%	Slovenia	22%
Spain	21%	Luxembourg	12%	Chile	19%
Sweden	25%	Czech rep	21%	Denmark	25%
Estonia	20%	Turkey	18%	Finland	24%
France	20%	Germany	19%	Greece	24%
UK	20%	Netherlands	21%	Hungary	27%
Norway	25%				

VAT levels below South Africa's (one Country)

Switzerland 7.7%

c) African Countries

Algeria	17%	Pakistan 17%	Botswana 12%
Senegal	18%	Lesotho 14%	Madagascar 20%
Mauritius	15%	Tunisia 19%	Namibia 15%

The above data shows that South Africa's VAT level is ominously below most countries globally, being lower that in 70% of the 35 OECD countries in total, and second lowest in BRICS countries. However, before definitive conclusions are drawn, several country factors – such as inflation, employment levels , poverty levels, economic climate, and so forth – must be taken into consideration for meaningful comparisons. The limited time available could not allow us to do a comprehensive economic comparison.

Despite this evidence, we recognise the widespread negative national sentiment expressed about the likely damaging consequences of the VAT increase on livelihoods. Internal contextual challenges in South Africa must be considered, and the Government must recognize the practical reality of rising poverty levels in South Africa, which will be worsened by a higher VAT. Some 50% or more of South Africans are living in Poverty[3]. South Africa is one of the most economically unequal societies in the world. The harsh economic realities and the social unrest in the nation demand that the economic burden on the population be diminished, not increased. In light of the above, SAMA recommends that government should seriously consider alternatives to mitigate the tax burden on the poor.

2. The 2018 Budget tax proposals are primarily designed to increase revenue collection, but there are also prominent environmental and health intentions. These are:
   - Increases in the plastic bag levy
   - Increases in the motor vehicle emissions tax
   - Increased levy on incandescent light bulbs
   - Increase in 'sin taxes' by between 6% and 10%
   - NHI will be allocated an additional R4.2 billion, funded through an amendment to the medical expenses tax subsidy over the medium term.

SAMA appreciatively recognises that the above revenue generating avenues come as no surprise; these are situated within the historical and current policy context, as the 2015 NHI White Paper proposed these as some of the possible options for public funding of the NHI.

The environmental taxes will mitigate environmental pollution and climate change impacts, with resultant co-benefits for health.

The economic and health benefits of sin taxes are also widely recognised globally. In the South African context, such taxes will go a long way in stemming the tide of the quadruple burden of disease.

In the ensuing sections we provide our comments on the proposed new levels of tobacco and alcohol excise taxes.

3. Increase in Tobacco excise duty

The budget proposes increase in 'sin taxes' by between 6% and 10%. SAMA strongly argues, on the basis of available evidence, that this rate of increase is too small to maximise the health effectiveness of tobacco taxation.

The tobacco (and alcohol) excise tax in South Africa is levied as a uniform specific tax. While tax on tobacco products significantly reduced tobacco use rates in South Africa since its introduction, unfortunately, since 2010, tobacco excise tax increases have become less effective in decreasing tobacco consumption, because the excise tax pass-through to consumers became lower than pre- 2010 [4].

If pitched at an effective level, tobacco excise tax being a **specific** tax is acknowledged as having huge potential to curb tobacco use as it raises prices of tobacco products relative to other goods and services [5].

The World Health Organisation's Framework Convention on Tobacco Control (WHO FCTC) calls on governments to use appropriate tobacco taxation to reduce tobacco use to achieve health goals. Because of the addictive nature of tobacco use, tobacco demand is proven to be generally very price inelastic.

Since 2006, excise taxes and VAT, combined, has remained unchanged at about 50% of the retail price of cigarettes [6].

SAMA strongly supports evidence that calls for tobacco excise levies to account for **at least 70%** of the overall retail prices of tobacco products, as this will encourage quitting the habit and will dissuade younger people from initiating tobacco use [5]. Further, SAMA submits that the revenues collected should be targeted towards tobacco control strategies primarily, or alternatively other elements of the Health system at least.

4. Increase in Alcohol excise duty

SAMA advances the same arguments as the ones for tobacco excise duty increase as highlighted above. This will results in effective reduction of the high burden of no communicable diseases in the country, in addition to the revenue generation objective.

5. Basket of Non-taxable Goods

SAMA acknowledges the general acknowledged regressiveness of VAT [7] , being an indirect tax, and is deeply sensitive to the loud calls by some local stakeholders for the scrapping of the 1% VAT increase, given its projected heavy impact on the poor. Should the 15% VAT have its way nevertheless, other mechanisms for protecting the poor should be implemented, such as having more tax exempt goods. SAMA supports calls by other stakeholders for the expansion of the current basket of non-taxable goods.

Currently, the following 19 basic food items are zero-rated for VAT purposes: *brown bread, maize meal, dried mealies, dried beans, lentils, tinned pilchards/sardines, milk powder, dairy powder blend, rice, vegetables, fruit, vegetable oil, milk, cultured milk, brown wheaten meal, edible legumes and pulses of leguminous plants.*

SAMA draws attention to the fact that this basket of zero rated food items is far from realistic, as the items represent only a small fraction what consumers essentially eat. Secondly, this basket excludes key **services –** currently incredibly expensive **–** necessary for day to day survival of the majority of people, such as electricity, meat products, clothing, cleaning items, and fuel.

Therefore SAMA submits that the expansion of the current basket of zero rated food items, and inclusion of key services on the zero rated list, are absolutely imperative.

6. Corruption and inefficiency

SAMA records its discomfort with the expansion of the public purse in an environment where corruption, maladministration and inefficiency are rife in the Government sector. Of late, the poor functioning of government parastatals and their drain on the fiscus has dominated the headlines. SAMA asserts that continuing to raise fiscal resources without addressing these systemic challenges renders the whole process futile and an imposition of an unfair economic burden on the South African populace.

7. CONCLUSION

SAMA appreciates the opportunity to comment on the "VAT Bill", has made its inputs and raised some concerns in this submission, which we hope will be considered by the Parliament.

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