

South African Institute of Professional Accountants

9 February 2017

Likely VAT increase must be handled creatively, says South African Institute of Professional Accountants (SAIPA)

There is more than a 75% chance that the Minister of Finance will raise the value-added tax (VAT) rate in this year's budget, says Sibusiso Thungo, Tax Manager at the South African Institute of Professional Accountants (SAIPA). However, he cautions that government must give enough thought to ameliorate the effect of such a rise on the poor.

"Our VAT has remained unchanged at 14 percent for many years, and government has vastly increased income needs. There is a limit to how much more personal taxes can be raised and decreased economic activity is likely to affect tax receipts. We were speculating a VAT rate increase in the Mid-Term Budget, which did not materialise, but I fear the Minister may have no alternative now," he argues.

Where will the funds go?

The commitment to increase funding for university students dramatically in the wake of last year's '*Fees Must Fall*' protests is one unexpected expense that government will have to bear. Other big-ticket items include the National Health Insurance scheme, drought relief and the ever-present possibility of further bailouts for struggling state-owned enterprises like Eskom and South African Airways.

Thungo adds that while VAT can be seen as a fair tax because it does not target one particular group of taxpayers, government will have to come up with creative ways of minimising the impact on the poor. Similarly, the Davis Tax Committee has indicated in their findings that VAT is likely to be "the most effective source of additional revenue", but it also emphasises that any VAT increase would have to be accompanied by sustainable measures that mitigate the "retrogressive effects" on the poor.¹

Protecting the poor

One obvious tactic would be to increase the basket of daily necessities that are exempt from VAT. Currently, 19 basic food items, illuminating paraffin, certain government grants, public transport and educational services are zero-rated. Whilst increasing the VAT rate is not the most favoured, if it comes to it they will need to seriously revisit how the poor can be spared by increasing the basket of zero rated items, Thungo argues.

A further point is South Africa's VAT rate is somewhat lower than the global average. Even a relatively poor country, like neighbouring Mozambique, has a rate of 17 percent.

"SAIPA believes the increase, if it comes, is unlikely to be more than 1 percent to reduce the shock to the economy," he concludes.

ENDS

MEDIA CONTACT: Idéle Prinsloo, 082 573 9219, idele@thatpoint.co.za,
www.atthatpoint.co.za

For more information on SAIPA please visit:

Website: www.saipa.co.za

Twitter: [@SAIPACOMMS](https://twitter.com/SAIPACOMMS)

LinkedIn: [South African institute of Professional Accountants Company](https://www.linkedin.com/company/saipa)

Facebook: [South African Institute of Professional Accountants](https://www.facebook.com/saipa)