20 February 2017

Dear Minister Gordhan

Re: Submission into Budget 2017 and for future consideration.

For us the economy is about society deciding about how to share its resources so that all people have access to the goods and services they require to live at a level of dignity. All economic policy has to be aimed to serve this purpose. We have to start making decisions on the basis of what is good for society and not only on what is good for the corporates in the hope that the corporates, by themselves, will lead us out of the economic crisis we face. Because we are trapped, even at a global level, within a particular economic paradigm the possibilities of making good universal decisions and showing solidarity amongst us are not explored. The effect is that we are unable to deal effectively with our socio-economic problems. We have to start thinking about our economy differently.

As a country we seem to have run out of ideas to stimulate the economy and create jobs. The majority of people in South Africa are starved of money to engage meaningfully in society and the local economy. We would be looking for ways to put money directly into people's pockets so that economic activities can expand in the areas where people are currently located. This will enable investment in local economic activities around goods and services which people themselves demand and their production would lead to local job creation. This could lead to a broad-based local economy that is more resilient than the model of bringing in a foreign investor to build a factory, and through state subsidies create a very limited number of jobs while simultaneously exporting their profits.

Our submission looks at a number of areas where the state has control. The state has control over raising revenue through a range of tax instruments and putting money directly into people's pockets through regulating wage levels and the provision of social grants; and keeping money in people's pockets through regulating VAT, fuel levies and electricity tariffs; and providing good quality public services to all. It is on the basis of this argument that we make the following submissions.

1. Old-age grants

For the majority of workers in South Africa, high unemployment and a low-wage regime mean that workers are not paid enough to secure the goods and services required for their families to live at a basic level of dignity let alone to invest in their own retirement. Not paying workers a decent wage means that on reaching retirement age, the majority of South African workers are solely dependent on the state old-age pension, often the only source of income in homes. The old-age pension, a financial asset to support families, (like the low wage that came before it, but even lower) must be used to absorb shortfalls in wage income.

In our current economic context of high unemployment and a low-wage regime there should be no distinction between what workers bring in and what pensioners bring in. It is not the pensioners fault, it is the fact that they worked in a low-wage trajectory where the low wages did not allow workers to live and to save simultaneously. The argument used to secure a National Minimum Wage for workers is the same one which should be applied to pensioners. The R3 500 NMW, even though it is at an unacceptable low level and must be increased to that of a living wage, provides an optic for how inadequate the current old-age pension valued at R1 510 is.

On retirement age, the financial obligations of a pensioner do not decrease. The pension is still required to support families. Inflation on basic goods and services for low-income households has far exceeded annual increment increases on wages and social grants. For example, in January 2017 the cost of the PACSA Food Basket, a basket of food which women in low-income households have told us they try and buy each month increased by 16.5% year-on-year (an increase of R295.91 from R1797.04 in January 2016 to R2092.95 in January 2017). [1] *In comparison the old-age pension was increased by 6.3% (R90) to R1 510 for the 2016/17 term.*

[1] January 2017 **PACSA Monthly Food Price Barometer**. P 4. See link: http://www.pacsa.org.za/images/food_barometer/2017/January_2017_PACSA_monthly_food_price_barometer.pdf

We recommend:

- *Pensions be increased to a living wage to allow pensioners and their families the possibility to live at a level of dignity, absorb shocks, build resilience, and invest in the local economy.*
- *Annual pension increments should be above CPI measured inflation as experienced by low-income households, on specifically food, electricity and transport.*
- *Pensioners receive a 13th cheque in December to absorb some of the financial, social and economic pressures which this period brings; and therefore enable families to start the new year in a better space due to better debt arrangements and being able to send children to school fully ready.*

2. Child Support Grants

The Child Support Grant [CSG] is currently valued at R360 a month. Because of our high levels of unemployment and low wages, in many young families the CSG is not just for the child but is shared across the household. It equates to R12 a day. The CSG is below Statistics South Africa's food poverty line of R498 for one person per month. It is even further below the R640.19 January 2017 cost of feeding a small child aged between 10-13 years old a basic but nutritionally complete monthly diet (R21.34 per day). And even further below the costs of feeding older children e.g. it cost R680.23 a month to feed a girl child aged between 14-18 years (R22.67 per day); and R758.49 to feed a boy child aged between 14-18 years (R25.28 per day).[2]

The annual increment on the CSG was R30 (9.1%) [staggered – R20 in April 2016 and R10 in October 2016]. In comparison, inflation on the cost of food to provide for the basic nutritional and health needs of children aged between 10-13 years increased by R66.48 (11.6%) y/y (from R573.71 to R640.19). Inflation on Food in the Consumer Price Index followed similar trends, increasing by 11.8% y/y (January 2017).[3]

We recommend:

- *The value of the CSG be increased substantially to enable mothers to feed their children at a level which provides for their health, well-being and nutritional needs as a starting point, but that it also increases to allow mothers to support their children's education requirements in relation to scholar transport, school clothes and shoes, stationery and books; and health care.*
- *An increased CSG could assist mothers to build options (such as starting a small income generating activity, looking for work whilst paying towards a child minder or crèche, enter into friendlier credit/debt arrangements such as joining a stokvel) to escape poverty . These will contribute towards improved developmental and educational outcomes for the child.*
- *Annual CSG increments should be above CPI inflation indices on specifically food, electricity, transport and education as experienced by low-income households.*
- *The value of the CSG be increased commensurately with age because as children grow older their nutritional and educational needs and the cost of these needs increase.*
- *Mothers and caregivers to receive a 13th cheque in December for their children for the same reasons as proposed in the recommendations for old-age pensions above.*

3. Value Added Tax

It has been suggested that National Treasury may increase the Value Added Tax [VAT] rate on consumer goods (including food) by 1%. We argue here, using evidence of food consumption patterns of low-income households and trends in food price inflation, why this would be unwise.

Our argument is shaped by data from the PACSA Food Basket which includes 36 basic foods which women in low-income households tell us they try and buy each month. The current basket of 36 foods is made up of 17 foods which are zero-rated and 19 which are subject to VAT. In January 2016 the price of the PACSA Food Basket was R2092.95; this is an increase of 16.5% y/y. Table 1 below disaggregates inflation on the foods in the basket and looks at zero-rated foods and vatable foods. It shows that the exposure of low-income households to VAT on foodstuffs is underestimated and that the VAT burden on low-income households is severe.

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[2] January 2017 **PACSA Monthly Food Price Barometer**. P 3. See link: http://www.pacsa.org.za/images/food_barometer/2017/January_2017_PACSA_monthly_food_price_barometer.pdf

[3] Statistics South Africa (2017). **Consumer Price Index**. January 2017. Statistical Release P0141. P7. See link: http://www.statssa.gov.za/publications/P0141/P0141January2017.pdf

Table 1: *Changes in the makeup of vatable foods in the PACSA Food Basket (Jan 2016 vs. Jan 2017).*

Calculations	Variables	Jan_2016 @14% VAT	Jan_2017 @14% VAT	y/y change (ZAR)	y/y change (%)
a (e +b)	Total PACSA Food Basket (incl. VAT)	R 1 797.04	R 2 092.95	R 295.91	16.5%
b	Total cost of zero-rated food stuffs in PACSA Food Basket	R 907.38	R 982.64	R 75.26	**8%**
c	Total cost of vatable food stuffs (excl. VAT)	**R 780.40**	**R 973.95**	**R 193.55**	**25%**
d	VAT on vatable food stuffs	**R 109.26**	**R 136.35**	**R 27.09**	
e (c+d)	Total cost of vatable foods (incl. VAT)	**R 889.66**	**R 1 110.31**	**R 220.65**	**25%**
f (d/a)*100	VAT as a % of total PACSA Food Basket	**6.08%**	**6.51%**		**0.43%**

Table 1 shows the following:

- *6.51% (R136.35) of the monthly food baskets of low-income households is paid to VAT (up from 6.08% or R109.26 a year ago).*
- *For a household relying on an old-age pension of R1510, a 14% VAT rate (R136.35) on a monthly trolley of basic food would require 9.0% of the current old-age grant (R1 510); and for a household relying on a CSG (R360); 37.9% would be deducted for VAT on the family food basket.*
- *Inflation on vatable food stuffs y/y increased at a higher rate than zero-rated foods (25% vs. 8%). Vatable food stuffs increased by R193.55 (from R780.40 to R973.95).*
- *The cost proportion of vatable foods in the baskets of low-income households increased y/y from 49.5% to 53.1%.*

Our research has found that as the affordability crisis deepens, and core staple foods (typically zero-rated foods) become more unaffordable, households with no savings to absorb inflationary shocks (because workers are paid low-wages and grants are too low) are forced to reprioritise their spending. Households have to secure core staple foods; money to do this comes from cutting back on nutrition (good quality proteins, vegetables and dairy). To make up for the lack of palatability and to give meals some semblance of a 'proper' meal, mothers buy 'cheap' fats, salts and sugars. These foods are subject to VAT. The affordability crisis thus forces low-income households into a situation where they are more exposed to VAT.

The section above outlines why an increase in the VAT rate on food is unwise. We include below 3 more reasons:

- *Government does not regulate food prices. It further cannot control the weather. These two reasons alone would make it extremely risky to increase the VAT rate on food. However there are additional reasons; there are far too many other variables affecting food prices which government has shown to have limited control over e.g. commodity prices and speculation, the exchange rate, the crude oil price, the food value chains, and to a lesser extent fuel prices and electricity tariffs. It would be irresponsible for National Treasury to raise taxes on a good which it has (1) no or limited control over; (2) cannot predict price changes; and (3) cannot predict the extent of the negative impact for low-income households.*
- *Food is not the same as other goods. Health, well-being and productivity come from the body – eating less food or foods of poorer nutritional value adversely affect our education, health and economic outcomes. Treating food like any other commodity subject to VAT may have far reaching negative implications.*
- *The majority of low-income households in South Africa are not able to afford a basic nutritional diet because income levels are so low. Our data shows that households are already underspending on food by 54.3%.[4] Raising VAT will make this struggle much harder and possibly be counterproductive in building a strong social base.*

We recommend:

- *National Treasury does not raise the rate of VAT on food.*
- *National Treasury intervenes to make zero-rated foods affordable.*

[4] January 2017 **PACSA Monthly Food Price Barometer**. P1 & 6. See link: http://www.pacsa.org.za/images/food_barometer/2017/January_2017_PACSA_monthly_food_price_barometer.pdf

4. Fuel levies and electricity tariff increases

There have been suggestions that the fuel levy may increase. The increase in the fuel levy will contribute to rising food inflation and will make public transport more expensive. We have to be more circumspect on how to mitigate and protect certain categories of people against the negative impact these increases have.

Like fuel levies, electricity tariff increases also affect not only electricity usage in homes, institutions and businesses but will run through all the value chains and the prices of all goods and services will go up. This will mean a double burden on citizens: domestic electricity prices will go up and the prices of all goods and services will go up; this at a time when most families have much less money in their pockets.

We recommend:

- *National Treasury to be more circumspect on how to mitigate and protect certain categories of people against the negative impact fuel levy increases have for them.*
- *National Treasury intervenes more firmly in the annual NERSA and Eskom negotiations on increasing electricity tariffs to ensure that they respond to the economic crisis households are facing; as well as to ensure adequate cross-subsidisation from those able to pay more to those who struggle to secure their basic requirements.*
- *Further that National Treasury compels local municipalities to use all their available instruments (including making the Equitable Share conditional on spending on making public services affordable) to assist struggling households.*
- *Electricity is a resource which has exponential positive effects for household health, the ability to cook food, for security, light, warmth and supporting small business initiatives. Keeping electricity tariffs affordable for low-income households is an excellent investment in the future, as well as a direct intervention to decrease the level of disparity in society.*

5. Increased Company Income Tax and Personal Income Tax

Funding possibilities of many of our submissions should be grounded in the principle that an increased investment in the pockets of low-income households is an investment in society, education, health, the economy and jobs. One of the possibilities of funding what is good for society is to increase the Company Income Tax Rate. Not only are companies allowed to pay workers low wages but tax revenue from Company Income Tax [CIT] is the lowest contributor to tax revenue at 18.1% [R193.4bn], behind VAT at 26.3% [R281.1bn] and Personal Income Tax at 36.4% [R389.3bn].[5] Company Income Tax's contribution to total revenue has declined from 26.7% (2008/9) to 18.1% (2015/16).[6] In 2013 the Company Income Tax rate was dropped from 34.55% to 28%.[7] This is a drop of 6.55%.

We would argue for companies to be taxed at higher levels because these breaks do not appear to have yielded any significant returns in employment, raised wages or increased investment. Tax breaks to companies could be better spent if they were used to increase wages and social grants. The 2015/16 term, for example, collected revenues via a 28% CIT which amounted to R193.4bn.[8] If the CIT had remained at pre-2012 levels (34.55%); revenues collected via CIT (at the 2015/16 level) would have yielded around R238.6bn – this is R45.2bn more than what was collected.[9] The CIT rate has been at 28% since 2013.

International corporates, big business and medium-sized businesses play a game of hiding behind the smaller businesses when questions of raising CIT are proposed. This is an insincere response. National Treasury is able to increase CIT on bigger companies whilst giving concessions to smaller ones. We would welcome an increase in higher CIT for international corporates, big and medium-sized businesses whilst continuing to protect and support small and emerging businesses, including through providing lower tax rates.

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[5] 2016 Tax Statistics. **National Treasury and South African Revenue Service.** November 2016. See link: http://www.sars.gov.za/AllDocs/Documents/Tax%20Stats/Tax%20Stats%202016/Tax%20Stats%202016%20Full%20document%20web.pdf

[6] 2016 Tax Statistics. **National Treasury and South African Revenue Service.** November 2016. See link: http://www.sars.gov.za/AllDocs/Documents/Tax%20Stats/Tax%20Stats%202016/Tax%20Stats%202016%20Full%20document%20web.pdf

[7] Some sectors get different CIT rates due to sector-specific tax dispensations and allowable deductions.

[8] 2016 Tax Statistics. **National Treasury and South African Revenue Service**. November 2016. See link: http://www.sars.gov.za/AllDocs/Documents/Tax%20Stats/Tax%20Stats%202016/Tax%20Stats%202016%20Full%20document%20web.pdf

[9] Own calculations using 2016 CIT Tax Statistics (see reference above).

Investing money directly into the pockets of low-income households could spur the economy and create jobs. This will have a greater impact on the economy overall and on employment than a low company tax rate. It could also signal a move by companies to fulfill their part of their social contract to South African citizens.

Along with an increase in corporate tax, the increased old-age pension and CSG (and other social and public goods) could also be funded through an increase in Personal Income Tax for high income earners. Much of the money spent by high income earners finds its way off shore, it is not invested in the local economy and it does not create jobs. These monies could be much better spent if diverted to South African workers and their families. The scandalous level of individual wealth and extreme wealth gap is becoming increasingly harmful to South Africa and is a huge barrier to South Africa's ability to wrestle control of its socio-economic future.

We would like our input to be considered as you develop Budget 2017 and for future consideration. We would be open to having a conversation with you, beyond the upcoming budget processes, should you feel that this would be useful.

Yours sincerely

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