

MEDIA RELEASE



To: All media
Date: 22 February 2018
Subject: **Zero-rated foods do not protect the poor from the negative impact of the increase in VAT to 15%.**

Since the announcement of the increase of VAT from 14% to 15%, many politicians, economists and other 'experts' have argued that working class households are protected from the negative impact of the increase in VAT because certain foods are zero-rated. We would have done better to listen to the voices of ordinary women who prepare food for their families to understand the impact of a raised VAT level for working class households.

The underlying assumption of the 'experts' is that working class households only eat zero-rated foods. This assumption is flawed and could be construed as having racist overtones.

- PACSA tracks 38 foods on a monthly basis that working class households have identified as the foods which they would buy should they have sufficient money to do so. 20 out of the 38 foods are vatable; and 18 are zero-rated. Of the total cost of the basket of R3129.84, a 15% VAT component is R221.59. The total contribution of VAT to the overall PACSA Food Basket is 7.08%.
- In order to provide a meal working class households don't just use zero-rated foods. A mother does not send her child to school with a few slices of brown bread; she sends her child to school with a sandwich that in addition to the brown bread will require margarine, peanut butter, or jam, cheese, polony – these are all subject to VAT.
- The same applies to cooking a meal for a family. Working class households do not only use maize meal, brown bread, dried beans and rice which are zero-rated. Mothers prepare meals with more than just these zero-rated foods. They also require other foods in order to create a meal. A chicken stew served with maize meal requires salt and spices and chicken. None of which is zero rated.
- All of our basic foods (even the zero-rated foods) require a cooking process to be made into a meal and this requires water and electricity which is subject to VAT.

By arguing that increasing the VAT rate will have no impact on working class households because certain foods are zero-rated reveals a lack of understanding on what people eat and how meals are put together. There is just no way in which households are able to escape this increase in VAT when it comes to food. The only way in which households can escape the impact of VAT is if all foods are zero-rated.

In trying to understand this emphasis that working class households are protected from the VAT increase due to some food being zero-rated, the following questions come to mind:

- Is the assumption that working class households only eat zero-rated food?
- Or is it the assumption that this is the food that they think Black people should only be eating?

We have to question whether the kinds of food that are being zero-rated are connected to our racial and apartheid history where certain foods were considered by others to be the food that Black people or poor people should be eating.

The only way in which working class households will escape the VAT increase announced by the Minister is if all foods are zero-rated.

There are numerous other reasons why increasing VAT on food is not a good idea:

- Food price inflation is highly volatile and unpredictable as seen by the impact of the recent drought. For example, between November 2015 and September 2017 the cost of the PACSA Food Basket increased by 16.1%. Given the volatility of food price inflation, it is not possible to accurately predict the extent of the negative impact of raising VAT for working class households.
- Just because foods are zero-rated does not mean that these foods are affordable. For example, many households no longer purchase milk because it has become unaffordable, even though it is zero-rated.
- The current affordability context means that working class households are already struggling to afford food. An increase in VAT will make putting food on the table even more difficult.
- Food is essential for nutrition and health, which in turn impacts on our education, health, social, economic and developmental outcomes. Food is not like other goods and services. Treating food like any other commodity subject to VAT may have far reaching negative implications.

It seems to us that a multipronged approach should have been taken to raise additional revenue rather than increasing VAT. For example an increase in Company Income Tax could have been considered. Going forward, any approach to revising our tax system should be guided by the principle that we don't choose any instrument which deepens inequality – even if marginal. That is, if there is a burden to be shouldered that working class households be excluded from sharing in this burden. Black South African households have carried this burden too heavily and for too long. The burden of inequality and injustice must be shifted to those who can afford it, and in solidarity, so that by paying a bit more; all can at least live at a basic level of dignity.

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