

Vat - a worse tax for a poorer South Africa

Introduction

The unions and allied organisations are demanding that VAT should not be applied to basic foodstuffs, water and electricity.

Moreover, "effective poverty relief" is demanded to ensure VAT does not lead to further immiseration amongst the unemployed and low-paid.

This article reproduces some of the information prepared by the Labour Research Service to support these demands.

1 Tax on workers is rising

Take an African auto electrician earning R1 800 per month in 1991, married with two children,

as an example. Assume that there were wage increases of 15% over the last five years. Table 1 below shows how this worker's tax has been increasing. It is due to "bracket creep".

Even before VAT came in, workers in the higher grades were being taxed more heavily. In the example above, the worker is now paying 58% more tax, as a proportion of income, than 6 years before!

While workers' taxes are increasing, the government has lost R1,28 billion in taxes by giving concessions to the rich, as can be seen in Table 2 below.

These figures represent the Minister of Finance's own estimates, reported in his budget speeches, of the revenue lost due to reduction in taxes or abolition of taxes.

2 Brown bread

Brown bread, a major item, has gone up by more than the

Year	Basic Wage	PAYE	PAYE as a % of basic
1986	R 894,92	R 46,37	5,2%
1987	R1029,16	R 54,17	5,3%
1988	R1183,53	R 61,34	5,2%
1989	R1361,06	R 85,88	6,3%
1990	R1565,22	R102,63	6,6%
1991	R1800,00	R147,50	8,2%

Table 1

Taxes lost per annum - budget estimates

1. Dividend tax	(1990/1991)	R 650 million
2. Mining tax	(1990/1991)	R 68 million
Mining tax	(1991/1992)	R 49 million
3. Company tax	(1991/1992)	R 378 million
4. Marketable securities tax	(1991/1992)	R 85 million
5. Stamp duty	(1991/1992)	R 50 million
Total		R1 280 million

Table 2

consumer price index (CPI) even though it is exempt from GST and will be exempt from VAT. Brown bread constitutes 4% of urban African spending on food (Source: Bureau of Market Research, *A comparison of the income and expenditure patterns of metropolitan households in the RSA, 1985*).

As Table 3 below shows, subsidies have been reduced progressively to zero. In March this year, price controls were lifted. There are now no subsidies on bread and there is no knowing how high bread prices will go. As the price of brown bread increases, people are already changing to less nutritious white bread (Source: Labadarios et al, *South African Medical Journal, Vol 78,3 Nov 1990*).

Wheat subsidy per annum (8c per brown loaf)

1989/1990	R80 million
1990/1991	R60 million
1991/1992	R0

(Source: Expenditure estimates, Department of Finance)

Table 3

3 Food prices are already rising faster than other prices

In five out of six years since 1986, the food price rose faster than the CPI (Table 4).

The most important effect of VAT on workers will be the taxation of fresh foods. VAT will therefore increase the prices of that part of the CPI, food, which is already its fastest rising component.

Year	Consumer Price Index	% Inc.	Food Price Index	% Inc.
1985	100	-	100	-
1986	118,6	18,6%	120,3	20,3%
1987	137,7	16,1%	147,8	22,9%
1988	155,4	12,9%	170,9	15,6%
1989	178,2	14,7%	189,6	10,9%
1990	203,8	14,4%	220,1	16,1%
1991 (1st 5 months)	224,8	10,3%	245,7	11,6%

Table 4

4 Food represents a substantial part of workers' budgets

According to the Bureau of Market Research, food constitutes 30,03% of the African worker's budget (Source: Bureau of Market Research, *A comparison of the income and expenditure patterns of metropolitan households in the RSA, 1985*).

a) This result is significantly higher than the CPI's food weighting of 22,78% which is based on white spending patterns. Therefore increases in the food price have a far greater impact on low-income African inflation than on white inflation as measured by the change in the CPI. The effect of VAT on fresh foods will significantly increase their inflation, thereby reducing the standards of living of black households as compared to white (Source: Central Statistical Services, *News Releases, PO141 I, Oct 1990*).

b) Maize and brown bread, which were previously the only zero-rated items, represent only 8% of urban African spending on food. Food items which were GST

exempt but will be subject to VAT, constitute 47,2% of black food expenditure (Source: Bureau of Market Research, *A comparison of the income and expenditure patterns of metropolitan households in the RSA, 1985*).

5 VAT will be disastrous for low-income workers

As an expenditure tax, VAT will create a poverty trap for low-income earners.

Firstly, there are large numbers of people with no income! 13% of households in the homelands received no income in 1980. And 81% of households earned below the poverty datum line (MLL - see below for the explanation) (Source: Charles Simkins, *What has been happening to income distribution in the homelands?*, Carnegie Conference Paper No. 7, 1984).

According to one study 3 854 000 children need school feeding. (Source: Peter Moll, *A Supplementary Children's Feeding Programme*, Post Conference Series No 5).

Operation Hunger's surveys of rural villages show that an unemployment rate of more than 50% is the norm (Source: Ina Perlman,

telephonic interview, 30 July 1991).

Ironically, such people - the "indigent" - will hardly be affected by VAT because they cannot buy goods and services. There are so many people who are in the category "indigent", that the government's proposed expenditure of R220 million on poverty relief will be wholly inadequate.

Anybody who is not indigent, that is low-income earners, will therefore not qualify for poverty relief programmes. The Housewives League gave evidence to VATCOM that 4,5 million married tax payers earn between R5 000 - R15 000 per annum. An urban African family of five with a household income of R15 000 per annum and less did not get enough to eat(*Source: Telephonic interview, 30 July 1991).*

The Minimum Living Level (MLL) , calculated by the Bureau of Market Research, for an average African family is R659,91 per month. The MLL is a theoretical minimum on which a family can only survive in the short term.

Of the 619 current union bargaining units on AWARD - the Actual Wage Rage Data Base - 264 pay minimum wages below the MLL. These workers are in the poverty trap. Because most of their costs like rent, transport etc are fixed they cannot further economise - except on food.

They will be caught in the trap of earning too much to

qualify for poverty relief programmes but too little to survive. This means a progressive deterioration in the standards of living of low-income workers. The government's poverty relief programmes will clearly not ameliorate the effect of VAT on low-income earners.

6 The government's commitment to poverty relief is dubious

While the government's poverty relief efforts were inadequate at the best of times, they have actually been progressively reduced to date:

1 The wheat subsidy has been progressively reduced and then removed altogether in the 1991/1992 budget:

Wheat subsidy per annum

1989/1990	R80 million
1990/1991	R60 million
1991/1992	R0

Table 5

2 The maize subsidy has also been progressively reduced since 1988 and then removed in the 1991/1992 budget year. The net effect on the majority of our people is demonstrated in their reduced consumption of this staple food.

Ina Perlman of Operation Hunger observed a rural family of seven living on the poverty line and their consumption of maize annually for 2 years. While this family consumed 80kg of maize in 1979, now

they consume only 50kg!
(Source: telephonic interview, 30 July 1991).

Maize subsidy per annum

1989/1990	R76 million
1990/1991	R38 million
1991/1992	R0

Table 6

3 The Department of Manpower has cut the budget for the training of the unemployed:

Training of the unemployed

1989/1990	R 81,1 m
1990/1991	R103,1 m
1991/1992	R 78,7 m

Table 7

4 The National Health and Population Development's protein - energy malnutrition grants to local authorities remains at the very low figure of R400 000 - which means it decreased by 15% in real terms in the 1991/1992 budget year:

1989/1990	R358 000
1990/1991	R400 000
1991/1992	R400 000

Table 8

While low-income households will pay R546 million extra as a result of VAT, they will receive only R220 million back in targeted assistance (*Source: Labour Research Service, Value added tax, p12, April 1991).*

Targeting items for zero rating

Blanket zero rating is being rejected by the government. Several approaches have been used to identify items for zero rating:

1 Important components of urban African food expenditure

are fresh meat, vegetables and fruit. These represent 26,8%, 9,7% and 4,9% of their total food expenditure respectively.

The zero rating of these food groups would have a significant effect on African spending (Source: Bureau of Market Research, A comparison of the income and expenditure patterns of metropolitan households in the RSA, 1985).

2 Foods that are essential to health – Professor

Labadarios of the Department of Human Nutrition, University of Stellenbosch, has provided a list of the cheapest source foods that contain the nutritional requirements necessary for human existence.

In addition to bread and maize, Professor Labadarios and other experts in the country with whom he consulted, say serious consideration should be given to exempting the following nutritionally necessary food items:

- a full cream and other pure milk powders
- b legumes (beans and nuts)
- c rice
- d sugar
- e stamped maize
- f eggs
- g vegetable oils
- h tinned pilchards

Inflation

Area	Consumer Price Index	Annual rate of inflation
	(1985 = 100)	(% increase over 1 year)
	July 1991	July 90 - 91
Cape Town	234.5	15.9%
Port Elizabeth	238.1	16.2%
East London	230.0	15.0%
Durban	222.0	14.4%
Pietermaritzburg	229.3	16.0%
Witwatersrand	239.8	16.2%
Vaal Triangle	226.6	14.4%
Pretoria	243.7	15.6%
Klerksdorp	245.0	16.8%
Bloemfontein	203.3	11.6%
OFS Goldfields	236.2	18.1%
Kimberley	223.5	15.2%
South Africa	235.3	15.8%
	(1990 = 100)	
	Aug 1991	Aug 90 - 91
Cape Town	117.6	15.9%
Port Elizabeth	117.5	16.9%
East London	116.8	14.8%
Durban	115.2	14.1%
Pietermaritzburg	116.6	16.0%
Witwatersrand	117.7	15.4%
Vaal Triangle	114.8	13.9%
Pretoria	116.8	16.0%
Klerksdorp	117.8	17.7%
Bloemfontein	112.0	11.4%
OFS Goldfields	118.1	18.7%
Kimberley	116.4	15.7%
South Africa	117.1	15.6%

Source: Central Statistical Service

3 How to prevent leakage of food concessions to the rich. This can be done by zero rating the inferior goods. Inferior goods are those for which demand falls as income rises. People with higher incomes buy less of these goods.

Examples of such goods can be seen in Table 9. The importance of these goods in African households is also given, as a percentage of total food spending:

% of food expenditure

Brown bread	4 %
Cooking oil	1,5%
Margarine	0,8%
Milk Powder	0,6%
Tinned fish	0,9%
Poultry	1,6%
Instant coffee	1,0%

(Sources for spending patterns: Bureau of Market Research, A comparison of the income and expenditure patterns of metropolitan households in RSA, 1985).

Table 9

Ina Perlman of Operation Hunger asked the Minister of Finance for zero rating on the following food items too. The immense experience of Operation Hunger in poverty-stricken rural areas has led them to conclude that these are vital to survival there. According to them, the biggest items of food expenditure, besides bread and maize, are:

- a milk and milk powder,
- b poultry and
- c cooking oil.

4 Special cases
 a Pregnant women – the World Bank reports that “Nutritional risks begin before birth. ”If black pregnant women are not treated as a special group, a vicious circle of “maternal-malnutrition, infant death, and high fertility” will continue (Source: *The World Bank, Sub-Saharan African From Crisis to sustainable Growth, 1989*).
 Milk powders and eggs are vital here. While the field

of diet and pregnancy is controversial, Labadarios et al specify D-supplemented foods (Source: *Labadarios et al, The South African Journal, Vol 78 November 1990*).
 b Children – South Africa has one of the highest infant mortality rates in the world which makes children deserving of special attention. Baby foods, milk and milk powders and eggs are identified as needing zero rating. ☆

Summary

The above lists are consolidated for targets for zero rating.

Major food group	Sub-group	Reason
Fresh meat	Poultry	Represents 29,8% of African spending. Represents 9,5% of African spending and 1,6% of their total food budget.
Fresh vegetables		Represents 9,5% of African food expenditure.
Legumes (dried, canned or fresh)		A necessary nutritional food, represents, 7% of African food expenditure and 7,1% of their spending on vegetables. These are also inferior goods.
Fresh fruit		Represents 5,6% of African food expenditure.
Milk and milk products	Fresh milk	A necessary nutritional requirement represents 1,6% of African food expenditure. Important for pregnant women and children.
	Powder milk	An inferior good, therefore a cheap source of necessary nutritional requirements especially for children and pregnant women.
Grain and grain products		<i>Intake of dietary fibre is a necessary nutritional requirement and the consumption of cereal foods is higher amongst the poor. Represents 15,4% of African expenditure on food.</i>
Cooking oil		Represents 1,5% of African food expenditure and it is an inferior good. It is also important in rural household expenditure.
Tinned fish		A cheap source of necessary nutritional requirements and an inferior good. Represents 0,9% of African food expenditure.

Postscript

Government concessions

The government responded to the representation on VAT by reducing the rate of VAT from 12% to 10%. It also:

- increased social pensions by R10 per month

- increased transport subsidies
- exempted state medical services
- exempted medical aid schemes
- added the following to the list of zero-rated food: samp, mealies, mealie rice, dry beans, rice, len-

tils, fresh milk, canned pilchards and powdered milk – but they will be zero-rated for only six months. The additional zero-rated items fall squarely in the categories identified by the Labour Research Service above. ♦