17 January 2019

Final Response Document on Rates and Monetary Amounts and Amendment of Revenue Laws Bill, 2018

(Based on hearings by the Standing Committee on Finance in Parliament)

NATIONAL TREASURY

SARS

1. BACKGROUND

1.1. Process and public comments

The 2018 Draft Rates Bill contains tax proposals that were announced in the 2018 Annual National Budget such as the increase in the VAT rate from 14 per cent to 15 per cent, monetary adjustments to the personal income tax tables, customs and excise duties and other tax instruments as well as consequential amendments to the 2018 Draft Regulations Prescribing Electronic Services.

The 2018 Draft Rates Bill, together with 2018 Draft Regulations Prescribing Electronic Services, were first released for public comment on the same day as the Budget (21 February 2018).

The National Treasury and SARS briefed the Standing Committee on Finance (SCoF) on the Draft Rates Bill on 25 April 2018. Public comments to the SCoF were presented at hearings that were held on 25 April 2018. National Treasury also received 11 written submissions specifically related to the Draft Rates Bill.

Following the report of the SCoF and the Select Committee on Finance (compiled after public hearings) and the statement issued by the Cabinet on 28 February 2018, the Minister of Finance, through the Davis Tax Committee, appointed an independent panel of experts (the VAT Panel) on 25 April 2018 to consider and review the list of zero rated food items.

With regard to 2018 Draft Regulations Prescribing Electronic Services, National Treasury and SARS received nine written comments from a range of stakeholders including non–resident taxpayers. On 25 May 2018, National Treasury and SARS held workshops with stakeholders to discuss their comments on the 2018 Draft Regulations Prescribing Electronic Services.

1.2. Policy issues and responses

This Final Response Document responds to comments on the Draft Rates Bill that are not related to the increase in the VAT rate together with the key issues raised in the public comments in respect of the VAT Panel report regarding the review of the zero rated items as a result of the increase in the VAT rate. It also includes comments on the Draft Rates Bill related to consequential amendments to the 2018 Draft Regulations Prescribing Electronic Services.

It should be noted that National Treasury cannot independently make any decisions relating to zero rating. National Treasury's mandate under the process relating to the VAT Panel's review of the zero rated items has been to review and provide analysis on the public comments. Throughout the process, National Treasury has endeavoured to understand and recognise the public comments that were made on this important topic so as to give adequate support to the Executive. The final decisions on zero rating contained in this Final Response Document have been taken by the Executive (from recommendations by the Ministers Committee on Budget) and endorsed by Parliament.

1.3. Summary

This Final Response Document includes a summary of the key written comments received on the 2018 Draft Rates Bill as well as key issues raised during the public hearings held by the SCoF and the SCoF sub-committee. The Final Response Document also includes comments received on the VAT Panel report on the review of the current list of zero-rated VAT items.

The main comments that arose during the public consultation process are in relation to the following:

- Personal income taxes
- Estate duty rates
- Excise duties on tobacco and alcohol
- Retirement lump sum taxes and land use taxes
- The VAT Panel report comments, relating mainly to:
    - The need to include more items to the recommended list of zero rated items;
    - Further increases required in the expenditure programs;
    - The review of the current list of zero rated items; and
    - Suggestions that the revenue shortfall from additional zero rating could be made up by using other tax instruments such as:
        - The introduction of luxury VAT rates;
        - The expansion of the ad valorem excise duties; and
        - Income taxes.

2. COMMENTS AND RESPONSES

2.1. Personal income taxes

Comment: The tax burden on individuals is very high in South Africa. Ordinary workers who earn R305 000 and above face abnormally high tax levels, especially after including fuel levies and other indirect taxes. Propose a standard tax rate on personal incomes of 30% for all persons who earn up to R1 million, with an additional 25% on incomes above that level.

Response: Page 49 of the 2018 Budget Review provides a distributional breakdown of expected personal income tax payments for the 2018/19 fiscal year. The table shows South Africa's personal income tax system is highly progressive, with over 25 per cent of personal income taxes being collected from around 110 000 individuals who earn over R1.5 million. In contrast, around 10.8 million individuals earn less than R250 000 and contribute 8.6 per cent of personal income tax revenue. Moving to a flat tax of 30 per cent across much of the distribution would lessen the progressivity, and unless there is a high tax free threshold this would most likely lower tax revenues.

Comment: South Africa is highly dependent on personal income taxes, especially from those in the higher brackets. Instead of raising personal income taxes and indirect taxes, the main contributor to reducing the deficit should be improvement in the efficiency of government expenditure. No additional personal income tax increases should be considered after the increases in the past decade.

Response: The 2018 Budget Review alluded to the fact that the tax burden on individuals has been increasing years, and this was one of the reasons behind the increase in the VAT rate. Government is committed to improving efficiencies, but no commitment can be made to not increase taxes in future.

2.2. Estate duty rates

Comment: The high costs of living and high costs of land and accommodation make it difficult for ordinary South Africans to save for retirement. Estate duty should be reduced to allow ordinary citizens to acquire property without the burden of estate duties. No estate duty should be payable where 50% or more goes to a spouse or other natural person.

Response: The estate duty abatement of R3.5 million, alongside a R2 million capital gains tax exclusion on the disposal of a primary residence (which can occur on passing), should mitigate the impact of estate duty for lower income households. Additionally, transfers to a spouse upon death are not subject to estate duty, however the Davis Tax Committee (DTC) report on Estate Duty does suggest that this should be reviewed.

Comment: The higher estate duty rate of 25% will incentivize capital flight from South Africa. The implementation is also dependent on the administrative capacity of the Masters Office and SARS, which is lacking. Measures should be put in place to ensure the Estate Duty is not avoided. Consideration should also be given to a wealth tax to contribute to the fiscus and address injustices of the past, this may be simpler than Estate Duty.

Response: The higher rate of estate duty should have a minimal impact on administration as the exact same administrative process applies, but the only difference is a change in the calculation of tax to be paid. A number of measures have been introduced in recent years to reduce avoidance, such as through retirement annuity funds or interest free loans to trusts. The DTC report on wealth taxes is currently being reviewed by government, however it is unlikely that a wealth tax would be simpler than estate duty.

2.3. Excise duties on tobacco and alcohol

Comment: Since 2010, increases in tobacco taxation have become less effective in decreasing tobacco consumption since the pass-through is lower. A 6 to 10 per cent increase is not likely to have a large effect on tobacco consumption, as the excise duty and VAT remain at around 50 per cent of the price. Evidence suggests that a greater deterrent to tobacco consumption would be an increase in the taxes to around 70 per cent of the retail selling price of tobacco. A similar argument applies for alcohol.

> *Response:* Government is not necessarily opposed to increasing the excise incidence on tobacco but this has to be done in as a gradual process complimented with enforcement to ensure that the increases do not fuel illicit trade in tobacco products

Comment: Additional revenues from excise duties on tobacco and alcohol should be channeled towards health promotion and preventative efforts to reduce the high burden of disease caused by harmful substances.

> *Response:* It is considered poor public finance policy to ring-fence revenues for specific purposes, however funds are made available through the normal budgetary process to the National Department of Health for health promotion.

2.4. Retirement lump sum taxes and land use taxes

Comment: There should not be a progressive rate of tax on lump sum payments, as it impoverishes workers. Propose instead a 20% standard rate on lump sums up to R1.5 million, and an additional 15% on amounts above that level.

> *Response:* There are two tax tables on lump sums from retirement funds, the withdrawal lump sum tax table (applied to amounts taken out before retirement) has a higher tax effective tax rate to try and discourage withdrawals before retirement. The lump sum tax table on retirement has a much lower tax rate, and the tax free portion was increases substantially from R315 000 to R500 000 from 1 March 2014 to lower the impact of tax for lower income retirees.

Comment: The Constitution requires that the taxing power not be used in economically destructive ways. Income taxes and value-added taxes create large deadweight losses by reducing entrepreneurial activity and the incentive to work. These harmful taxes should gradually be replaced with a land-use tax, which are not harmful as they do not distort economic activity.

> *Response:* Government recognises the potential improvements in efficiency from land taxes (and property), as highlighted in the OECD report "Taxation and Economic Growth". Land is an immobile form of capital, which can increase in value due to public expenditures to improve nearby infrastructure. National Treasury has been holding and attending workshops to explore this topic. There are important practical and inter-governmental arrangements that need to be explored further.

The instrument can potentially improve the efficiency of the tax system, but is unlikely to be a sufficient source of revenue to substitute all other tax instruments.

2.5. The VAT Panel Report

A. The current list of zero-rated food items

The Panel concluded that the current list of zero rated items already targets the main products with the most progressive impact – that is, where poor households spend a significantly larger share of their income than rich ones. There are relatively few products remaining that would improve the progressivity of the VAT.

Comment: Stakeholders support the VAT Panel's conclusion to keep the current list of zero rated items as is. While some of the items may not, in a narrow financial sense based on the distribution of expenditure on these items, disproportionately benefit poor and low-income households, they should be retained for equity and health promotion reasons, in particular fruit, vegetables, milk products and lentils.

Response: Noted. The policy intention of zero rating items is to provide relief to poor and low-income households. Where there is clear evidence that the benefits accrue more to high-income households then the list should be reviewed, but secondary objectives (such as health promotion) will be a factor in any discussions on the zero rated list.

Comment: The current list of zero rated items should be reviewed to take into account the changing dietary needs and consumer preferences over the last 27 years.

Response: Accepted. The Terms of Reference for the VAT Panel's work provided for the review of the current list. The research conducted by the VAT Panel uses more up to date information on the distributional impact of zero rating from the Living Conditions Survey in 2015. The analysis shows that the current zero-rating list remains relatively well targeted to poorer households

Comment: Any proposals for expanding the zero rating should be accompanied by refining the current zero rating to better target the intended beneficiaries and not create further relief to unintended recipients and cost to the fiscus (i.e. expanding the tax expenditure and budget deficit). For example, instead of zero rating all fruits and vegetables, focus on fruits and vegetables mostly consumed by the poor (i.e. exclude exotic fruits and vegetables). The review should thus consider disaggregating the broad categories into their sub-components (e.g. types of fruit and vegetables or rice) or the extent to which they have been processed and packaged (e.g. prepared/diced vegetable packs.

Response: Noted. There appears to be some specific items in each category which are not well targeted to poorer households (for example, cherries and litchis). Similarly, it is debatable whether the poor are able to afford, or purchase, fruit and vegetable packs which have been through a further preparation process.

Unfortunately, the available survey data does not go into this level of detail to accurately assess the extent to which prepared fruit and vegetables are consumed by the poor.

Comment: There are out-dated items in the current list of zero rated items – e.g. R1 billion worth of pilchards are being imported with no benefits to the fiscus.

Response: Noted. The VAT Panel report concluded that the current list is generally well targeted. However, disaggregation of the existing broad categories of zero rated items requires consideration.

B. The inclusion of the panel recommended additional items

The VAT Panel recommended that white bread, bread flour, cake flour, sanitary products, school uniforms and nappies (for babies & adult) should be added to the list of zero rated items. For school uniforms, the VAT Panel advised that further investigations be undertaken to address the definitional complexities before zero rating can be implemented.

From the comments received, there is considerable support for the zero rating of the six recommended items. However, many comments are of the view that the addition of only six items to the list will not sufficiently address the adverse impact of the VAT increase.

(i) White bread flour & cake flour

Comment: Even though refined grain foods have a lower nutrient-density than whole grain options, we strongly support the current recommendation to include both white bread and cake flour to be added to the list for VAT exemption. The current draft amendments of the National Food Fortification Regulation (R2003) propose fortification of both white bread and cake flour.

Response: Noted.

Comment: Government should not be encouraging consumption of unhealthy products due to their negative health impact and the increased risk of Non-Communicable Diseases (NCDs). The idea should be to encourage the poorest of the poor (who are malnourished in most cases) to make healthier choices by zero rated healthy foods like whole wheat bread, whole wheat flour, eggs and meat, fresh produce and the likes.

Response: Noted. Although white bread flour and cake flour are not as healthy as other options, white bread flour and cake flour are relatively well targeted to the poor. To somewhat compensate for lack of nutrition, white bread flour is currently mandatorily fortified and the current fortification regulations are being amended to include cake flour.

(ii) White bread

Comment: White bread is an unhealthy product, has minimal proteins, has a high glycaemic index and does not promote healthy eating. Government should not be encouraging consumption of unhealthy products due to their negative health impact and the increased risk of NCDs.

Response: Noted.

(iii) Sanitary towels

Comment: sanitary pads should not be included under the zero rated items. Let the rich pay the VAT on those items and Treasury must utilize that VAT to procure the basic needs for the poor. In that way, there won't be any short fall of funding for these free issue items

Response: Noted.

(iv) School Uniforms

Comment: Uniforms must be free to every student, it is expensive already and those who are in rural areas who still struggle to have two pairs of T-shirts are now chased away from school.

Response: Noted. The VAT Panel recommended zero rating subject to further investigation to clearly demarcate school uniforms and engagement with the Department of Basic Education to implement policy for a standard uniform in all public schools. Government will consider both options after consultations.

Comment: The problems arising from defining what constitutes a school uniform, as well as the likely abuse that will occur should school uniforms be zero-rated, are practically insurmountable. It is, however, accepted that there are strong arguments that school uniforms are indeed a merit good and therefore worthy of support from government finances, and that low-income households would benefit therefrom. In this regard, zero-rating is therefore not appropriate as a mechanism to alleviate the burden of the VAT increase on the poor.

Response: Noted. The VAT Panel recommended that National Treasury conduct further investigations into how to incorporate these as a benefit to the poor while being cognisant of the potential for abuse. Zero rating is a blunt tool and cannot accurately target and provide benefits to the poor. In this regard, as stated in the Panel report, targeted public expenditure programmes would be more beneficial to the poor, although the Panel report did question the ability of government to implement these programmes effectively.

Comment: There are many private schools in South Africa, some of which levy school fees well in excess of R120 000 per child per annum. There does not seem to be any justification for the zero rating of the school uniform of private schools.

Response: <u>Noted.</u>

(v) Nappies

Comment: Some stakeholders are strongly opposed to the zero rating of disposable nappies as they are considered an environmental threat. They are not bio-degradable and take up a significant percentage of the volume of landfills. Support the inclusion of re-usable cloth and biodegradable nappies.

Response: <u>Noted.</u>

Comment: Contributors were concerned that such zero rating will essentially have the effect of benefitting only one sector of the poor (i.e. those with infants), and will confer no benefit on other poor households. Therefore, it is suggested that zero rating is not appropriate as a mechanism to alleviate the burden of the VAT increase on the poor.

Response: <u>Noted.</u>

Comment: In our view, sanitary pads, nappies and school uniforms could have been the subject of targeted expenditure programmes by government, if the objective of the proposed zero-rating is to benefit the poor households (and to ensure that no benefit is captured by the non-targeted groups).

Response: <u>Noted.</u> National Treasury does prefer using the expenditure programmes for target relief to the poor than a through the VAT system, which is a blunt instrument.

C. The inclusion of other additional items

Based on public submissions, 66 other items were considered for zero rating. The VAT Panel identified eight items for further consideration: baby food consisting predominantly of milk, bread flour, cake flour, disposable nappies, poultry, sanitary products, school uniforms, and white bread. However, the VAT Panel recommended that baby food (predominantly baby formula), should not be zero rated based on public health recommendations. They were unable to reach consensus on whether or not to recommend that individually quick frozen (IQF) poultry parts be zero rated.

(i) Poultry

Comment: Chicken is a staple food and is the number one food expenditure item for the lowest income group. Chicken accounted for 13 per cent of food expenditure by the lowest income group in 2014/15, followed by mealie meal/maize flour (10%), brown bread (7%) and rice (5%). Out of these top-four items, only chicken is not currently zero-rated.

Response: <u>Noted.</u>

Comment: It is proposed that the whole chicken be zero-rated and not just the innards or portions such as head and feet since the protein density are in the muscle tissues and not in the innards, heads, or feet.

Response: <u>Noted.</u> The sale of heads and feet and innards are predominantly sold in the informal market and as such the zero-rating of the whole chicken will not impact on this sector of consumer.

Comment: The lack of protein in children especially leads to stunted growth. Protein from chicken helps to prevent this.

Response: <u>Noted.</u> There are two types of protein, viz. complete and incomplete proteins. Complete proteins contain all the amino acids that the body requires. Protein from plant sources are incomplete proteins. In order for the human body to obtain the protein required, a person will be required to take supplements together with plant proteins. Alternatively, certain plant proteins may be eaten together to form complete proteins. The challenge with this is that the majority of the population either cannot afford the supplementation or are unaware of the combination within which plant proteins should be consumed.

Proteins from animal sources are the quickest and easiest way for the human body to obtain complete proteins and thus avoid stunted growth. Chicken is cheaper than "red meat". However, eggs are complete proteins from an animal source and are currently zero-rated. Dairy products are also complete proteins. Milk, milk powders, cultured milk and milk powder blends are also currently zero-rated.

Comment: All animal proteins should be treated the same. Should consideration be given to include an animal protein (i.e. chicken) as a basic food item at a rate of zero per cent, it should be extended to all animal proteins to ensure a level playing field when competing for the consumer Rand.

Response: <u>Noted.</u>

Comment: Government should consider zero-rating locally produced poultry / chicken as a major source of animal protein for poor and low-income households. Protein intake helps to prevent malnutrition. Further, apart from starches, no nutritionally rich foods have been included.

Response: <u>Noted.</u> The current zero rated list already has protein items in it - both plant (beans) and animal (eggs). Further, the other zero-rated items cover protein and other food groups / nutrients such as starch, fish oils, calcium, etc.

Comment: The zero rating of chicken (especially IQF chicken) would confer a significant benefit to poorer households by reducing the cost to these households of the purchase of an important source of protein. While it is acknowledged that the cost to the fiscus of the zero rating of IQF chicken is likely to be significant, this should be considered in light of possible savings that can be obtained through disaggregation of fruit and vegetables qualifying for zero rating.

Response: Noted.

(ii) Other items

Comment: All food items should be zero rated. Food is not a commodity and it should not be subject to tax. It is better for all of us to be able to eat properly and to be healthy as this provides a basis for a strong society and strong robust economy.

Response: Not accepted. The purpose of zero rating as is currently provided in the VAT system is to provide some relief to the poor and low-income households. Therefore, the zero-rating of all food items will not only erode the VAT base, but most of the benefits will accrual to high-income households.

Comment: Recommend that peanut butter be zero rated as it is energy dense and a source of protein. Peanut butter is also recommended for school feeding programmes due to its nutritional composition, versatility, shelf life and the low risk of food contamination. It is also often used and recommended by nutrition professionals as a means of enriching meals for the undernourished and ill.

Response: Noted. The provision of peanut butter through the schools feeding scheme programme is funded through the budget allocations. The focus should be on ensuring that these programmes are sufficiently funded and work well.

Comment: Zero rating cake and bread flour; sorghum meal/powder and mabella; mopane worms; other canned fish; whiteners (Cremora; Ellis Brown); amageu; powder soup; instant yeast; soya product (excluding soy milk); tea; candles and matches; coal (including anthracite); hotplates; and disposable nappies would disproportionately benefit poor and low-income households.

Response: Noted.

Comment: Not all forms of baby food, infants and children's clothing and footwear, and textbooks and stationery, pass the "primary test" (proportional benefits of deciles 1-7 vs. decile 8-10). However, zero rating these items would disproportionately assist women and advance the rights of children to food, dignity and education.

Response: Noted.

Comment: Sorghum is an indigenous crop to Africa and will remain a basic staple food for many rural communities as it has numerous nutritional benefits compared to other similar products. Since sorghum meal directly competes with maize meal, the VAT on sorghum makes sorghum products less competitive than maize products in the value chain thus limiting consumers to diversify with products in the same food basket, specifically for consumers in the lower income group.

Response: Noted.

(iii) Water, Electricity and Sanitation

Comment: Consider introducing a progressive sliding scale VAT regime for electricity and water for all households, but in particular the poor and working class

Response: Noted. The National Standard is to currently provide 6,000 litres of water and 50 kilowatts of electricity free per month to poor households. In this manner, there is a degree of progressivity in the current system.

Comment: Consider the zero rating of all subsidised, low income targeted, residential electricity tariffs, as it is administratively easier and has the potential to have a much bigger impact on the lives of the poor than the subsidisation of a range of alternative household fuels that are more damaging to health and more dangerous to the household.

Response: Noted.

Comment: National government should consider zero rating of sanitation (sewerage) services at a local government level. It is a basic human right to have access to adequate sanitation and sewerage services as, per the Constitution, everyone has the right to an environment that is not harmful to their health and well-being.

Response: Noted.

Comment: Ensuring cheaper access to soap and medicines and medical services (limited to those in public institutions) would advance the rights to health, sanitation and dignity.

Response: Noted.

Comment: Consider zero rating basic medicines. If the poor cannot afford basic medicines, they will skip clinic visits, leading to more health complications and placing a further burden on the state healthcare.

Response: Noted. Clinic medicines are provided free at no cost to the poor. Zero rating these products will not make a difference to the affordability of basic medicines provided at clinics.

Comment: Airtime costs are also included in the list, on the understanding that a strong case can be made that access to communication and the internet is essential to participation in society, education and the labour market.

Response: Noted.

Comment: Consider the plight of people living with disabilities and add assistive devices to the list of zero rated items to make healthcare services and social assistance more affordable to those who require these items to be functional members of society (A list of items is provided).

Response: Noted.

D. Consider other measures (i.e. expenditure programmes) to mitigate the impact of the increase on poorer households

The Panel report recognises that expenditure programmes have a role to play in mitigating the impact of the VAT increase on poor households, and that it may be an efficient way of providing relief to the poorest of households. There are suggestions to mitigate the impact of the VAT increase on the poor by the strengthening of nutritional support programmes (such as the National School Nutrition Programme) and the roll-out of free sanitary products. The report also discusses the potential positive impact of higher child-support and old age grants, but does not go as far as calling for a significant increase. The report also states that lower VAT rates (of say 10%) could be considered for some of the items if fiscal concerns were paramount, but that it would be administratively cumbersome.

(i) Sanitary Dignity Products

Comment: Providing free washable/reusable sanitary products to low income women and girls would be a low-cost, long-lasting, responsible method of meeting this great need without the garbage and month-to-month need for supplies.

Comment: Government must provide free domestically produced sanitary pads to all no fee schools, tertiary institutions, clinics, hospitals and any other accessible venues to ensure that all poor women and girls have access to free sanitary pads. The dignity of women and girls must be protected and they must be supported to be fully participating learners, students and workers and not held back by not being able to afford sanitary pads.

Comment: Government must commit to the direct provision of sanitary products to women and girls in poor and low-income households and initiate a meaningful participatory process to identify the most effective distribution mechanisms.

Response: Noted. There already exists an intergovernmental National Task Team on Sanitary Dignity that was set up last year and has already made significant headway in planning the roll-out of this project.

(ii) Child Support & Old Age Grants

Comment: Child support grants are too low and don't match the amount required to buy basic food necessities and should be increased to at least R530 per month. Mothers use this grant for other child expenses – not just food.

Response: <u>Noted.</u>

Comment: Recommend that the CSG amount be increased to at least the level of the food poverty line (i.e. R547). An immediate increase in 2018 would mean increasing it by R150 from R400 to R547. Alternative, an incremental approach could be adopted by phasing in the increase over a three-year period to 2020.

Response: <u>Noted.</u>

(iii) School Nutrition Programme

Comment: Government needs to clarify the details of how the school nutrition programme could be expanded to improve its reach and impact to enable meaningful engagement on the proposals

Response: <u>Noted.</u>

(iv) Passing the benefits of zero-rating to the consumer

Comment: Government needs to respond to how it will ensure that the benefits of zero-rating further items are passed onto the consumer through price cuts. The Poultry Association, for example is prepared to self-regulate with regard to their industry. Further, government can intervene where it has some sort of control over the cost of items (e.g. transport costs, scholar transport and electricity).

Response: <u>Noted.</u> However, government does not regulate the prices of products in the market (except in a few instances such as fuel prices) and therefore cannot ensure or guarantee that the benefit will be passed onto the consumer. Items that are priced such that they are currently unaffordable to the poor are likely to remain unaffordable even if zero rated.

(v) Public Transport

Comment: Government needs to commit to implementing a conditional grant for scholar transport by April 2019, with a budget adequate to ensure subsidised transport for all scholars in need. Government needs to further investigate increased subsidisation of public transport.

Response: <u>Noted.</u>

E. Other measures to raise the required revenue

Comment: Consider introducing a 25% VAT rate on luxury goods and luxury foods that the poorer households do not consume. Increase the current list of items subject to ad valorem and excise duties. Adding additional items to the list could generate about R9.6 billion in additional revenue.

> *Response*: Noted. Having a multiple VAT rate structures may lead to increased administration and compliances costs. Legal uncertainty, which opens up opportunities for lobbying and unwarranted tax planning or avoidance. Both the Katz Commission and the Davis Tax Committee have argued against having an additional luxury VAT rate. Ad valorem excise duties act as a mechanism which increases the tax on specific luxury items, and this rate was increased from 7 per cent to 9 per cent in the 2018 Budget
>
> The list of products liable for ad valorem excise duties has evolved over time to exclude products that were no longer considered luxury or the technology was out-dated and a reduction in revenue gained from the products concerned. Motor vehicles raise around 80 per cent of ad valorem excise duty revenue. The proposal to add items will be considered as part of the normal budgetary process.

Comment: Government must introduce a luxury VAT rate of 20% on luxury goods almost exclusively consumed by the rich. Propose that two lists of goods be introduced, those which *prima facie* qualify for a luxury tax; and those which qualify for a luxury tax above a certain price threshold (lists provided).

> Response: Noted.

Comment: Increase company taxes to 30% or 32%, which should generate an additional R13 to R26 billion in revenues.

> *Response:* Noted. The corporate income tax (CIT) rate is one of the aspects investors consider (in addition to political/policy certainty and others) when making investment decisions, which affect economic growth. As described in the 2018 Budget, the global trend in CIT rates is downward, resulting in a growing gap relative to key trading and investment partners – UK (19%), Netherlands & US (21%), China (25%), Mauritius (15%). As the difference in the rate widens, the incentive for companies to try and shift profits abroad to pay lower taxes increases.