

Please note we have included additional data and commentary on Treasury's idea to raise the VAT-rate to fund the continuation of the Social Relief of Distress (R350) grant (see page 3-4).

We argue that the idea to increase VAT is not well considered. It seems to us that it is a knee jerk reaction to bring in more revenue but it will hurt poor people because poor people pay VAT. The revenue gained from increasing VAT will require further revenue down the line to deal with the suffering caused by raising VAT. If poor people are not reimbursed for the money government has taken from them, then government will still have to pay this cost (which will be much higher) because more money will be required in health care (because more people will get sick), more money in education (because hungry children are harder to teach), more money to quell social dissent (because people will get more desperate and more angry), and future economic productivity and growth will be hampered. **The revenue gained from an increased VAT-rate is likely to be less than the revenue that will be required to meet the additional expenditure to counter the negative consequences of the increased VAT-rate.** It is in all our interests to end the brutal cycle of poverty and grow the economy. Increasing VAT will not do this. Our current crisis means that we do need the Social Relief of Distress Grant. Government will have to find the revenue elsewhere.

Key data from the September 2023 Household Affordability Index

The September 2023 Household Affordability Index, which tracks food price data from 47 supermarkets and 32 butcheries, in Johannesburg (Soweto, Alexandra, Tembisa and Hillbrow), Durban (KwaMashu, Umlazi, Isipingo, Durban CBD, Hammarsdale and Pinetown), Cape Town (Khayelitsha, Gugulethu, Philippi, Langa, Delft and Dunoon), Pietermaritzburg, Mtubatuba (in Northern KwaZulu-Natal), and Springbok (in the Northern Cape), shows that:

- **In September 2023:** The average cost of the Household Food Basket is **R5 155,77**.
- **Month-on-month:** The average cost of the Household Food Basket **increased** by **R31,43 (0,6%)**, from R5 124,34 in August 2023 to R5 155,77 in September 2023.
- **Year-on-year:** The average cost of the Household Food Basket **increased** by **R349,91 (7,3%)**, from R4 805,86 in September 2022 to R5 155,77 in September 2023.

The following foods increased in price in September 2023.

Foods which increased in price in September 2023, by **5% or more**, include: rice (8% - a 10kg bag of rice increased on average by R11,18, from R146,61 in August 2023 to R157,79 in September 2023), butternut (17%), green pepper (18%), *cremora* (5%), bananas (7%), oranges (12%), and peanut butter (5%).

Foods which increased in price in September 2023, by **2% or more**, include: cake flour (2%), sugar beans (3%), samp (2%), salt (2%), stock cubes (2%), soup (4%), tea (2%), chicken livers (2%), *inyama yangaphakathi* (tripe, 4%), apples (2%), and polony (2%).

Statistics South Africa's latest Consumer Price Index.

Statistics South Africa's latest *Consumer Price Index* for August 2023ⁱ shows that **Headline inflation was 4,8%**, and for the **lowest expenditure quintiles 1-3, it is 8,1%, 7,7% and 6,5%** respectively. **CPI Food inflation was 8,2%** (for CPI Food & NAB it was 8,0%, we use the figure excluding non-alcoholic beverages). STATS SA's *Producer Price Index* for July 2023ⁱⁱ shows **agriculture was 4,8%** (August PPI to be released on 28th September 2023).

Inflation on the food baskets per area tracked.

In September 2023, food baskets increased in all areas except Durban.

The Joburg basket **increased** by R35,11 (0,7%) month-on-month, and **increased** by R348,39 (7,1%) year-on-year, to **R5 250,89** in September 2023.

The Durban basket **decreased** by R62,25 (-1,2%) month-on-month, and **increased** by R192,83 (4,0%) year-on-year, to **R5 007,16** in September 2023.

The Cape Town basket **increased** by R110,39 (2,2%) month-on-month, and **increased** by R499,46 (10,7%) year-on-year, to **R5 172,42** in September 2023.

The Springbok basket **increased** by R69,01 (1,3%) month-on-month, and **increased** by R328,77 (6,4%) year-on-year, to **R5 449,04** in September 2023.

The Maritzburg basket **increased** by R12,80 (0,3%) month-on-month, and **increased** by R287,89 (6,2%) year-on-year, to **R4 942,94** in September 2023.

The Mtubatuba basket **increased** by R105,65 (2,0%) month-on-month, and **increased** by R247,53 (4,9%) year-on-year, to **R5 329,44** in September 2023.

Workers

The National Minimum Wage is **R25,42** an hour and **R203.36** for an 8-hour day. In September 2023, with 20-working days, the maximum National Minimum Wage for a General Worker is **R4 067,20**. Workers work to support their families. The wage workers earn is not just to sustain themselves alone, it is used to support the entire family. For Black South African workers, one wage typically must support 4 people. **Dispersed in a worker's family of 4 persons, the NMW, is reduced to R1 016,80 per person – this is below the upper-bound poverty line of R1 558 per person per month.**

The September 2023 cost of a basic nutritional food basket for a family of four persons is **R3 557,41** (See page 6 of September 2023, Household Affordability Index).

On our calculations, using Pietermaritzburg-based figures for electricity and transport, and the average figure for a minimum nutritional basket of food for a family of four, puts electricity, and transport, taking up **57,7%** of a worker's wage (R2 346,92/R4 067,20). Food is bought after monies for transport and electricity have been paid for or set aside (leaving only **R1 720,28** – for food and everything else), and so in September 2023, PMBEJD calculates that workers' families will **underspend on food by a minimum of 51,6% (having R1 720,28 left after transport and electricity, and with food costing R3 557,41). In this scenario there is no possibility of a worker being able to afford enough nutritious food for her family. If the entire R1 720,28 all went to buy food, then for a family of 4 persons, we are looking at R430,07 per person per month. This is below the food poverty line of R760** (See page 8 of September 2023, Household Affordability Index).

Women and children

In September 2023, the average cost to feed a child a basic nutritious diet was **R907,43**. Over the past month, the average cost to feed a child a basic nutritious diet **increased** by **R7,40** or **0,8%**. Year-on-year, the average cost to feed a child a basic nutritious diet **increased** by **R78,80** or **9,5%** (See page 6 of September 2023, Household Affordability Index).

In September 2023, the **Child Support Grant** of **R500** is **34%** below the **Food Poverty Line** of **R760**, and **45%** below the average **cost to feed a child a basic nutritious diet (R907,43)**.

Household domestic and personal hygiene products

The September 2023 *Household Domestic & Personal Hygiene Index* shows an **increase** of **R21,84 (2,2%)** month-on-month. Year-on-year the household domestic and personal hygiene products index **increased** by **R83,72 (9,2%)** bringing the total average cost of basic household domestic and personal hygiene products to **R996,84 in September 2023** (See page 5 of September 2023, Household Affordability Index).

The cost of basic hygiene products is high. These products compete in the household purse with food. These products are essential for good health and hygiene.

Comment on the idea of increasing VAT

Before we argue why we think the idea of increasing VAT is poorly considered, we show how VAT works on the household food basket and the extent to which poor families are exposed to VAT. We close by sharing some comments on the administration of grants to ensure that the revenue spent on grants is optimised for the greatest benefit of society.

How VAT works on the household food basket

The foods that make up the household food basket, are those foods which women tell us they try and buy each month. These are foods we can expect to find in most South African homes. The household food basket has 44 basic foods, half (22) of which are subject to VAT (see list of these foods)ⁱⁱⁱ In September 2023, the VAT on the basket was R312,83. By way of comparison, a seven-member household is likely to need 30kg of maize meal per month – 30kg of maize meal cost R309,69 this month. VAT is therefore relatively very expensive, as it is equivalent to the cost of securing the most basic staple food (*See page 4 of September 2023, Household Affordability Index*).

The cost of the 22 foods subject to VAT make up 47% of the total cost of the basket (R2 398,36/R5 155,77). The VAT on these 22 foods of R312,83, means that 6,1% of the total household food basket is made up of VAT (R312,83/R5 155,77).

Households living on low incomes, including social grants, are highly exposed to VAT. Our data shows that already VAT places a heavy financial burden on households and removes food off the plate. Talks of increasing the VAT-rate need to be carefully weighed against the current situation whereby so many families are already struggling to put food on the table, and particularly nutritious foods which are also critical, but almost impossible to secure as the high cost of basic staples use up all available monies in the household purse.

In addition, it is also important to note that whilst zero-rating some foods (removing VAT from these foods) helps bring down the cost of essential basics, this does not mean that these zero-rated foods are affordable or cheap. Zero-rated foods are still relatively expensive, and therefore zero-rating is not enough in itself to make food affordable, other measures such as possible subsidisation and higher incomes are needed.

Why the idea of increasing the VAT-rate is not well considered.

Because food is so important to absolutely every aspect of our bodies and minds, including as to whether the outcomes of all government financial expenditure and investments in education, health, society, and the economy are successful, and because inflation on food is so unpredictable, and because food prices are already very high – raising the VAT-rate on food is likely to have severely negative consequences for most South African families. Increasing the VAT-rate to augment government revenues is likely to cost more money in health care, more money in education, more money to quell social dissent, and hurt future economic productivity and growth. **The revenue gained from an increased VAT-rate therefore may not be worth the additional expenditure which will be required to counter the negative consequences of the increased VAT-rate.**

VAT is a regressive tax. Unlike other taxes, for example Personal Income Tax – whereby the tax rate is differentiated to variable incomes so that people paid less are taxed less and people paid more are taxed more, VAT has no equity principle to protect families by charging them differential rates according to their income status, nor to what they spend their money on. It means that VAT disproportionately hurts families living on low-incomes, because although in Rand-value they contribute less to total VAT than better-off families, having less money to spend, the amount of VAT they pay in Rand-value takes away a lot of money which they could be spending to buy more food and other critical goods and services. This is illustrated by our data in the earlier paragraphs which shows VAT on the total household food basket costing R312,83 in September 2023.

The way that government has chosen to apply VAT in South Africa (an undifferentiated rate of 15% across all goods and services and to be paid universally by all citizens regardless of their income status) does not lend itself in its current form as an instrument to bring in revenue specifically targeted for disbursement to welfarist/financial assistance programmes to millions of families. Primarily this is because the regressive nature of VAT means that you are raising revenue also from the very people that you intend helping, and not just from people who can afford the additional expense. Raising the VAT-rate will hurt poor people. Government therefore will have to reimburse millions of poor people for the money it has taken from them. Basically, the revenue gained from VAT will require further revenue down the line to respond to the suffering caused by raising VAT. And where will this money come from?

Government also needs to be careful here, the fearmongering around the SRD R350 grant and social grants – as draining state resources, and just generally the disdain government appears to have for poor people, including blaming poor people for their situations, is pitting struggling middle-classes and ignorant elites against the poor. It is not a good scenario and all efforts should be made by the state to deescalate from any language or action that encourages any further widening of this rift. We don't need to cause further division or conflict amongst ourselves.

It was Government that decided to set the social grants, the SRD R350 grant, and the National Minimum wage at such low levels which does not allow people who receive them to escape poverty. Government, by design, has caused the crisis of continuing to have to find the money to pay out welfare/financial support ad infinitum.

Moreover, the non-payment of social grants this month (which is not for the first time), including the on-going saga of government sometimes giving the R350 and sometimes not giving it, undermines the maximum value that can be extracted from providing social security and financial support. The administration of grants is critical – grants that are provided in full, on the notified date every month provide people with confidence, stability and allow people to plan carefully how to use this money in the best way they can. Even though the grant-value is not enough, just knowing that there is absolute certainty around receiving it each month, allows people to do miracles with it.

If government expresses such reluctance in providing grants, it should ensure that the administration of the grants is run with the utmost efficiency to return the greatest benefits. The administration of grants should be flawless. Government must take immediate action to ensure that grants are administered properly, and that confidence in SASSA is restored. This step would also ensure broader acceptance of the grant system by wider society who will know that their sacrifices for the well-being and stability of society are respected and their contributions are used well. The recent failures whereby government precipitated a crisis in the homes of the most marginalised and vulnerable, must not be repeated.

It is in all our interests to end the brutal cycle of poverty and grow the economy. Increasing VAT will not do this. Our current crisis means that we do need the Social Relief of Distress Grant. Government will have to find the revenue elsewhere.

ⁱ STATSSA (2023). **Consumer Price Index August 2023**. Statistical release P0141. 20 September 2023. Statistics South Africa. Pretoria. P4, 7. See Link: <https://www.statssa.gov.za/publications/P0141/P0141August2023.pdf>

ⁱⁱ STATSSA (2023). **Producer Price Index July 2023**. Statistical release P0142.1. 31 August 2023. Statistics South Africa. Pretoria. P12. See Link: <https://www.statssa.gov.za/publications/P01421/P01421July2023.pdf>

ⁱⁱⁱ White sugar, frozen chicken portions, chicken feet, gizzards, chicken livers, beef liver, beef, wors, inyama yangapakhathi (tripe), fish, salt, stock, soup, curry powder, tea, cremora, canned beans, margarine, peanut butter, polony, apricot jam, and white bread (*See page 4 of September 2023, Household Affordability Index*).