Law ensures VAT will rise on 1 April

By Linda Ensor

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It is legally and practically impossible for the value-added tax (VAT) increase announced in the budget to be reversed by Parliament before the implementation date of 1 April 2018 as trade unions and civil society groups are demanding.

In terms of the Value-Added Tax Act, the VAT increase takes effect from the date announced by the finance minister in the budget and continues to apply for a 12-month period subject to Parliament agreeing to it through the Rates and Monetary Amounts Bill. But Parliament will only process this bill later in the year. It is only through this bill that the VAT increase could be reversed.

So according to the law, the VAT increase will come into effect on 1 April.

"Even if we reject the VAT increase through the fiscal framework report, it will come into effect on April 1. We need to process the Rates and Monetary Bill, which deals directly with the VAT increase," chairman of Parliament's standing committee on finance Yunus Carrim said on Friday. His comments were made after a briefing by the Treasury to Parliament's two finance committees on submissions on the budget made during public hearings last week.

The National Assembly will vote on the fiscal framework on Wednesday. Were the finance committee to reject the VAT increase as part of its report on the fiscal framework, it would have to make proposals on how to fill the R22.9bn hole in the budget. No concrete suggestions were forthcoming during the public hearings on where this additional revenue could be derived.

In any event, the report on the fiscal framework, even if it did reject the VAT increase, cannot trump the VAT act.

"Obviously, we understand the anger of people about the VAT increase and we will continue to engage with them," Carrim said.

"There will be major hearings on the Rates and Monetary Bill beginning on April 18. Between now and then, our committees have proposed that National Treasury consult fully with labour and other civil society organisations and report back on this on April 18. We have also invited the Davis tax commission to the April 18 hearings."

All the government can do is to mitigate the effect on the poor of the one percentage point hike to 15% by extending the list of zero-rated items the Cabinet undertook to investigate.

But even this will take some time to finalise and a showdown could take place in the meantime as Cosatu has threatened a strike if the VAT increase is implemented.

The Treasury plans to convene a panel of independent experts - perhaps via the Davis tax committee - to investigate the potential for an expansion or review of the basket of zero-rated goods.

Treasury deputy directorgeneral Ismail Momoniat said public hearings would be held on the research conducted by the independent experts by the middle of 2018. The potential proposals would feed into any ministerial committees.

Treasury chief director of economic tax analysis Chris Axelson noted that a number of tax commissions advised having a differentiated tax system. The Institute for Economic Justice proposed having a higher rate of VAT for luxury goods.

Axelson pointed out the administrative complexities of differentiated rates of VAT and the loophole it created for tax avoidance. There is already an ad valorem duty on luxury goods, which was increased in the budget from 7% to 9%.

Source: Business Day