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REVENUE COLLECTION

VAT exemption for 3 more items

As from April next year white bread flour, cake flour and sanitary towels will be zero-rated

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WHITE bread flour, cake flour and sanitary towels will be exempt from VAT at a cost of R1.2 billion to the fiscus as from April next year, Finance Minister Tito Mboweni announced in his Medium Term Budget Policy Statement yesterday. | FAISAL AL NASSER / Reuters

THE FISCUS is set to lose more than R1.2 billion from next April as the government extends the zero-rating of basic foods to include white bread flour, cake flour and sanitary towels.

Finance Minister Tito Mboweni said that the zero-rating would also extend to nappies at a cost of R795 million in foregone Value Added Tax (VAT) revenue to the fiscus.

"Zero-rating these products targets low-income households and restores the dignity of our people," Tito Mboweni said during his maiden Medium Term Budget Policy Statement (MTBPS) in Cape Town yesterday.

Mboweni said the government hoped to cushion the losses through VAT, which increased by one basis point to 15 percent in April this year.

He said the VAT hike was expected to raise an additional R22.9bn in the 2018/19 financial year and formed part of a package of other tax increases aimed at raising R36bn.

Mboweni conceded that the VAT hike had proven unpopular and added a further burden on consumers who also struggled rising costs of fuel and electricity prices.

A panel of experts was appointed to investigate measures to buffer household incomes from the VAT increase.

The panel recommended that white bread, bread flour, cake flour, school uniforms, sanitary towels and tampons, and disposable nappies be zero-rated.

Mboweni said it was previously reported that zero-rating of school uniforms would cost the fiscus about R610m, while the cost to the fiscus will be R1.7bn for white bread and R754m for disposable nappies.

The zero-rating of bread flour and cake flour was expected to amount to more than R700m in lost VAT revenue.

Mboweni said the government planned no further VAT increases unless the country's economy requires a revision.

He said the government would work within the constrained fiscal space to fund its programmes, adding that the government was committed to its expenditure ceiling which it expected to remain unchanged in the medium term and that R32.4bn had been reprioritised over this medium term.

He said R15.9bn of the R32.4bn that has been prioritised for development would go to infrastructure programmes, clothing and textile incentives, and job creation under the Expanded Public Works Programme.

The ceiling would be maintained over the next two years and is expected to grow at 1.5 percent of Gross Domestic Product (GDP) in 2021/22 and in line with GDP over the past decade.

"The most important thing about this budget is to present a fiscal stance that reflects the position we find ourselves in," Mboweni said.

He said that non-interest spending was expected to grow by an average of 1.9 percent a year, including a contingency reserve of R7bn in 2019/20, R8bn in 2020/21 and R12bn in 2021/22.

He said the National Treasury added R17.4bn to spending, including a R5bn recapitalisation fund for the embattled South African Airways, R2.9bn towards the South African Post Office, as well as R1.2bn towards funding South African Express Airways.

It also allocated funding to drought relief and education.

"These additions to spending are fully offset by the use of the contingency reserve, provisional allocations, projected underspending and declared unspent funds," he said.