



UNIVERSITEIT VAN PRETORIA  
UNIVERSITY OF PRETORIA  
YUNIBESITHI YA PRETORIA

# **A Tax Policy Analysis of the 2018 Value Added Tax Rate Increase in South Africa**

By  
**Candice Gardiner**  
**12053750**

A dissertation submitted in partial fulfilment of the requirements for the degree

**LLM MERCANTILE LAW**

in the

**FACULTY OF LAW**

at the

**UNIVERSITY OF PRETORIA**

Prepared under the supervision of  
**Dr. Benjamin T Kujinga**

**January 2019**

## DECLARATION

I, **CANDICE GARDINER**, hereby declare that the dissertation is my own, unaided work. It is being submitted in partial fulfilment of the prerequisites for the degree of Masters in Mercantile Law at the University of Pretoria. It has not been submitted before for any degree or examination in any other university.

---

Candice Gardiner  
January 2019

## **ACKNOWLEDGEMENTS**

I wish to express my sincere gratitude to the following people for your continuous interest and encouragement in my studies:

My dissertation supervisor, Dr. Benjamin Kujinga, for your guidance, support, and motivation.

My parents, Gavin and Charmaine, for always being there to support me and encourage me. I am eternally grateful for your unconditional love and motivation.

My partner, Christopher, for your consistent encouragement and patience with me. Your faith in me inspired me to persevere.

## **ABSTRACT**

In this dissertation I explore the background of Value-Added Tax (VAT) and how this indirect tax plays a role in the economy, and the enormous reliance which the government has on the income therefrom. This tax is divided into output tax, which is defined as the tax charged by any vendor on the goods or services supplied by that vendor in the furtherance of any enterprise carried on by him, and input tax which is defined as the tax payable by a vendor when goods or services are acquired by him wholly for the purposes of consumption, use or supply in the course of making taxable supplies. In order to calculate and determine the amount of VAT which is payable, you deduct input tax from output tax liability. This is vital as this determines whether the supplier will be allowed to claim VAT back from the government in terms of the supplies made.

VAT, in South Africa, has remained unchanged at 14% for over a decade, however, the 2018 budget speech provided that the VAT rate will increase by 1%, to 15%. The aim of this increase is to raise revenue due to the budget deficit incurred over a number of years, which could be attributed to the government's corruption, reckless expenditure, illegitimate contracts, and most importantly poor financial management.

Considering the skewed distribution of income in South Africa, this VAT increase adversely affects poor households. Statistics are provided in this dissertation to show how social grants do not adequately support people's needs and, even though there has been an increase in these grants to reduce the burden on the poor, it is still not adequate for households to support and feed their families.

After having done a comparative study between South Africa and Denmark, this dissertation shows that Denmark's current VAT rate is 25%. Denmark's VAT rate is significantly higher than South Africa's. Denmark however provides services to taxpayers which include free education, health care and transportation. These types of services delivered have alleviated the stress on these taxpayers to afford such services which has resulted in little to no crime in Denmark. The Danish government provides many basic services and is largely transparent which makes the high VAT rate justifiable. After analysing the Danish system, this dissertation argues that South

Africa's increased VAT rate cannot be justified because the South African government does not deliver services to the same extent as countries with higher VAT rates do.

## **ABBREVIATIONS AND ACRONYMS:**

CSID	Corporate Strategy and Industrial Development
DTC	Davis Tax Committee
FPL	Food Poverty Line
GDP	Gross Domestic Product
MFMA	Municipal Finance Management Act
MTBPS	Medium Term Budget Policy Statement
NDP	National Development Plan
NERSA	National Electricity Regulator of South Africa
NSFAS	National Students financial Aid Scheme
OECD	Organization for Economic Co-operation and Development
PACSA	Pietermaritzburg Agency for Community Social Action
PFMA	Public Finance and Management Act
SAA	South African Airways
SADC	Southern African Development Community
SARS	South African Revenue Services
UBPL	Upper Bound Poverty Line
VAT	Value Added Tax
VAT Act	Value-Added Tax Act (89 of 1991)

# TABLE OF CONTENTS:

**DECLARATION ..... II**

**ACKNOWLEDGEMENTS ..... III**

**ABSTRACT ..... IV**

**ABBREVIATIONS AND ACRONYMS: ..... VI**

**Chapter 1: ..... 1**

**INTRODUCTION ..... 1**

**1.1 BACKGROUND ..... 1**

**1.2. PROBLEM STATEMENT ..... 3**

**1.3. RATIONALE OF THE STUDY: ..... 3**

**1.4. METHODOLOGY: ..... 3**

**1.5. RESEARCH QUESTIONS: ..... 3**

**1.6. STRUCTURE: ..... 4**

**CHAPTER 2: ..... 5**

**VAT IN SOUTH AFRICA ..... 5**

**2.1 Introduction ..... 5**

**2.2 What is VAT? ..... 5**

**2.3. When is VAT Not Payable? ..... 8**

    2.3.1. Zero-rated Supplies ..... 9

    2.3.2. Exempt Supplies ..... 11

**2.4. Conclusion ..... 12**

**CHAPTER 3: ..... 14**

**VAT AND POVERTY IN SOUTH AFRICA ..... 14**

**3.1. Introduction ..... 14**

**3.2. Social Grants ..... 14**

**3.3. Efficacy of Zero- rating as a shield against the higher VAT rate ..... 17**

<b>3.4. The VAT rate’s effect on the income of the poor.....</b>	<b>18</b>
<b>3.5. Conclusion.....</b>	<b>19</b>
<b>CHAPTER 4:.....</b>	<b>20</b>
<b>IS A VAT INCREASE JUSTIFIABLE IN THE CONTEXT OF INCREASED GOVERNMENT EXPENDITURE BUT ALSO HEIGHTENED RECKLESS EXPENDITURE?.....</b>	<b>20</b>
<b>4.1. Introduction .....</b>	<b>20</b>
<b>4.2. Socio-Economic Rights .....</b>	<b>21</b>
4.2.1. Specific Socio-Economic Rights.....	23
<b>4.3. Government’s Public Expenditure.....</b>	<b>25</b>
4.3.1 Health.....	25
4.3.2 Social Protection .....	27
4.3.3 Post-School Education and Training .....	27
4.3.4 Basic Education .....	28
<b>4.4. Government’s Reckless Expenditure .....</b>	<b>29</b>
4.4.1 Eskom.....	29
4.4.2 South African Airways Bailout.....	31
4.4.3 South African Municipalities .....	32
<b>4.5 Conclusion.....</b>	<b>33</b>
<b>CHAPTER 5:.....</b>	<b>35</b>
<b>VAT AND PUBLIC ACCOUNTABILITY IN DENMARK .....</b>	<b>35</b>
<b>5.1 Introduction .....</b>	<b>35</b>
<b>5.2 Tax System .....</b>	<b>36</b>
<b>5.3. Government Service Delivery in Denmark .....</b>	<b>37</b>
5.4.1 Education .....	38
5.4.2 Health Care .....	39
5.4.3. Crime.....	40
5.4.4 Corruption.....	41
<b>5.5 Conclusion.....</b>	<b>42</b>
<b>CHAPTER 6:.....</b>	<b>43</b>



<b>CONCLUSION .....</b>	<b>43</b>
<b>6.1. Summary of findings.....</b>	<b>43</b>
<b>6.2. Is the VAT increase justified? .....</b>	<b>45</b>
<b>6.3. Recommendations .....</b>	<b>46</b>
6.3.1. Compliance with public financial governance .....	46
6.3.2 Legal consequences .....	46
6.3.3. Government’s accountability with revenue .....	47
6.3.4. Reversal of the VAT rate increase back to 14% .....	47
<b>6.4. Conclusion.....</b>	<b>47</b>
<b>Bibliography .....</b>	<b>48</b>

## Chapter 1:

### INTRODUCTION

#### 1.1 BACKGROUND

The government of the day announced in 1988 that it intended to transform the existing General Sales Tax (GST) system to a Value-Added Tax system (VAT). The Value-Added Tax Act<sup>1</sup> was introduced in South Africa with effect from 30 September 1991, at a statutory rate of 10%. The VAT rate was then increased to 14% in 1993 and has remained unchanged until then Minister of Finance Malusi Gigaba tabled the 2018 budget on 21 February, announcing that VAT would increase from 14% to 15% on 1 April 2018. This was partly due to the government facing a revenue gap of R48.2 billion in 2018.<sup>2</sup>

VAT is an indirect tax as government receives the payment from the seller (the business) rather than the person who ultimately bears the economic burden of the tax (the consumer).<sup>3</sup> In this respect, a higher VAT increases the prices of domestically produced and imported goods.<sup>4</sup> This will reduce purchasing power and as a result lowers demand for goods and services.<sup>5</sup> In addition, weaker domestic demand, assuming an extremely limited or alternatively no supply to foreign markets will have a negative impact on production.<sup>6</sup>

Exports are zero rated and imports are subject to VAT for the purpose of protecting local suppliers from foreign competition, to increase demand for domestic goods and

---

<sup>1</sup>Act 109 of 1991 (hereinafter 'VAT Act').

<sup>2</sup>Gigaba M 'National Treasury: Budget Speech' 2018 10.

<sup>3</sup>Erero JL 'Effects of Increases in Value Added Tax: A Dynamic CGE Approach' Economic Research Southern Africa (ERSA) 2015 14.

<sup>4</sup>Erero (n 3 above) 14.

<sup>5</sup>Erero (n 3 above) 14.

<sup>6</sup>Erero (n 3 above) 14.

to decrease the demand for imported goods.<sup>7</sup> Customers indirectly pay the VAT included in the selling price of certain goods and services and the supplier in turn pays the output tax<sup>8</sup> to the tax authorities.<sup>9</sup> The calculation to determine the amount of VAT which is payable, amounts to the deduction of input tax from output tax liability.<sup>10</sup>

In this dissertation it is shown that there is a need for the government to raise revenue to cover the budget deficit and meet its socio-economic objectives. The solution to solving this budget deficit culminated in the government agreeing to the VAT increase in 2018. VAT is successful if considered solely from the perspective of revenue-raising and ignoring its potential negative effects.<sup>11</sup> When the VAT increase was initially proposed, the greatest controversy surrounding it was its effect on retail prices; i.e. if VAT increased, prices would increase.<sup>12</sup> This dissertation analyses the policy rationale behind the VAT rate increase against the negative effect of the same over the majority of the population which is poor. The aim of this analysis is to determine whether the VAT rate increase is justified or not.

---

<sup>7</sup>Unpublished: DP Beelders 'Value Added Tax – Place Of Supply And The Taxation Of Electronic Cross Border Supplies Of Services And Intangibles.' M.COM Taxation University Of Cape Town, 2015 15.

<sup>8</sup>Section 1 of the VAT Act provides as follows: 'output tax, in relation to any vendor, means the tax charged under section 7 (1) (a) in respect of the supply of goods and services by that vendor.' "input tax, in relation to a vendor, means— (a) tax charged under section 7 and payable in terms of that section by— i) a supplier on the supply of goods or services made by that supplier to the vendor; or ii) the vendor on the importation of goods by that vendor; or 18 iii) the vendor under the provisions of section 7 (3).'

<sup>9</sup>Beelders (n 7 above) 15.

<sup>10</sup>In Chapter 2 of this dissertation the definitions of Input tax and Output tax are elaborated on and explained.

<sup>11</sup>Isaacs G 'VAT hike will hit the poor hardest as their spending power is eroded' 27 February 2018. <https://www.businesslive.co.za/bd/opinion/2018-02-27-vat-hike-will-hit-the-poor-hardest-as-their-spending-power-is-eroded/> (accessed 10 July 2018).

<sup>12</sup>Published: Kearney M 'Restructuring Value-Added Tax In South Africa A Computable General Equilibrium Analysis' LLD University Of Pretoria, 2003 44.

## **1.2. PROBLEM STATEMENT:**

The problem that will be addressed in the following dissertation is whether the South African Value-Added Tax increase in 2018 from 14% to 15% is justified. There will be various political and social problems addressed to answer the following question.

## **1.3. RATIONALE OF THE STUDY:**

An analysis of this nature is important because it looks at the reasons why VAT was increased against reasons why it should not have been increased. In a South African context, this is important because of the poverty levels and the fiscal deficit. It is important to establish whether the government acted arbitrarily in increasing VAT, or whether the VAT increase is justifiable. This research will also compare South Africa's VAT rate to a country with a much higher VAT rate such as Denmark, for the purposes of determining the justification of such a higher rate viz South Africa.

## **1.4. METHODOLOGY:**

The methodology adopted for this doctrinal research consists of a critical and legal analytic review of the relevant legislation, case law, and literature. A legal comparative analysis was done with Denmark, which has a much higher VAT rate than South Africa. A comparative analysis is necessary, for the purposes of showing why a country such as Denmark whose higher VAT rate is justifiable, and why there has been some resistance to a higher rate in South Africa.

## **1.5. RESEARCH QUESTIONS:**

This research will respond to the following questions:

1. What is Value-Added Tax? And how is it implemented in South Africa?
2. What are the tenets of Value-Added Tax in South Africa?
3. What are the disadvantages to the Value-Added Tax increase in South Africa?

4. What is the link between Value-Added Tax and poverty in South Africa?
5. Is the South African Value-Added Tax increase of 2018 justifiable?
6. How does the South African Value-Added Tax system compare to that of Denmark's?

## **1.6. STRUCTURE:**

To address/ answer the above questions this research is structured as follows:

Chapter 2 contains definitions and deals with what Value-Added Tax is and how it is levied in South Africa. This chapter also refers to what qualifies as zero-rated goods and exempt supplies. This chapter also defines and explains certain VAT sections according to the VAT Act.

Chapter 3 contains the disadvantages of the VAT hike in South Africa primarily looking at how the increase will affect poor households. This chapter will look at what has been done, if anything, to alleviate the financial burden which has been placed on the under-privileged and poor as a result of the VAT hike.

Chapter 4 explains what socio-economic rights are and to what extent they are afforded to South Africans. This chapter also contains the fiscal policy of the South African government primarily alluding to how government is spending its revenue as well as the reckless expenditure of the government, and the possible reasons why the VAT increase was necessary.

Chapter 5 contains a comparative analysis of South Africa with Denmark. Denmark has a much higher VAT rate in comparison to South Africa, and it is important to analyse the justification for such a rate in comparison with South Africa.

Chapter 6 contains an overall conclusion of the VAT increase in South Africa and whether the recent hike can amount to fair or unfair. It will look at all different aspects considered in the previous chapters

## CHAPTER 2:

### VAT IN SOUTH AFRICA

#### 2.1 Introduction

This chapter deals with the definition of VAT as contained in the VAT Act as well as the background of the VAT system in South Africa. It will explore instances where VAT will not be payable by discussing zero-rated and exempt goods. This chapter is important in that it shows that a high VAT rate equals higher prices on goods and services and a greater effect to the poor households. It is also fundamental in the sense that it shows some of the ways in which the poor are shielded from the VAT, i.e. through zero-rating basic foodstuffs.

#### 2.2 What is VAT?

VAT is a tax that has been levied for a long time, having been introduced in France in 1948.<sup>1</sup> According to the South African Revenue Services, VAT is defined as:<sup>2</sup>

An indirect tax on the consumption of goods and services in the economy. Revenue is raised for government by requiring certain businesses to register and to charge VAT on the taxable supplies of goods and services. These businesses become vendors that act as the agent for government in collecting the VAT.

VAT is one of the most important sources of government revenue in South Africa, but as in most countries around the world, its impact on income distribution is controversial.<sup>3</sup> South Africa's distribution of wealth separates the top 60% earning all the income and owning 95% of all assets. Given the country's political history and the

---

<sup>1</sup>The Davis Tax Committee 'First Interim Report On Value-Added Tax For The Minister Of Finance.' 2015 11.

<sup>2</sup>SARS 2018. <http://www.sars.gov.za/TaxTypes/VAT/Pages/default.aspx> (accessed 5 October 2018).

<sup>3</sup>Unpublished: A Jansen et al 'Improving the targeting of zero-rated basic foodstuffs under value added tax (VAT) in South Africa - An exploratory analysis' Unpublished: Economic Working Papers Stellenbosch University 2012 3.

extremely skewed distribution of income and wealth, the impact of the tax is huge and controversial in South Africa.<sup>4</sup>

Section 7(1) of the VAT Act is the levying provision, and it states as follows:

Subject to the exemptions, exceptions, deductions and adjustments provided for in this Act, there shall be levied and paid for the benefit of the National Revenue Fund a tax, to be known as the value-added tax:

- (a) on the supply by any vendor of goods or services supplied by him on or after the commencement date in the course or furtherance of any enterprise carried on by him;
- (b) on the importation of any goods into the Republic by any person on or after the commencement date; and
- (c) on the supply of any imported services by any person on or after the commencement date, calculated at the rate of 15 per cent on the value of the supply concerned or the importation, as the case may be.

Section 7(2) of the VAT Act supports section 7(1), and states as follows:

Except as otherwise provided in this Act, the tax payable in terms of paragraph (a) of subsection (1) shall be paid by:

- (a) the vendor referred to in that paragraph, the tax payable in terms of paragraph;
- (b) of that subsection shall be paid by the person referred to in that paragraph and the tax payable in terms of paragraph;
- (c) of that subsection shall be paid by the recipient of the imported services.

The recipient is defined in Section 1(1) of the VAT Act as:

In relation to any supply of goods or services, means the person to whom the supply is made.

The supplier is defined in Section 1(1) of the VAT Act as:

In relation to any supply of goods or services, means the person supplying the goods or services.

---

<sup>4</sup>Jansen et al (n 3 above) 3.

According to section 1(1) of the VAT Act taxable supply is defined as:

Any supply of goods or services which is chargeable with tax under the provisions of section 7 (1) (a) including tax chargeable at the rate of zero per cent under section 11.

According to section 1(1) of the VAT Act supply is defined as:

Performance in terms of a sale, rental agreement, instalment credit agreement and all other forms of supply, whether voluntary, compulsory or by operation of law, irrespective of where the supply is effected, and any derivative of 'supply' shall be construed accordingly.

VAT is currently levied at the standard rate of 15% on most supplies and importations. In order to calculate and determine the amount of VAT which is payable, you deduct input tax from output tax liability. This is vital as this determines whether the supplier will be allowed to claim VAT back from the government in terms of the supplies made.

Output tax is defined as the tax charged by any vendor on the goods or services supplied by that vendor in the furtherance of any enterprise carried on by him.<sup>5</sup> Input tax is defined as the tax payable by a vendor when goods or services are acquired by him wholly for the purposes of consumption, use or supply in the course of making taxable supplies.<sup>6</sup>

There is a limited range of goods and services which are either exempt,<sup>7</sup> or which are subject to tax at the zero-rate (for example, exports are taxed at 0% under certain circumstances).<sup>8</sup> The importation of services is only subject to VAT where the services are imported for private, exempt or other non-taxable purposes.<sup>9</sup> The list of zero-rated

---

<sup>5</sup>M Silver and C Beneke *Deloitte VAT Handbook. 10 ed.* (2015) 114.

<sup>6</sup>Silver and Beneke (n 5 above) 115.

<sup>7</sup>The main difference between zero rate and exempt supplies is that the suppliers of zero-rated goods and / or services can still reclaim all their input VAT, but the suppliers of exempt goods are either not registered for VAT or if they are, they cannot reclaim their input VAT. 'Nieuwoudt MN 'Under-estimation of taxable income' April 2018. <https://www.pwc.com/na/en/assets/pdf/pwc-tax-first-newsletter-april-2013.pdf> (accessed 7 September 2018).

<sup>8</sup>South African Revenue Service 'VAT 404 Guide for Vendors' 24 January 2017 <http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-VAT-G02%20-%20VAT%20404%20Guide%20for%20Vendors%20-%20External%20Guide.pdf> (accessed on 3 October 2017) 2.

<sup>9</sup>VAT 404 Guide for Vendors (n 8 above) 2.



items has been amended on several occasions as part of a comprehensive macroeconomic policy framework aimed at alleviating poverty and lowering the degree of income inequality.<sup>10</sup>

### **2.3. When is VAT Not Payable?**

VAT is a tax that has found world-wide acceptance and respectability and accounts for more than one-quarter of tax revenue in most jurisdictions.<sup>11</sup> Despite its name, VAT is not intended to be a tax on value which has been added at each stage of the production and distribution of the relevant goods and services; rather, it can be viewed as a consumption tax because the final consumer ultimately bears the burden.<sup>12</sup>

Persons who produce items which are for the purposes of the supply of such goods or services that are considered exempt or zero-rated are excluded from paying VAT. Exemptions and zero-ratings however, have different impacts on government revenue.<sup>13</sup> Also, the stage at which exemption occurs may have an alternative impact. Exemption may occur at the final stage of sales or during the intermediate stages of production.<sup>14</sup> When exemption occurs at the intermediate stage of production the VAT chain is broken.<sup>15</sup> If exemption occurs at the retail stage, only the value added at the final stage will not be subjected to VAT, while if exemption occurs at the intermediate stages of the production stages, sales of subsequent businesses acquiring the goods are overtaxed.<sup>16</sup> Inputs prior to the exempt stage are not credible and the tax base is not reduced but augmented.<sup>17</sup>

---

<sup>10</sup>Botha R, 2012 'The VAT rate- a third decade at 14%' *VAT 21 Journal* 6.

<sup>11</sup>The Davis Tax Committee (n 1 above) 11.

<sup>12</sup>The Davis Tax Committee (n 1 above) 11.

<sup>13</sup>Published: Kearney M 'Restructuring Value-Added Tax In South Africa A Computable General Equilibrium Analysis' LLD University Of Pretoria, 2003 30.

<sup>14</sup>Kearney (n 13 above) 30.

<sup>15</sup>Kearney (n 13 above) 30.

<sup>16</sup>Kearney (n 13 above) 30.

<sup>17</sup>Kearney (n 13 above) 30.

### 2.3.1. Zero-rated Supplies

The taxing provisions in section 7(1) of the VAT Act are subject to certain exceptions and exemptions, such as the zero-rating provisions in section 11(2) of the VAT Act<sup>18</sup> which provides:

Where, but for this section, a supply of services would be charged with tax at the rate referred to in section 7 (1), such supply of services shall, subject to compliance with subsection (3) of this section, be charged with tax at the rate of zero per cent where - (a) the services (not being ancillary transport services) comprise the transport of passengers or goods- (i) from a place outside the Republic to another place outside the Republic; or [Sub-para. (i) substituted by s. 13 (c) of Act 20 of 1994.] (ii) from a place in the Republic to a place in an export country; or [Sub-para. (ii) substituted by s. 13 (c) of Act 20 of 1994.] (iii) from a place in an export country to a place in the Republic.

It follows that where a cross border supply of services falls within the South African VAT net in terms of section 7(1) of the VAT Act, such cross-border supply may not be taxable in South Africa due to the provisions of section 11(2) of the VAT Act.<sup>19</sup>

According to section 11(1)(j) of the VAT Act, zero-rated items include the following:

- Brown bread and brown wheaten meal;
- Maize meal;
- Samp;
- Mealie;
- Rice;
- Dried mealies;
- Dried beans;
- Lentils;
- Edible legumes;
- Pilchards or sardinella in tins or cans (excluding pet food and sardines);
- Milk;

---

<sup>18</sup>Published: Zulch H 'South African Value-Added Tax: Place of supply rules for cross border supplies of services – a comparative analysis with Chapter 3 of the OECD's International VAT/GST Guidelines' Published: Master of Commerce (Taxation) University of Stellenbosch 2017 10.

<sup>19</sup>Zulch (n 18 above) 10.

- Cultured milk;
- Milk powder and dairy powder blend;
- Vegetables and fruit;
- Eggs;
- Sanitary Pads;
- Cake flour;
- White bread;
- Bread flour;
- School uniforms;
- Nappies.

Goods that are zero-rated are consumed across the board by all consumers (poor and rich).<sup>20</sup> This implies that rich taxpayers receive a greater monetary benefit with regards to both zero-rated and exempt supplies thus, this is not a very effective way of improving the position of the poor – it costs too much in terms of benefits that accrue to the rich.<sup>21</sup>

Thungo, tax manager at the SA Institute of Professional Accountants, states as follows:<sup>22</sup>

While VAT can be seen as a fair tax because it does not target one particular group of taxpayers, government will have to come up with creative ways of minimising the impact on the poor. One obvious tactic would be to increase the basket of daily necessities that are exempt from VAT. Currently, 19 basic food items, illuminating paraffin, certain government grants, public transport and educational services are zero-rated. While increasing the VAT rate is not the most favoured, if it comes to it they will need to seriously revisit how the poor can be spared by increasing the basket of zero rated items. A further point is South Africa's VAT rate is somewhat lower than the global average. Even a relatively poor country like neighbouring Mozambique, has a rate of 17%.

---

<sup>20</sup>Unpublished: A Jansen & E Calitz 'How effective is VAT zero rating as a pro-poor policy?' University of Stellenbosch, 2015 2.

<sup>21</sup>Jansen & Calitz (n 20 above) 2.

<sup>22</sup>Fin24 'SA faces big chance of VAT increase - tax expert' 2 November 2017. <http://www.fin24.com/Budget/BudgetInsider/sa-faces-big-chance-of-vat-increase-tax-expert-20170211-2>. (accessed 11 July 2018).

The Davis Tax Committee has indicated that the broad-based VAT system raises revenue efficiently,<sup>23</sup> while zero-rating contradicts that objective and is rather accompanied with retrogressive effects. Zero-rated items are there to assist low income households to afford basic foodstuffs and essential items. These items are not only zero-rated to low income households but all taxpayers who buy these products. This is one of the primary reasons why government has been so cautious in extending the zero-rated list as these benefits accrue to a large extent to the rich more than the poor. The government does not accumulate revenue from these products, and this results in costing the government billions of rands a year.

### **2.3.2. Exempt Supplies**

The definition of enterprise in section 1(1) of the VAT Act is to indicate which persons, activities or supplies is to be part of the VAT system. The definition of 'enterprise'<sup>24</sup> deems any activity, to the extent to which it involves the making of exempt supplies, to be excluded from the carrying on of an enterprise

Exempt supplies are supplies of goods or services where VAT is not chargeable at either the standard rate or the zero-rating and will not form part of taxable turnover.<sup>25</sup> A person who only makes exempt supplies cannot register as a vendor or charge VAT on those supplies.<sup>26</sup> This means that any VAT incurred to make exempt supplies may not be deducted as input tax.

Section 12 of the VAT Act lists the supplies of goods and services which are exempt in terms of the VAT Act as follows –

---

<sup>23</sup>The Davis Tax Committee 'DTC: Macro Analysis Final Report Executive Summary: April 2016' 28. <http://www.taxcom.org.za/docs/20160421%20DTC%20Macro%20Analysis%20Final%20Report%20-%20Executive%20Summary.pdf> (accessed 20 September 2018).

<sup>24</sup>Section 1(1) of the VAT Act states that "enterprise" means: '(a) in the case of any vendor, any enterprise or activity which is carried on continuously or regularly by any person in the Republic or partly in the Republic and in the course or furtherance of which goods or services are supplied to any other person for a consideration, whether or not for profit, including any enterprise or activity carried on in the form of a commercial, financial, industrial, mining, farming, fishing, municipal or professional concern or any other concern of a continuing nature or in the form of an association or club;'

<sup>25</sup>VAT 404 Guide for Vendors (n 8 above) 37.

<sup>26</sup>VAT 404 Guide for Vendors (n 8 above) 37.

- financial services (such as interest earned for the provision of credit, life insurance, the services of benefit funds such as medical schemes, provident, pension and retirement annuity funds);<sup>27</sup>
- donated goods or services sold by non-profit bodies (such as religious and welfare organisations);<sup>28</sup>
- residential accommodation in a dwelling (but not holiday accommodation);<sup>29</sup>
- passenger transport in South Africa by taxi, bus, or train;<sup>30</sup>
- educational services provided by recognised educational institutions such as, primary, and secondary schools, technical colleges, or universities which have been approved as public benefit organisations (PBO's) under section 30(3) of the Income Tax Act, or an organisation which has been approved by the Commissioner as being exempt under section 10(1)(cA)(i) of that Act;<sup>31</sup>
- childcare services provided at crèches and after-school care centres;<sup>32</sup>

The vendor is only allowed an input tax claim to the extent that the expenses incurred is directly attributable to the making of taxable supplies, in terms of section 17(1).<sup>33</sup> There must be a clear link between when input tax is claimable and when output tax is charged and payable. This means that input tax deductions are not allowed if the supply is of exempt goods.<sup>34</sup>

## 2.4. Conclusion

This chapter above explains what VAT is, as well as the formula to calculate VAT. This chapter lays a crucial foundation for the chapters that follow as it shows what classifies as zero-rated and exempt items. It is important that we acknowledge which products are included in zero-rated items as well as how exempt items are determined.

---

<sup>27</sup>Section 12(a) of the VAT Act.

<sup>28</sup>Section 12(b) of the VAT Act.

<sup>29</sup>Section 12(c) of the VAT Act.

<sup>30</sup>Section 12(g) of the VAT Act.

<sup>31</sup>Section 12(h) of the VAT Act.

<sup>32</sup>Section 12(j) of the VAT Act.

<sup>33</sup>Zulch (n 18 above) 29.

<sup>34</sup>Zulch (n 18 above) 29.

This is vital with regards to how zero-rated items accrue to the rich more than the poor. The government has limited this list as the cost of zero-rated goods does not add to the revenue and is very costly for the government every year. It is also evident in this chapter that when the VAT rate increases, the prices of goods and services automatically increase. This has a negative effect on poorer households and shows that a VAT rate increase is something that needs a strong justification before it is implemented. The following chapters will discuss whether the 2018 VAT rate increase was justified or not.

## **CHAPTER 3:**

### **VAT AND POVERTY IN SOUTH AFRICA**

#### **3.1. Introduction**

In the previous chapter there was a discussion with regards to the background of VAT. Reference was also made to the VAT increase and its impact on the prices of goods and services. Zero-rated goods and exempt goods were also referred to and the role that they play in indirect taxes and how they affect certain people and businesses.

This chapter will show how the tax proposals for the 2018 Budget were designed to generate an additional R36 billion in tax revenue for 2018/19.<sup>1</sup> This chapter also discusses how South Africa is a highly unequal society in terms of income. As such a unilateral increase of the VAT rate is harmful to poor and lower-income earners.<sup>2</sup>

#### **3.2. Social Grants**

A social grant refers to grants paid by government to South African citizens who are in need of financial assistance.<sup>3</sup> In South-Africa, social grants are administered by the South African Social Security Agency (SASSA).<sup>4</sup> Social grants are in place to help improve standards of living in society and are given to people who are vulnerable to poverty and in need of state support.<sup>5</sup> These generally include older people, people with disabilities, and people with young children.<sup>6</sup> Social grants remain the most

---

<sup>1</sup>Gigaba M 'National Treasury: Budget Speech' 2018 11.

<sup>2</sup>Ebrahim S, The VAT Increase Is An Assault On The Poor And Lower-Income Earners. 22 February 2018. <https://www.thedailyvox.co.za/vat-increase-assault-on-the-poor-and-lower-income-earners-shaazia-ebrahim/> (accessed 9 July 2018).

<sup>3</sup>'Applying for a social welfare grant' <https://www.westerncape.gov.za/general-publication/applying-social-welfare-grant> 17 July 2018. (Accessed on 3 December 2018).

<sup>4</sup>'Applying for a social welfare grant' (n 3 above).

<sup>5</sup>'Applying for a social welfare grant' (n 3 above).

<sup>6</sup>'Applying for a social welfare grant' (n 3 above).

prominent form of poverty alleviation in South Africa as millions of South African's benefit from the social grants administered by SASSA.<sup>7</sup>

During the Budget Speech in 2018, the then Minister of Finance, Mr. Malusi Gigaba, noted that government had allocated R2.6 billion since the Medium Term Budget Policy Speech (MTBPS) to enable the changes with regard to the increase in social grants.<sup>8</sup> The Treasury stated that the Budget was pro-poor in that government ensured that all grants grew by more than the rate of inflation. This included the old age, disability and care dependency grants, which increased from R1 600 to R1 690 on 1 April 2018 and by a further R10 to R1 700 on 1 October 2018.<sup>9</sup> Statistics show that South Africa's poverty line in April 2017 put the food poverty line (FPL) (the level below which individuals cannot secure enough food) at R531 per month and the upper bound poverty line (UBPL) (the level below which individuals cannot secure food and non-food items) at R1 138 per month.<sup>10</sup>

In May 2018 the cost of feeding a small child (aged 3-9 years) a diet complete in minimum nutrition was R540.21 per month.<sup>11</sup> The cost of feeding a girl/boy child (aged 10-13 years) or an adult woman (aged 19-64 years) or an elderly woman (aged >65 years) a diet complete in minimum nutrition was R581.31 per month.<sup>12</sup> In April 2018, the Child Support Grant (CSG) was increased by R20 from R380 to R400 per child per month, which is still set below the food poverty line.<sup>13</sup>

The Child Support Grant was increased from the baseline of R380 to R400 on 1 April 2018 and to R410 on 1 October 2018, this was a 6.6% annual increase.<sup>14</sup> An

---

<sup>7</sup>'Applying for a social welfare grant' (n 3 above).

<sup>8</sup>Gigaba(n 1 above) 15.

<sup>9</sup>Van Wyngaardt M, Social grants set to increase faster than inflation as taxes rise. 21st February 2018. <http://www.engineeringnews.co.za/article/social-grants-set-to-increase-faster-than-inflation-as-taxes-rise-2018-02-21> (accessed 9 July 2018).

<sup>10</sup>PACSA Monthly Food Price Barometer: May 2018 1. [https://www.pacsa.org.za/images/food\\_barometer/2018/May\\_2018\\_PACSA\\_monthly\\_food\\_price\\_barometer.pdf](https://www.pacsa.org.za/images/food_barometer/2018/May_2018_PACSA_monthly_food_price_barometer.pdf) (accessed 9 September 2018).

<sup>11</sup>PACSA Monthly Food Price Barometer (n 10 above) 1.

<sup>12</sup>PACSA Monthly Food Price Barometer (n 10 above) 1.

<sup>13</sup>PACSA Monthly Food Price Barometer (n 10 above) 1.

<sup>14</sup>Gigaba (n 1 above) 15.



additional R2.6 billion was added since the MTBPS<sup>15</sup> to social grants to enable these changes.<sup>16</sup> These adjustments resulted in social protection spending increasing by 7.9 per cent per year, much above inflation.<sup>17</sup>

These grant increases were an attempt to help ease some of the burden which the increase of the VAT has placed on the poor.<sup>18</sup> The question is whether the increases were sufficient to cushion the recipients from the VAT rate increase. In this regard it is noted that if you combine the tax increases with the very slight increase in social grants, there is a great danger that there is a real erosion of poor people's spending power and therefore a potential it will exacerbate poverty.<sup>19</sup> Social grant figures are largely arbitrary – not tied to the poverty line, but to what government can afford.<sup>20</sup>

The Pietermaritzburg Agency for Community Social Action (PACSA) Food Barometer for January 2018 showed that poverty wages do not allow workers and their families to eat properly as transport, electricity; education expenses and other essential costs compete with the food budget.<sup>21</sup> Maynier<sup>22</sup> criticised the budget's increase in the child support grant, saying this was below the "food poverty line"<sup>23</sup> in SA of R441 per month.<sup>24</sup> Maynier insisted that the proposed amendments were "budget neutral" and

---

<sup>15</sup>Medium Term Budget Policy Statement.

<sup>16</sup>Gigaba (n 1 above) 15.

<sup>17</sup>Gigaba (n 1 above) 15.

<sup>18</sup>Nicolson G, Explainer: Budget VAT rise will hurt poor, despite mitigating efforts. 23 February 2018. <https://www.dailymaverick.co.za/article/2018-02-23-explainer-budget-vat-rise-will-hurt-poor-despite-mitigating-efforts/#.W0MNQtUzBIU>(accessed 9 July 2018).

<sup>19</sup>Nicolson (n 18 above).

<sup>20</sup>Nicolson (n 18 above).

<sup>21</sup>PACSA Monthly Food Price Barometer: January 2018 2. [https://www.pacsa.org.za/images/food\\_barometer/2018/January\\_2018\\_PACSA\\_monthly\\_food\\_price\\_barometer.pdf](https://www.pacsa.org.za/images/food_barometer/2018/January_2018_PACSA_monthly_food_price_barometer.pdf) (accessed 9 September 2018).

<sup>22</sup>The Shadow Minister of Finance, and a Member of Parliament for the Democratic Alliance.

<sup>23</sup>Ensor L, Child support grant 'below food poverty line' 25 May 2018 <https://www.timeslive.co.za/politics/2018> (accessed 9 July 2018).

<sup>24</sup>South Africa's latest poverty statistics: An examination of absolute poverty between 2006 and 2015 Report (2017) shows that one quarter of South Africa's population (25.2% or 13.8 million people) live below the food poverty line; and 55.5% (30.4 million people) live below the upper bound poverty line. For Black South Africans, 64.2% (around 29 million people at mid-year population estimates for 2017) live below the upper bound poverty line. Poverty levels have undergone a reversal since 2011, with the

could have been funded by reprioritising expenditure within the existing budget.<sup>25</sup> His proposals were not supported by the ANC MPs.<sup>26</sup>

### 3.3. Efficacy of Zero-rating as a shield against the higher VAT rate

The Budget allocated an extra R2.6 billion towards social grants to mitigate the negative effects of the VAT increase on the poor and maintained the “zero-rating” on certain staples that are not subject to VAT.<sup>27</sup> Ngepah, stated that there needs to be better research on how the poor spend their money, but inflationary increases associated with the rise in VAT will likely outweigh the benefits of zero-rated products.<sup>28</sup> Isaacs said that ‘the idea that the zero-rated items offer a sufficient cushion is false, zero-rated items are based on an assumption of what food items poor people eat, which is not always accurate.’<sup>29</sup>

A number of items which were deemed to form an essential part of the consumption basket of lower-income groups were zero-rated, notwithstanding the fact that more medium to higher income households were, in aggregate, spending more on the same goods in absolute terms and some of these goods were intermediate inputs in the production of goods and services in the economy.<sup>30</sup>

---

latest figures from 2015 showing that cycles of poverty are now escalating and accelerating. Households are under severe financial strain and the affordability crisis is deepening. Rising poverty levels cannot be disconnected from a deepening economic crisis.’ PACSA Monthly Food Price Barometer: May 2018 1. [https://www.pacsa.org.za/images/food\\_barometer/2018/May\\_2018\\_PACSA\\_monthly\\_food\\_price\\_barometer.pdf](https://www.pacsa.org.za/images/food_barometer/2018/May_2018_PACSA_monthly_food_price_barometer.pdf) (accessed 9 September 2018).

<sup>25</sup>Ensor (n 23 above).

<sup>26</sup>Ensor (n 23 above).

<sup>27</sup>Nicolson (n 18 above).

<sup>28</sup>Nicolson (n 18 above).

<sup>29</sup>Ebrahim (n 2 above).

<sup>30</sup>Unpublished: Jansen A & Calitz E ‘How effective is VAT zero rating as a pro-poor policy?’ ATRN working paper 01. African Tax Research Network, 2016 4.

In effect, the current zero-rating is equivalent to a generalised subsidy which mostly favours the richest sectors of the population, at a high cost for public finances.<sup>31</sup> As such, zero-rating is a very imprecise instrument for the pursuit of equity objectives.<sup>32</sup> In attempt to give benefits to the poor, more of these benefits are in favour of the rich.

### **3.4. The VAT rate's effect on the income of the poor**

Income is defined as household disposable income in a particular year.<sup>33</sup> Income consists of earnings, self-employment capital income and public cash transfers.<sup>34</sup> The income of a household is attributed to each of its members, with an adjustment to reflect differences in the needs of households of different sizes.<sup>35</sup> Taxes on goods (like VAT or excise duty) have a negative impact on the poor.<sup>36</sup> South Africa's lowest earning 10% spend 13.8% of their disposable income on these taxes compared to 12.6% spent by the highest earning 10%.<sup>37</sup> According to the gini coefficient,<sup>38</sup> South Africa is reported at 0.64 on the gini Index scale, which indicates immense inequality in income among South Africans.

As indicated in Chapter 2, the increase in the VAT rate has affected the poor disproportionately. As a result of such an increase the consequences are the rise of prices of goods and services. This has a greater effect on the poor, as many South

---

<sup>31</sup>DTC: First Interim Report on VAT' 2018 26.

<http://www.taxcom.org.za/docs/20150707%20DTC%20VAT%20First%20Interim%20Report%20-%20website.pdf> (accessed 20 September 2018).

<sup>32</sup>DTC: First Interim Report on VAT' (n 31 above) 26.

<sup>33</sup>OECD (2018) 'Income inequality (indicator)' <https://data.oecd.org/inequality/income-inequality.htm> (Accessed on 20 September 2018).

<sup>34</sup>OECD (2018) 'Income inequality (indicator)' (n 33 above).

<sup>35</sup>OECD (2018) 'Income inequality (indicator)' (n 33 above).

<sup>36</sup>OECD (2018) 'Income inequality (indicator)' (n 33 above).

<sup>37</sup>Ebrahim (n 2 above).

<sup>38</sup>'Income inequality is determined by the Gini coefficient, which is based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive, and it ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality.'

OECD (2018) 'Income inequality (indicator)' <https://data.oecd.org/inequality/income-inequality.htm> (accessed on 20 September 2018).

Africans rely on social grants, as shown in this chapter the social grants are not increasing equivalently to sustain the poor and the social grants are not increasing to the same extent that goods and services are being raised.

### **3.5. Conclusion**

In this chapter it is shown how regressive VAT is and how it affects the poor households in South Africa. South Africa has a distribution of income that is among the most unequal in the world and due to this the VAT increase has placed a burden on most of the population.

This chapter also shows that the government has had to raise obligatory expenses, such as social grants, in order to meet the 1% threshold gap that VAT was increased by, and how much this has financially amounted to for the government. The population that qualify for social grants has grown to such an extent in the last century that government expenditure has risen significantly. This chapter also shows how zero-rated items benefit all income groups and how these items benefit the rich more than the poor. The government has attempted to use zero-rated items as a protective measure to justify the VAT increase, but the negative effects of the VAT increase on the poor outweigh all other objectives.

The following chapter explains how the government has been consistently spending the taxpayer's money recklessly and due to the ongoing negligent spending for personal gain this expenditure has become one the key factors that has resulted in the VAT increase in 2018.

## CHAPTER 4:

# IS A VAT INCREASE JUSTIFIABLE IN THE CONTEXT OF INCREASED GOVERNMENT EXPENDITURE BUT ALSO HEIGHTENED RECKLESS EXPENDITURE?

### 4.1. Introduction

Each February, the Minister of Finance in South Africa tables an annual budget to fund government operations for the upcoming financial year.<sup>1</sup> The annual budget decisions have consequences for the current budget year and beyond the subsequent three years.<sup>2</sup> A budget is, therefore, a process through which choices have to be made about competing government priorities.<sup>3</sup> Public debt has a negative impact on economic growth.<sup>4</sup> Policy perspective however, strengthens the arguments for ambitious debt reduction through fiscal consolidation.<sup>5</sup> This is to say that the total amount of money a government spends should be closely aligned with what is affordable over the medium term and, in turn, with the annual budget.<sup>6</sup>

This chapter explores government's responsibility to fulfil socio-economic rights of South Africans and how affording such rights to people requires expenditure which is partially raised through VAT and other taxes. Furthermore, there is a discussion of government's public expenditure obligations and what they amount to and how government's reckless expenditure and irresponsible ways in which revenue raised has been spent has resulted in the VAT increase to help mend the increasing budget deficit.

---

<sup>1</sup>Pakkies L 'Fiscal Sustainability and the South African Financial Management Challenge at National Government Level' University of Stellenbosch: Masters in Public Administration, 2016 1.

<sup>2</sup>Pakkies (n 1 above) 1.

<sup>3</sup>Pakkies (n 1 above) 1.

<sup>4</sup>Pakkies (n 1 above) 1.

<sup>5</sup>Pakkies (n 1 above) 9.

<sup>6</sup>Pakkies (n 1 above) 9.

## 4.2. Socio-Economic Rights

The Constitution of the Republic of South Africa No. 108 of 1996 (hereinafter the South African Constitution) provides arguably the most sophisticated and comprehensive system for the protection of socio-economic rights of all the constitutions in the world today.<sup>7</sup> This could be traced back to the fact that one of the most hideous features of apartheid was the systematic violation of the norms of social and economic justice.<sup>8</sup>

Socio-economic rights provisions would impose an explicit constitutional mandate on the new democratic State to take measures to effect land reform and access to water, housing and social services.<sup>9</sup> Such provisions would provide the post-apartheid state with constitutional support for necessary redistributive measures and help fend off property and related constitutional challenges to such measures.<sup>10</sup>

However, rights impose corresponding duties, and the Constitution would lose its credibility if it told people they have rights in respect of which the state cannot deliver, due to a lack of resources.<sup>11</sup> If socio-economic rights were to be portrayed in the Bill of Rights ultimately as rights which do not differ in any way from other rights, the entire Bill of Rights would be discredited when it becomes apparent that the country cannot meet the expectations the Constitution had created.<sup>12</sup>

The institutions, rights and values created by the 1996 Constitution introduced seismic shifts in the political and legal landscape that had prevailed during the long periods of colonial and apartheid rule.<sup>13</sup> Fundamentally it replaced the apartheid-era system of parliamentary sovereignty with a constitutional democracy, incorporating a justifiable Bill of Rights.<sup>14</sup> The preamble of the Constitution proclaims that it was adopted to 'heal

---

<sup>7</sup>Brand D & Heyns C 2009 'Introduction to socio-economic rights in the South African Constitution' *Sabinet Getaway* 153.

<sup>8</sup>Brand & Heyns(n 7 above) 153.

<sup>9</sup>Liebenberg S 'Judicially Enforceable Socio-Economic Rights in South Africa: Between Light and Shadow' *Dublin University Law Journal* 2014 143.

<sup>10</sup>Liebenberg (n 9 above) 143.

<sup>11</sup>Brand & Heyns(n 7 above) 154.

<sup>12</sup>Brand & Heyns(n 7 above) 154.

<sup>13</sup>Liebenberg (n 9 above) 140.

<sup>14</sup>Liebenberg (n 9 above) 140

the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights, and improve the quality of life of all citizens and free the potential of each person<sup>15</sup>. The founding Constitutional values permeating the entire Constitution are human dignity, equality and freedom.<sup>16</sup>

The commitment to the interdependence of rights principle was eloquently expressed by former President Nelson Mandela in his address to an ANC Constitutional Conference:<sup>1718</sup>

A simple vote, without food, shelter and health care is to use first generation rights as a smokescreen to obscure the deep underlying forces which dehumanise people. It is to create an appearance of equality and justice, while by implication socioeconomic inequality is entrenched. We do not want freedom without bread, nor do we want bread without freedom. We must provide for all the fundamental rights and freedoms associated with a democratic society.

Many of the minority parties in the Constitutional Assembly were also generally supportive of the inclusion of some form of protection to economic and social rights, but with safeguards to prevent judicial overreach and preserve the primary role of the legislature and executive in making the relevant policy choices to give effect to these rights.<sup>19</sup>

There is no doubt that socio-economic rights under the South African Constitution are justifiable. The question, as the Constitutional Court noted in the ground-breaking decision of *Government of the Republic of South Africa v Grootboom* is 'how to enforce them in a given case'.

---

<sup>15</sup>The Constitution, preamble.

<sup>16</sup>Liebenberg (n 9 above) 140.

<sup>17</sup>Nelson Rolihlahla Mandela, 'Address: On the occasion of the ANC's Bill of Rights Conference' in *A Bill of Rights for a Democratic South Africa: Papers and Report of a Conference Convened by the ANC Constitutional Committee, May 1991* (Centre for Development Studies, University of the Western Cape 1991) 9, 12.

<sup>18</sup>Liebenberg (n 9 above) 143.

<sup>19</sup>Liebenberg (n 9 above) 143.

#### 4.2.1. Specific Socio-Economic Rights

In terms of the South African Constitution, everyone has the right to adequate housing. Section 26 of The Constitution reads as follows:

(1) Everyone has the right to have access to adequate housing, (2) The state must take reasonable legislative and other measures, within its available resources. to achieve the progressive realisation of this right.

The constitution also guarantees everyone the right to healthcare services, sufficient food and water, social security (which entails social assistance). These rights are encapsulated in section 27 of the Constitution which reads as follows:

(1) Everyone has the right to have access to - (a) health care services, including reproductive health care; (b) sufficient food and water; and (c) social security, including, if they are unable to support themselves and their dependants. appropriate social assistance. (2) The state must take reasonable legislative and other measures, within its available resources. to achieve the progressive realisation of each of these rights.

The constitution also grants everyone the right to basic education. These rights are stated in section 29 of the Constitution which reads as follows:

(1) Everyone has the right— (a) to a basic education, including adult basic education; and (b) to further education, which the state, through reasonable measures, must make progressively available and accessible. (2) Everyone has the right to receive education in the official language or languages of their choice in public educational institutions where that education is reasonably practicable. In order to ensure the effective access to, and implementation of, this right, the state must consider all reasonable educational alternatives, including single medium institutions, taking into account— (a) equity; (b) practicability; and (c) the need to redress the results of past racially discriminatory laws and practices. (3) Everyone has the right to establish and maintain, at their own expense, independent educational institutions that— (a) do not discriminate on the basis of race; (b) are registered with the state; and (c) maintain standards that are not inferior to standards at comparable public educational institutions.

The taxes that taxpayers pay, including VAT, contribute to the National Revenue Fund from which the government accesses funds that are used to finance the realisation of these socio-economic rights. However, even though these socio-economic rights are stated in the Constitution, and all South Africans should have access to such rights,



S36<sup>20</sup> of the Constitution and judicial discretion with regard to interpretation of such provisions place limitations to the access to these rights.

In the case of *Soobramoney v Minister of Health, KwaZulu-Natal*,<sup>21</sup> the decision provides some clues as to the Constitutional Court's approach to the implications of the qualified socio-economic rights.<sup>22</sup> In the first place the court made it clear that the

---

<sup>20</sup>Section 36 reads as follows: '(1) The rights in the Bill of Rights may be limited only in terms of law of general application to the extent that the limitation is reasonable and justifiable in an open and democratic society based on human dignity, equality and freedom, taking into account all relevant factors, including— (a) the nature of the right; (b) the importance of the purpose of the limitation; (c) the nature and extent of the limitation; (d) the relation between the limitation and its purpose; and (e) less restrictive means to achieve the purpose. (2) Except as provided in subsection (1) or in any other provision of the Constitution, no law may limit any right entrenched in the Bill of Rights.'

<sup>21</sup>1998 I SA 765 (ee). 'The claimant, Thiagraj Soobramoney, suffered from chronic renal failure (among other diseases) and was in dire need of renal dialysis in order to stave off death. When he ran out of personal funds with which to pay private providers, he sought service in Addington Hospital, a state-funded hospital in Durban. The hospital refused Soobramoney treatment because his general physical condition did not qualify him for treatment under the criteria or guidelines used by the hospital to determine eligibility for such treatments. Suffering from a terminal illness and in need for renal dialysis to prolong his life, Soobramoney brought a constitutional application seeking an order for the hospital to provide him with access to dialysis treatment. The High Court dismissed his application. On appeal, the Constitutional Court having found the hospital's standards well within the bounds of reason and fairly applied to Soobramoney, unanimously dismissed the appeal and held that the failure to provide treatment to him did not violate the South African Bill of Rights. The court held that the right to health care does not have to be inferred from the right to life because section 27 of the Constitution specifically deals with health rights. The case largely turned on whether the hospital violated Soobramoney's right not to be "refused emergency medical treatment" (in accordance with section 27(3) of the Constitution). The court found that Soobramoney's case was not an "emergency" in the sense of a sudden catastrophe, but rather an "ongoing state of affairs". Instead, the case falls under sections 27(1) and (2) of the Constitution which deal with the allocation of non-emergency medical treatment. Obligations imposed on the state regarding access to health care are dependent upon the resources available, as stated in sections 27(1) and (2). Because of limited resources the hospital had adopted a policy of admitting only those patients who could be cured within a short period and those with chronic renal failure who are eligible for a kidney transplant. The court declared that it could not interfere with decisions taken in good faith by political organs and medical authorities as to how to allocate budgets and decide on priorities.' ESCR-Net <https://www.escr-net.org/caselaw/2008/soobramoney-v-minister-health-kwazulu-natal> (accessed 25 October 2018).

<sup>22</sup>Brand & Heyns (n 7 above) 164.

qualifications imposed on a qualified right such as the section 27(1)(a) right to access to health care have the implication that decisions related to the implementation of these rights are in the first place the province of political organs and service providers and not of the courts.<sup>23</sup> The courts will review the decisions of these organs in the light of the rights protected in the Bill of Rights but in doing so would show deference to their discretion.<sup>24</sup> The court further emphasised that, in the application of the qualified socio-economic rights, the issue would often be one of equitable distribution of limited resources.<sup>25</sup> In this context the rights of individual's particular benefits to this provision would have to be balanced against the needs of the broader community.<sup>26</sup>

### **4.3. Government's Public Expenditure**

The National Treasury is responsible for managing South Africa's national government finances.<sup>27</sup> Supporting efficient and sustainable public financial management is fundamental to the promotion of economic development, good governance, social progress and a rising standard of living for all South Africans.<sup>28</sup> The Constitution of South Africa, specifically Chapter 13, mandates the National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances.<sup>29</sup>

#### **4.3.1 Health**

Government is working to increase life expectancy to at least 70 years by 2030 through interventions such as the continued expansion of antiretroviral therapy and

---

<sup>23</sup>Brand & Heyns (n 7 above) 164.

<sup>24</sup>Brand & Heyns (n 7 above) 164.

<sup>25</sup>Brand & Heyns (n 7 above) 164.

<sup>26</sup>Brand & Heyns (n 7 above) 164.

<sup>27</sup>'The Role of the National Treasury' <http://www.treasury.gov.za/nt/info.aspx> (accessed 5 December 2018).

<sup>28</sup>'The Role of the National Treasury'(n 27 above).

<sup>29</sup>'The Role of the National Treasury'(n 27 above).

implementing the national health insurance.<sup>30</sup> Health expenditure growth is mainly driven by the expanded provision of antiretroviral treatment, which now reaches 3.5 million people.<sup>31</sup> Since September 2016, government has been implementing a universal test-and-treat policy offering all patients diagnosed with HIV antiretroviral treatment.<sup>32</sup> To sustain this initiative, R1 billion has been earmarked for the comprehensive HIV, AIDS and TB conditional grant in 2019/20.<sup>33</sup>

The health budget, which accounts for 13.9 per cent of total spending, will grow at an average annual rate of 7.8 per cent over the medium term.<sup>34</sup> Of this amount, R125.9 billion will be for hospital services and R66.4 billion will support HIV/AIDS prevention and treatment.<sup>35</sup> Implementing national health insurance is a policy priority, resulting in additional allocations of R700 million, R1.4 billion and R2.1 billion over the next three years.<sup>36</sup> These amounts are funded through an amendment to the medical tax credit.<sup>37</sup>

Although centralised procurement of medicine has resulted in estimated savings of R1.6 billion per year, these savings have largely been offset by the weaker rand, which drives up the cost of imported medicines.<sup>38</sup> Government has responded by limiting staff numbers, improving efficiencies in medicine procurement and distribution, delaying large infrastructure projects and reprioritising budgets.<sup>39</sup> This will entail compensating the provincial health departments and protecting them from future

---

<sup>30</sup>National Assembly: explanatory summary of Bill published in Government Gazette No. 41432 of 9 February 2018 59.

<sup>31</sup>National Treasury: Budget Review 'Spending Plans' 2017 3.

<sup>32</sup>National Treasury (n 31 above) 3.

<sup>33</sup>National Treasury (n 31 above) 3.

<sup>34</sup>National Assembly (n 30 above) 59.

<sup>35</sup>National Assembly (n 30 above) 59.

<sup>36</sup>National Assembly (n 30 above) 59.

<sup>37</sup>National Assembly (n 30 above) 59.

<sup>38</sup>National Treasury (n 31 above) 3.

<sup>39</sup>National Treasury (n 31 above) 3.

currency depreciation, amounting to R1 billion which will be added to the provincial equitable share in 2019/20.<sup>40</sup>

### **4.3.2 Social Protection**

This function aims to provide a social safety net for all South Africans, particularly the young, elderly, and disabled, and to standardise social welfare practices as highlighted in the National Development Plan (NDP).<sup>41</sup> It also improves social welfare service delivery to vulnerable individuals through policy and legislative reform, expanding the number of social workers, improving access to early childhood development and facilitating food and nutrition initiatives.<sup>42</sup>

Spending on this priority is set to rise from R164.9 billion in 2016/17 to R209.1 billion by 2019/20, growing at an annual average of 8.2 per cent over the medium term.<sup>43</sup> Spending on social protection is set to rise from R193.4 billion in 2018/19 to R223.9 billion by 2020/21, growing by an average of 7.9 per cent a year.<sup>44</sup> The number of social grant beneficiaries is expected to reach 18.1 million by the end of 2020/21.<sup>45</sup>

Expenditure on grants is expected to increase at an average annual rate of 7.9 per cent over the medium term, reaching R189.8 billion in 2020/21.<sup>46</sup> Due to increases in beneficiary numbers and inflationary adjustments to grant amounts, expenditure on grants is expected to increase at an average annual rate of 8.2 per cent over the medium term, reaching R175.6 billion in 2019/20.<sup>47</sup>

### **4.3.3 Post-School Education and Training**

The NDP recognises that South Africa needs high-quality education and training to

---

<sup>40</sup>National Treasury (n 31 above) 3.

<sup>41</sup>National Treasury (n 31 above) 4.

<sup>42</sup>National Assembly (n 30 above) 61.

<sup>43</sup>National Treasury (n 31 above) 4.

<sup>44</sup>National Assembly (n 30 above) 61.

<sup>45</sup>National Assembly (n 30 above) 61.

<sup>46</sup>National Assembly (n 30 above) 61.

<sup>47</sup>National Treasury (n 31 above) 4.

build a skilled and capable workforce to support inclusive growth.<sup>48</sup> Spending in this function is expected to reach R89.8 billion by 2019/20, growing at an average annual rate of 9.2 per cent over the medium term.<sup>49</sup> Of this amount, 42.7 per cent is for university subsidies, 21.9 per cent for the National Student Financial Aid Scheme (NSFAS), and 9.7 per cent for technical and vocational education and training.<sup>50</sup> Bursary expenditure was expected to rise from R15.4 billion in 2017/18 to R38 billion in 2020/21.<sup>51</sup>

#### **4.3.4 Basic Education**

This function group supports the NDP goal of improving the quality of and access to basic education. Compensation of employees in provincial education departments accounts for an average of 53.3 per cent of learning and culture expenditure, 77.3 per cent of the basic education sector expenditure and 79 per cent of total provincial education budgets.<sup>52</sup> In total, R12.7 billion will be spent on learner and teacher support materials over the medium term, including expanding access to and improving the use of information and communications technology.<sup>53</sup> The Department of Basic Education aims to increase the number of teachers by providing 40 500 Funza Lushaka bursaries for subjects such as mathematics, science and technology. A total of R3.5 billion has been allocated for this purpose.<sup>54</sup> The education infrastructure grant is allocated R31.7 billion to build new schools, upgrade and maintain existing infrastructure, and provide school furniture.<sup>55</sup>

It is important that the government, along with all other branches that are part thereof, take responsibility for their role and help to build a more sustainable and stronger economy. It is a necessity that a country, like South Africa, where many of the citizens

---

<sup>48</sup>National Treasury (n 31 above) 5.

<sup>49</sup>National Treasury (n 31 above) 5.

<sup>50</sup>National Treasury (n 31 above) 5.

<sup>51</sup>National Assembly (n 30 above) 58.

<sup>52</sup>National Assembly (n 30 above) 58.

<sup>53</sup>National Treasury (n 31 above) 6.

<sup>54</sup>National Treasury (n 31 above) 6.

<sup>55</sup>National Assembly (n 30 above) 58.

are still in extreme poverty have a government that can financially manage as well as raise revenue to afford to provide socio-economic rights and access to services.

#### **4.4. Government's Reckless Expenditure**

Government's reckless expenditure is one of the contributing factors to the VAT increase. The main reason for the VAT hike is to raise money in an attempt to amend the revenue deficit that South Africa is currently experiencing. The reckless expenditure of the government is indicative of bad financial management and has resulted in the VAT rate increase. The following highlights only some of the instances of bad financial governance on the government's part that have been in the public arena of late.

##### **4.4.1 Eskom**

Eskom is South Africa's primary electricity supplier that generates, transmits, and distributes electricity to local industrial, mining, commercial, agricultural, residential customers, redistributors (metropolitan and other municipalities) and to utilities and end-customers in the Southern African Development Community (SADC).<sup>56</sup> In the last decade or so, Eskom has been attracting attention for the wrong reasons, namely load shedding and bad financial governance. The bad financial governance at Eskom has amounted to an accumulation of debt on their behalf.

Mr Phakamani Hadebe, who started as chief executive officer at Eskom in early 2018, has pledged to improve governance as the first step in stabilising the business.<sup>57</sup> Since his appointment Eskom has opened 11 criminal cases, five of which involve nine senior executives.<sup>58</sup> Other challenges that Eskom is facing include a 44% increase in municipal debt amounting to R4.2 billion from local government authorities around the

---

<sup>56</sup>Eskom: Annual financial statements' 2018 2.

<http://www.eskom.co.za/IR2018/Documents/Eskom2018AFS.pdf> (accessed 20 September 2018).

<sup>57</sup>Bloomberg 'Eskom counts R2.3 billion in losses as irregular spending blows up to R19.6 billion' 23 July 2018 <https://businesstech.co.za/news/energy/260169/eskom-counts-r2-3-billion-in-losses-as-irregular-spending-blows-up-to-r19-6-billion/> (accessed 24 July 2018).

<sup>58</sup>Bloomberg (n 57 above).

country, a 5.23% tariff increase from the National Energy Regulator of SA - Eskom had requested 19.9% - and a loss of R2.3 billion in its latest results.<sup>59</sup> Eskom used an additional R18 billion of its guarantee<sup>60</sup> and is expected to use R17.9 billion annually over the medium term.<sup>61</sup> The unallocated portion of Eskom's R350 billion guarantee framework agreement, which amounted to R96 billion, was extended to 2023.<sup>62</sup>

The power utility has experienced scrutiny as a result of the financial and operational performances.<sup>63</sup> In an effort to improve governance as a measure to restore the credibility and integrity of the group and address sustainability issues, government intervened by appointing the incumbent board in January 2018.<sup>64</sup> Chairperson Jabu Mabuza, indicated 'the damage wasn't done overnight, so it cannot be fixed overnight.'<sup>65</sup>

However, regardless of the extension that the government has afforded to Eskom to pay off its debt and the countless amount of times that the government has financially bailed Eskom out of debt, bad financial management and continuous wasting of resources afforded to Eskom, has resulted in a financial deficit that could eventually result in the bankrupting and liquidation of South Africa's monopolised energy supplier.

---

<sup>59</sup>K Magubane & M van der Merwe 'Parliament very worried about Eskom's R19.6bn irregular expenditure' 23 July 2018 <https://www.fin24.com/Economy/Eskom/parliament-very-worried-about-eskoms-r19bn-irregular-expenditure-20180723> (accessed 24 July 2018)

<sup>60</sup>'A guarantee is a commitment to take responsibility for a loan in the event of default. It enables the beneficiary to access funding that would otherwise be unavailable, or to borrow at a lower cost. A high level of contingent liabilities can lead to a higher risk premium on (and increased costs of) sovereign debt. Government is committed to reducing guarantees as part of its efforts to maintain prudent levels of liabilities.' 'Budget Review: Government debt and contingent liabilities' <http://www.treasury.gov.za/documents/national%20budget/2018/review/Chapter%207.pdf> (accessed 10 December 2018) 90.

<sup>61</sup>'Budget Review: Government debt and contingent liabilities' <http://www.treasury.gov.za/documents/national%20budget/2018/review/Chapter%207.pdf> (accessed 10 December 2018) 90.

<sup>62</sup>'Budget Review: Government debt and contingent liabilities' (n 61 above) 90.

<sup>63</sup>Magubane K & van der Merwe N (n 59 above).

<sup>64</sup>Magubane K & van der Merwe N (n 59 above).

<sup>65</sup>Bloomberg (n 57 above).

#### 4.4.2 South African Airways Bailout

The SAA Group is a 100 percent state-owned company, with shareholder oversight vested in National Treasury.<sup>66</sup> SAA was established in February 1934, when the South African government took over Union Airways.<sup>67</sup> The airline has been in the spotlight for weak financial governance for a while now. In 2018, the SAA Chief Executive Officer reported that the airline had a debt of R9.2 billion, as well as liabilities amounting to R17.8 billion and, therefore, was unable to pay the principal debt and as such was only paying the interest.<sup>68</sup> The airline had revenue of R30.7 billion in 2018 but its financial obligations exceeded its income.<sup>69</sup>

SAA has relied on a series of government bailouts, which have amounted to large sums of money over a number of years and the bailouts continue with a R4.8 billion bailout for 2017/18.<sup>70</sup> This would be in addition to the R10 billion paid out for 2016/17.<sup>71</sup> To resolve the going-concern status, it was critical to tackle the funding of the R10bn, along with the financing of the implementation of the turnaround strategy.<sup>72</sup>

The large sums of money given to SAA by government depleted government finances. These funds were provided in spite of the evident financial mismanagement of the entity under Chairperson Duduzile Myeni. The provision of bailouts under these circumstances can be said to be reckless on the part of government and contributed to a situation where the government felt that it had no choice but to increase its revenue by raising the VAT rate.

---

<sup>66</sup>South African Airways: Financial Statements' 2017 10. [http://pmg-assets.s3-website-eu-west-1.amazonaws.com/SAA\\_IAR\\_2017.pdf](http://pmg-assets.s3-website-eu-west-1.amazonaws.com/SAA_IAR_2017.pdf) (accessed 20 September 2018).

<sup>67</sup>South African Airways (n 66 above) 10.

<sup>68</sup>The Parliamentary Monitory Group 'SAA 2016/17 financial statements & irregular, fruitless & wasteful expenditure: hearing' 2018. <https://pmg.org.za/committee-meeting/26212/> (accessed 20 September 2018).

<sup>69</sup>L Ensor 'SAA seeks extra R5bn bail-out from state' 24 April 2018 <https://www.businesslive.co.za/bd/companies/transport-and-tourism/2018-04-25-saa-seeks-extra-r5bn-bailout-from-state/> (accessed 24 July 2018).

<sup>70</sup>The Parliamentary Monitory Group (n 68 above).

<sup>71</sup>The Parliamentary Monitory Group (n 68 above).

<sup>72</sup>Ensor (n 69 above).



### 4.4.3 South African Municipalities

South African municipalities have been in the news of late regarding some instances of reckless expenditure. Most municipalities in the country have qualified audits almost all the time. This is as a cause of some municipalities failing to deliver on basic services. Generally, the municipal financial management system is shambolic. In the Tshwane municipality, Auditor-General, Mr. Thembekile Kimi Makwetu found irregular expenditure amounting to R4 billion in 2015/2016.<sup>73</sup> The amount included R2.38 billion of irregular expenditure the city failed to disclose that was only discovered during the audit.<sup>74</sup>

In the local government audit for 2015/2016 the Auditor-General reported on the outcomes and revealed that there is overspending, 43% of which was related to non-cash items.<sup>75</sup> This was the main reason for the expenditure.<sup>76</sup> The irregular expenditure in municipalities increased by more than 50%, in 2015/2016, which amounted to a total bill of R16,81 billion.<sup>77</sup>

The local government audit in 2016/17 amounted to a total of R28.376 billion was identified as irregular expenditure.<sup>78</sup> This, R15.026 billion was expenditure from previous years that was uncovered and disclosed.<sup>79</sup> The total irregular expenditure amounted to 4% of the 2016/17 local government budget.<sup>80</sup> The main cause of

---

<sup>73</sup>A Slabbert 'Sixth of Tshwane's budget spent on 'illegal contracts'' 27 January 2016 <https://citizen.co.za/news/south-africa/962966/sixth-of-tshwanes-budget-spent-on-illegal-contracts/> (accessed 24 July 2018).

<sup>74</sup>Slabbert (n 73 above).

<sup>75</sup>S Mabena 'Auditor-General exposes Tshwane's R1.9-billion spending spree on eve of election' 21 June 2017 <https://www.businesslive.co.za/rdm/news/2017-06-21-auditor-general-exposes-tshwanes-r19-billion-spending-sprees-on-eve-of-election/> (accessed 24 July 2018).

<sup>76</sup>Mabena (n 75 above).

<sup>77</sup>Mabena (n 75 above).

<sup>78</sup>L Omarjee 'Top 10 municipalities responsible for R13.4bn irregular spend' 23 May 2018 <https://www.fin24.com/Economy/revealed-top-10-municipalities-responsible-for-r134bn-irregular-spend-20180523> (accessed 24 July 2018).

<sup>79</sup>Omarjee (n 78 above).

<sup>80</sup>Omarjee (n 78 above).

irregular spend is related to non-compliance with supply chain management legislation.<sup>81</sup>

A total of R8.322 billion or 30% of spend was incurred through procurement that did not follow a competitive bidding or quotation process.<sup>82</sup> More than R18 billion or 64% was incurred through non-compliance with procurement process requirements, and R1.738 billion or 6% was incurred through inadequate contract management.<sup>83</sup>

As a result of government's bad financial management and reckless spending of such large amounts of money, a VAT increase had to be implemented in order to supplement the financial distress South Africa is currently facing.

#### **4.5 Conclusion**

The increasing public demands for greater government accountability, transparency, effectiveness and mounting pressures on public expenditure supported by calls for value for money have resulted in governments around the world seeking justification for continued government expenditure.<sup>84</sup> In this context, more effective leadership across the total public service system is increasingly seen as one of the most powerful ways of reducing transaction costs between standalone organisations, and of improving efficiency, performance and productivity through collaboration across the entire public sector.<sup>85</sup>

The government's socio-economic responsibilities in terms of the Constitution are clear. The costs to provide these socio-economic rights are extensive. As explained in the chapter above the government's poor financial management has amounted to a lack of revenue to provide these rights. These rights are provided at the government's discretion and as revenue allows.

---

<sup>81</sup>Omarjee (n 78 above).

<sup>82</sup>Omarjee (n 78 above).

<sup>83</sup>Omarjee (n 78 above).

<sup>84</sup>Pakkies (n 1 above) 56.

<sup>85</sup>Pakkies (n 1 above) 57.

The South African government is experiencing a revenue deficit which has resulted in the increase of the VAT rate. This is as a consequence of the government having recklessly spent the revenue in an inefficient and wasteful manner. The government's reckless expenditure has adversely affected the population which now has to pay more taxes to cover it up.

If the socio-economic rights perspective was solely being explored, government needs revenue and the VAT rate increase may be justified. However, if this is combined with the reckless expenditure that has been experienced, extra revenue from taxation is not warranted. Government can afford to deliver on its obligations and objectives if it is prudent with taxpayer's money.

## **CHAPTER 5:**

### **VAT AND PUBLIC ACCOUNTABILITY IN DENMARK**

#### **5.1 Introduction**

This chapter is a comparative analysis of South Africa with a first world country, namely Denmark. The aim of this chapter is to illustrate how different the above two countries are. The analysis of the Danish system will illustrate how as the VAT rate increases in Denmark there is a simultaneous rise in services being provided by the government to the taxpayers. The government provides these services either at a lower cost, or for free. It is also shown how the increase in services being provided is accompanied by the decrease in crime and corruption concurrently. This increase in revenue being collected from taxpayers provides the government with more finances to strengthen and maintain the country economically and financially. This allows for the people to use their salary or wages for other necessity's and therefore, alleviates pressures of not being able to afford basic socio-economic rights.

This is a fundamental aspect, as the increase in revenue also entails the crucial aspect for the government to not recklessly spend on unnecessary expenses, but rather on what is needed as a country. This partly shows the reasons why Denmark's high VAT rate is considered a justifiable rate in comparison to South Africa. It has been shown in the previous chapter how the government's corruption and waste of resources overpowers the countries needs and in conclusion places a financial burden on poorer households. Denmark is a prime example that shows how a high VAT rate is not protested when service delivery and socio-economic rights are afforded to people by the government.

## 5.2 Tax System

Denmark is one of the first countries to introduce a VAT system which came into force on 3 July 1967 replacing a traditional sales tax.<sup>1</sup> The present Danish VAT Act (Momslov<sup>2</sup>) came into force with effect from 1 July 1994.<sup>3</sup> Denmark applies a standard VAT rate of 25% and no reduced rates. Denmark has one of the highest VAT rates in the world.<sup>4</sup> VAT is a transaction-based multi-tier consumption tax.<sup>5</sup> All supplies of goods and services by so-called “taxable persons” (entrepreneurs who independently carry out economic activity) are subject to VAT, unless specifically exempted.<sup>6</sup>

The main source of Danish tax law is the 1922 Statute on Income Taxation to the State (Skatteforvaltningslov<sup>7</sup>) which includes the fundamental principles of Danish tax law.<sup>8</sup> However, many different acts have been included over the past several years which make Denmark’s tax system complicated.

In Denmark, taxes are administered through the Danish Tax and Customs Administration (SKAT<sup>9</sup>), which was formed on 1 November 2005 following a merger between the municipal and state tax administrations.<sup>10</sup> Apart from the Ministry of

---

<sup>1</sup>Erichsen S and Egesberg MR ‘Value Added Tax in Denmark’ January 2018 4. <https://www.pwc.dk/da/publikationer/2018/pwc-value-added-tax-in-denmark-en.pdf> (accessed 14 September 2018).

<sup>2</sup>Momslov nr 106 af 23/01/2013.

<sup>3</sup>Erichsen and Egesberg (n 1 above) 4.

<sup>4</sup>The basic principle of the Danish welfare system, often referred to as the Scandinavian welfare model, is that all citizens have equal rights to social security. Within the Danish welfare system, a number of services are available to citizens, free of charge. This means that for instance the Danish health and educational systems are free. The Danish welfare model is subsidised by the state, and as a result Denmark has one of the highest taxation levels in the world.’ The Official Website of Denmark. <http://denmark.dk/en/society/welfare> (accessed 17 September 2018).

<sup>5</sup>Erichsen and Egesberg (n 1 above) 4.

<sup>6</sup>Erichsen and Egesberg (n 1 above) 4.

<sup>7</sup>Skatteforvaltningslov nr 175 af 23/02/201.

<sup>8</sup>Ottoson AM ‘Denmark: Guide To Business Taxation In Denmark - Part 1’ 2011. <http://www.mondaq.com/x/134442/Capital+Gains+Tax/Guide+To+Business+Taxation+In+Denmark> (accessed 20 October 2018).

<sup>9</sup>[https://www.skat.dk/skat.aspx?oid=2244281&ik\\_navn=subtree](https://www.skat.dk/skat.aspx?oid=2244281&ik_navn=subtree).

<sup>10</sup>Ottoson(n 8 above).

Taxation and the Danish Tax and Customs Administration, the Danish tax authorities include a Tax Council, a National Tax Tribunal and a number of local tax assessment tribunals.<sup>11</sup>

On 28 May 2009, the Danish Parliament approved a major reform to Danish tax law (entitled *Forårspakke 2.0*<sup>12</sup> or in English, Spring Package 2.0). The primary purpose of the tax reform was to reduce the taxation of employment income which is still set at one of the highest levels in the world.<sup>13</sup>

The average annual income in Denmark is about 39,000 Euros (nearly \$43,000) and the average Dane pays a total amount of 45 percent in income taxes.<sup>14</sup> Danish income taxes are based on a progressive tax system, so if you make more than 61,500 Euros (about \$67,000) per year, an additional tax rate of 7 percent is added over this threshold.<sup>15</sup>

### 5.3. Government Service Delivery in Denmark

The Danish Parliament is called the *Folketing*.<sup>16</sup> It is the legislative assembly in Denmark, which means that it passes the Acts that apply in Denmark.<sup>17</sup> The Folketing is also responsible for adopting the state's budgets, approving the state's accounts, exercising control of the Government and taking part in international cooperation.<sup>18</sup> Danish democracy has a great deal in common with democracies in other countries,

---

<sup>11</sup>Ottoson(n 8 above).

<sup>12</sup>Vækst, klima, lavereskat · Februar 2009.

<sup>13</sup>Ottoson (n 8 above).

<sup>14</sup>Wiking M 'Why Danes Happily Pay High Rates of Taxes' 20 January 2016 <https://www.usnews.com/news/best-countries/articles/2016-01-20/why-danes-happily-pay-high-rates-of-taxes> (accessed 17 September 2018).

<sup>15</sup>Wiking (n 14 above).

<sup>16</sup>The Danish Parliament' <https://www.thedanishparliament.dk/en/about-the-danish-parliament> (accessed 5 December 2018).

<sup>17</sup>The Danish Parliament'(n 16 above).

<sup>18</sup>The Danish Parliament'(n 16 above).

but it also has its own characteristics.<sup>19</sup> Denmark is one of the countries that deliver a wide range of services to its inhabitants which are discussed below.

### 5.4.1 Education

Education in Denmark is provided free of charge at all levels. There are nine years of compulsory education in primary and lower secondary school.<sup>20</sup> Public expenditure on education and training corresponds to 7 per cent of the Denmark's GDP and around 13 per cent of total public expenditure<sup>21</sup>.

The government provides tertiary education to students for free and this financial support does not have to be paid back even if students drop out. The only major requirement for students to receive the full amount is that they do not live with their parents.<sup>22</sup> Every Danish tertiary student receives about \$900 (5,839 Danish kroner) per month under a scheme known as SU (*Statens Uddannelsesstøtte*<sup>23</sup>).<sup>24</sup> These students receive the free tertiary funding for a maximum of six years, starting at the age of 18 and those who are particularly successful are eligible to receive additional payments.<sup>25</sup>

In general the Danish population has access to good digital infrastructure and education.<sup>26</sup> A high percentage of the Danish population accesses the internet daily (85%).<sup>27</sup> Municipal governments are responsible for funding and managing initiatives

---

<sup>19</sup>'The Danish Parliament'(n 16 above).

<sup>20</sup>'Healthcare in Denmark Overview'

2017. <http://www.healthcaredenmark.dk/media/1479380/Healthcare-english-V16-decashx-3.pdf>

(accessed 17 September 2018) 1.

<sup>21</sup>'Healthcare in Denmark Overview' (n 20 above) 1.

<sup>22</sup>Noack R 'Why Danish students are paid to go to college' 4 February 2014 [https://www.washingtonpost.com/news/worldviews/wp/2015/02/04/why-danish-students-are-paid-to-go-to-college/?noredirect=on&utm\\_term=.caf516a1a0ca](https://www.washingtonpost.com/news/worldviews/wp/2015/02/04/why-danish-students-are-paid-to-go-to-college/?noredirect=on&utm_term=.caf516a1a0ca) (accessed 17 September 2018).

<sup>23</sup>'Every Dane over the age of 18 is entitled to public support for his or her further education - regardless of social standing.' <http://www.su.dk/english/>. (accessed 20 September 2018).

<sup>24</sup>Noack (n 22 above).

<sup>25</sup>Noack (n 22 above).

<sup>26</sup>Ministry of Foreign Affairs in Denmark 'Growing Smart Cities In Denmark' 2018. [um.dk/da/nyheder-fra.../~/media/UM/.../Growing\\_Smart\\_Cities\\_in\\_Denmark](http://um.dk/da/nyheder-fra.../~/media/UM/.../Growing_Smart_Cities_in_Denmark) (accessed 11 October 2018) 29

<sup>27</sup>Ministry of Foreign Affairs in Denmark (n 26 above) 29.

to ensure that their citizens can access the benefits of digital technology.<sup>28</sup> The Danish government has an established programme for educating adults in adapting to the world of public services that digitization has brought about – both publicly and through civil society.<sup>29</sup>

#### **5.4.2 Health Care**

Denmark has free quality health care and the welfare model works as a risk-reducing mechanism.<sup>30</sup> The Danish healthcare system is universal and based on the principles of free and equal access to healthcare for all citizens.<sup>31</sup> The healthcare system offers high-quality services, the majority of which are financed by general taxes.<sup>32</sup>

Life expectancy in Denmark has increased from 77.9 years in 2005 to 80.6 years in 2015.<sup>33</sup> In Denmark, 99 per cent of all medicines used at public hospitals are purchased through the pharmaceutical procurement service Amgros.<sup>34</sup> Amgros carries out tendering procedures and purchases medicines for all public hospitals.<sup>35</sup>

All hospital medicines are paid for by the regions, and all treatments in public hospitals, including medicines, are provided free of charge to the patient.<sup>36</sup> This further justifies the generally high taxes and the high VAT rate. This revenue collected is used to provide all taxpayers quality health care, regardless of their financial position.

---

<sup>28</sup>Ministry of Foreign Affairs in Denmark (n 26 above) 29.

<sup>29</sup>Ministry of Foreign Affairs in Denmark (n 26 above) 29.

<sup>30</sup>'The Official Website of Denmark' 2018. <http://denmark.dk/en/society/welfare> (accessed 17 September 2018).

<sup>31</sup>'Healthcare in Denmark Overview' (n 20 above) 1.

<sup>32</sup>'Healthcare in Denmark Overview' (n 20 above) 1.

<sup>33</sup>'Healthcare in Denmark Overview' (n 20 above) 1.

<sup>34</sup>'Healthcare in Denmark Overview' (n 20 above) 43.

<sup>35</sup>'Healthcare in Denmark Overview' (n 20 above) 43.

<sup>36</sup>'Healthcare in Denmark Overview' (n 20 above) 43.



### 5.4.3. Crime

Denmark has a crime index<sup>37</sup> of 22.71 and safety index<sup>38</sup> of 77.29.<sup>39</sup> In Denmark, 83% of people say that they feel safe walking alone at night, much more than the OECD average of 69%.<sup>40</sup> According to the latest OECD data, Denmark's homicide rate per 100 000 persons is 0.7, one of the lowest rates in the OECD, where the average homicide rate is 3.6.<sup>41</sup>

The opportunity from smart cities has been pursued widely by municipalities in Denmark, irrespective of their size.<sup>42</sup> A smart city uses digital technology to connect, protect, and enhance the lives of citizens. IoT sensors, video cameras, social media, and other inputs act as a nervous system, providing the city operator and citizens with constant feedback so they can make<sup>43</sup> informed decisions.<sup>44</sup> The smart city activities carried out by Danish municipalities cover a wide range of areas, such as environment, safety and health care, mobility, political awareness, citizen involvement, and business and growth.<sup>45</sup>

In the Capital Region of Denmark, employment in companies that operate in the smart cities market has risen by 60% between 2003 and 2013, which amounts to 19,500

---

<sup>37</sup>The Crime Index is an annual study of crime rates and occurrences. It is conducted by the FBI each year for the purpose of comparing criminal law statistics in order to create more uniformity among state statutes.' <https://www.legalmatch.com/law-library/article/what-is-the-crime-index.html> (accessed 19 September 2018).

<sup>38</sup>The UL Safety Index is an algorithm-based data science initiative that provides information to make decisions for improved safety and wellbeing. The UL Safety Index quantifies the relative state of safety for more than 180 nations.' <https://ulsafetyindex.org/>. (accessed 19 September 2018).

<sup>39</sup>Crime Index Rate' June 2018. [https://www.numbeo.com/crime/rankings\\_current.jsp](https://www.numbeo.com/crime/rankings_current.jsp) (accessed 18 September 2018).

<sup>40</sup>OECD Better Life Index' 2018. <http://www.oecdbetterlifeindex.org/topics/safety/>(accessed 17 September 2018).

<sup>41</sup>OECD Better Life Index' (n 40 above).

<sup>42</sup>Ministry of Foreign Affairs in Denmark (n 26 above) 24.

<sup>43</sup>What Is a Smart City?' <https://www.cisco.com/c/en/us/solutions/industries/smart-connected-communities/what-is-a-smart-city.html> (accessed 6 December 2018).

<sup>44</sup>What Is a Smart City?' (n 43 above).

<sup>45</sup>Ministry of Foreign Affairs in Denmark (n 26 above) 24.

jobs.<sup>46</sup> By providing these opportunities for free, which are rooted from the VAT revenue which are paid by taxpayer's, it provides opportunities in the work place. When jobs are provided and afforded to people to look after their families, financially, there is no need to commit crime, as proven in the statistics above.

#### 5.4.4 Corruption

Denmark is regarded as one of the world's least corrupt countries, and bribery and other corrupt practices are not considered obstacles to business.<sup>47</sup> The Top 10 of the least corrupt countries in 2016 is dominated by European nations with three exceptions.<sup>48</sup> New Zealand shares the first place with Denmark and both countries scored 90 out of hundred points.<sup>49</sup> Denmark scored 88 points out of 100 on the 2017 Corruption Perceptions Index<sup>50</sup> reported by Transparency International.<sup>51</sup> Corruption Index in Denmark averaged 94.04 Points from 1995 until 2017.<sup>52</sup>

In association with Danish Municipal capability there is decentralized governance and a collaborative approach towards problem-solving to provide conditions for the effective management of smart city projects.<sup>53</sup> Compared to other countries, municipal

---

<sup>46</sup>Ministry of Foreign Affairs in Denmark (n 26 above) 6.

<sup>47</sup>'Denmark Corruption Report' 2017.

<https://www.business-anti-corruption.com/country-profiles/denmark/> (accessed 19 September 2018).

<sup>48</sup>'Denmark Corruption Report' (n 47 above).

<sup>49</sup>'Corruption Perceptions Index' 2016. <https://www.nationsonline.org/oneworld/corruption.htm> (accessed 19 September 2018).

<sup>50</sup>'The index, which ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and businesspeople, uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean.'

[https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017](https://www.transparency.org/news/feature/corruption_perceptions_index_2017) (accessed 19 September 2018).

<sup>51</sup>'Denmark Corruption Index' 2018. <https://tradingeconomics.com/denmark/corruption-index> (accessed 19 September 2018).

<sup>52</sup>'Transparency International e.V. (TI) is an international non-governmental organization based in [Berlin](#), Germany, founded in 1993. Since 1996 TI has published the Corruption Perceptions Index (CPI) annually.' <https://www.nationsonline.org/oneworld/corruption.htm> (accessed 19 September 2018).

<sup>53</sup>Ministry of Foreign Affairs in Denmark (n 26 above) 24.

governments in Denmark are well funded, receiving 50% of the national public budget, which itself accounts for 57% of gross domestic product (GDP).<sup>54</sup> The majority of smart city initiatives are carried out by municipalities without any supporting governance.<sup>55</sup> This is as a result of the high VAT which taxpayers pay. It is evident that the revenue which the government receives is distributed and used in an honest and effective way.

## 5.5 Conclusion

In this chapter a broad overview is given in relation to education, crime, corruption and health care of Denmark. This is important as it shows how contrary Denmark is to South Africa, in not only one but all aspects discussed above.

Denmark's education system grants free education to students. Denmark provides tertiary students with a monthly income to afford them the opportunity to further their education. Health care is also free in Denmark, including medication prescribed. Denmark is in the top percentile of the countries in the world with the least corruption and the least crime. This is vital as all revenue collected from taxes is regulated and invested back into the country and used to improve Danes standard of living and quality of life. The resources they are equipped with are used sparingly and knowledgably to sustain the country.

This is contrasted with South Africa where resources are wasted in abundance. This is one of the major reasons why South Africa cannot follow the same higher VAT rate system as Denmark as the services provided to Danes are not comparable to those provided to South Africans. The Danish government's high tax collection is justifiable due to there being a concomitant level of service delivery and delivery of socio-economic rights. There is limited corruption in the Danish government and revenue is distributed effectively to accommodate the needs of the people. As a result of the above there are no protests of high VAT rates as there is delivery of services and rights promised.

---

<sup>54</sup>Ministry of Foreign Affairs in Denmark (n 26 above) 24.

## CHAPTER 6:

### CONCLUSION

#### 6.1. Summary of findings

The South African Value-Added Tax (VAT) rate was increased from 14% to 15% on 1 April 2018, as announced in the February 2018 National Annual Budget. The announcement of the VAT rate increase was followed by concerns raised by many regarding the effect of the increase on the poor and the justification for such raise. The increase in VAT would raise the tax on the poorest 50% of households by around R1.8 billion or an average of R216 per household per annum.<sup>1</sup>

Chapter 2 of this dissertation discusses how the South African Government has made a comprehensive list of zero-rated goods, with the primary goal being to benefit poorer households. Looking at the overall consumption of the basic zero-rated foodstuffs, this chapter shows that the zero-rated benefits do not predominantly accrue to the poor. Zero-rated goods are benefitting the rich households more than the poor and this benefit is costing the government large amounts of money.

The government has spent large amounts of money to compensate poorer households for the VAT hike. Chapter 3 of this dissertation elaborates on the social grants provided by the government to poorer households and how these social grants had to be adjusted in accordance with the VAT increase. This chapter furthermore provides that even with the social grants being increased, it is still not adequate and does afford poorer households enough money to sufficiently provide for their families. This has placed an even heavier burden on these poorer families and has resulted in a growth in poverty.

---

<sup>1</sup>Independent Panel Of Experts For The Review Of Zero Rating In South Africa 6 August 2018. 'Recommendations on Zero Ratings in the Value-Added Tax System' [http://www.treasury.gov.za/comm\\_media/press/2018/2018081001%20VAT%20Panel%20Final%20Report.pdf](http://www.treasury.gov.za/comm_media/press/2018/2018081001%20VAT%20Panel%20Final%20Report.pdf) (accessed 27 September 2018) 7.

Chapter 4 explains what socio-economic rights are and to what extent they are afforded to South Africans. The Constitution<sup>2</sup> of the Republic of South Africa states unequivocally in Section 27<sup>3</sup> that access to healthcare is a basic human right. The socio-economic rights which are promised to South Africans form part of their Constitutional rights. These rights are not afforded to taxpayers to the extent that the people require but rather to the discretion of the South African government and their inability to afford to give such rights to the people.

There is no financial support from the government regarding socio-economic rights which are lacking or in certain instances non-existent. This is due to the government's reckless expenditure and lack of financial management. The government has become overly prone to squandering South Africans taxpayer's money on expenses which are not benefiting South Africa nor its taxpayer's in any way.

This chapter also contains the fiscal policy of the South African government primarily alluding to how government is spending its revenue as well as the reckless expenditure of the government. This reckless expenditure is discussed in detail showing how billions of taxpayer's monies are being spent on entities who are unable to financially manage their expenses such as Eskom, SAA and South African municipalities. Providing more possible reasons why the VAT increase was necessary.

Chapter 5 contains a comparative analysis of South Africa with Denmark. Denmark has a much higher VAT rate in comparison to South Africa. Denmark has a tax system, similar to our adaption in South Africa, however their VAT rate is set at 25%, which is considered one of the highest VAT rates in the world.

Accompanying their high VAT rate are free medical care, pharmaceutical medicine, transportation, and education. Along with all the services provided to taxpayers by the revenue the government receives from VAT payers, is also the benefit of the low crime

---

<sup>2</sup>No. 108 of 1996.

<sup>3</sup>Section 27 of the Constitution states as follows: '(1) Everyone has the right to have access to— (a) health care services, including reproductive health care; (b) sufficient food and water; and (c) social security, including, if they are unable to support themselves and their dependants, appropriate social assistance. (2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights. (3) No one may be refused emergency medical treatment.'

rate as all taxpayer's are treated equally and services are provided adequately. This reduces crime as people have enough basics to live on.

The socio-economic rights which are afforded to taxpayer's in Denmark are of such a nature that the taxpayer's do not protest high VAT rates. They receive free socio-economic rights from the government, as a result of the government's transparent distribution of revenue and efficient use of the revenue collected from the taxpayers. A high VAT rate cannot be justified in South Africa as South Africa does not provide the same socio-economic rights as Denmark and is not as accountable and transparent.

## **6.2. Is the VAT increase justified?**

As seen in the evidence shown in the above dissertation the South African government does not effectively distribute revenue received from taxpayers in an efficient and coherent manner and in conclusion has amounted to the VAT hike experienced. This VAT increase has added immense pressure and financial strain on poorer households.

The South African government has been spending money recklessly and wasting resources. This reckless expenditure has resulted in South Africa having a lack of revenue to be able to afford to pay for the countries obligatory expenses. The solution that was resorted to raise more revenue was to increase the VAT rate.

As discussed in this dissertation, this VAT rate increase is unfair and unjust. Poor households are being affected in various ways and are bearing the brunt of government's reckless and exorbitant expenditure. The lack of socio-economic rights being provided does not correlate with the VAT increase. The VAT rate effects the entire population unequally, and in accordance with the evidence displayed above cannot be sustained. Poor households are already unable to financially sustain themselves. Due to all the reasons and explanations provided in this dissertation the VAT increase in South Africa can neither be as accepted as fair nor justifiable.

## **6.3. Recommendations**

### **6.3.1. Compliance with public financial governance**

The Municipal Finance Management Act (MFMA) aims to modernise budget and financial management practices in municipalities in order to maximise the capacity of municipalities to deliver services to all their residents, customers and users.<sup>4</sup> The Public Finance and Management Act (PFMA) regulates the management of finances in national and provincial government.<sup>5</sup> It sets out the procedures for efficient and effective management of all revenue, expenditure, assets and liabilities.<sup>6</sup> Therefore having a greater compliance with public financial governance rules as contained in the PFMA and MFMA is recommended.

### **6.3.2 Legal consequences**

There needs to be some form of legal consequences (including imprisonment and or personal liability) for persons that are involved in corrupt activities that waste government resources. This legal component can act as a deterrent that all persons will have to be held accountable for their actions. The capturing of the National Prosecuting Authority may have caused it not to act against prominent personalities that are politically connected. However, going forward, it is critical that fraud and corruption charges against public representatives must be preferred. Civil suits must also be instituted against politicians to ensure that they are liable and take responsibility and accountability. There must be both, criminal and civil suits, instituted with the primary objective being to recover monies stolen and to deter people from stealing public monies.

---

<sup>4</sup>National Treasury Republic of South Africa: Guide for Accounting Officers Public Finance Management Act October 2000.

<http://www.treasury.gov.za/legislation/pfma/guidelines/Accounting%20Officers%20Guide%20to%20the%20PFMA.pdf> (accessed 22 January 2019).

<sup>5</sup>National Treasury Republic of South Africa (n 4 above).

<sup>6</sup>National Treasury Republic of South Africa (n 4 above).

### **6.3.3. Government's accountability with revenue**

There needs to be a drastic improvement with government accountability with revenue. This needs to improve in order to give taxpayers faith in the revenue collection by the government. Taxpayers must be aware of what their monies are being used for. Examples from Denmark must be followed. Denmark proves that transparency and accountability with taxpayers' monies help afford it to provide their country with greater socio-economic rights. These rights which Denmark afford to their taxpayers alleviate the burden and stress on people to afford to pay for healthcare, education etc. for their families. These socio-economic rights are free and therefore, alleviate the burden placed on persons to provide. This has resulted in little to no crime in Denmark as people do not have to commit a crime to be able to afford to feed or pay for healthcare or medicine.

### **6.3.4. Reversal of the VAT rate increase back to 14%**

The government should amend the VAT rate back to 14%. There is no justifiable reason for the VAT rate to stay at the current rate of 15%. If the government is responsible with revenue and abstains from reckless expenditure and poor financial management, the revenue collected from taxpayers will cover government expenses.

## **6.4. Conclusion**

This dissertation has shown that the underlying cause of the VAT rate increase is government corruption and lack of financial transparency. It is strongly believed that if these recommendations are adopted, a VAT rate of 14% can be sustained and the government will have enough revenue to finance its activities and meet its constitutional objectives. It is argued that taxing residents to cover up government recklessness with its finances is wrong and needless if the recommendations made above are implemented.



## **Bibliography**

### **Legislation:**

*Forårspakke 2.0 Vækst, klima, laveskat · February 2009.*

*Momslov nr 106 af 23/01/2013.*

*Skatteforvaltningslov nr 175 af 23/02/201.*

Value Added Tax Act Number 89 of 1991 as amended.

### **Books:**

M Silver and C Beneke *Deloitte VAT Handbook. 10 ed.* (2015).

### **Case Law:**

Republic of South Africa v Grootboom 2001 (1) SA 46 (CC).

*Soobramoney v Minister of Health, KwaZulu-Natal 1998 I SA 765 (ee).*

### **Journal Articles:**

Brand D & Heyns C 2009 'Introduction to socio-economic rights in the South African Constitution' *Sabinet Getaway* 153.

Liebenberg S 'Judicially Enforceable Socio-Economic Rights in South Africa: Between Light and Shadow' *Dublin University Law Journal* 2014 143.

### **Rulings, Directives, Regulations & Explanatory Memoranda:**

The Constitution of the Republic of South Africa No. 108 of 1996.

'DTC: First Interim Report on VAT' 2018.

<http://www.taxcom.org.za/docs/20150707%20DTC%20VAT%20First%20Interim%20Report%20-%20website.pdf> (accessed 20 September 2018).

Gigaba M 'National Treasury: Budget Speech' 2018 10.

National Assembly: explanatory summary of Bill published in Government Gazette No. 41432 of 9 February 2018 59.

National Treasury T16/05 'The VAT Treatment of Merit Goods and Services' 2007.

National Treasury: Budget Review 'Spending Plans' 2017 3.

National Treasury Republic of South Africa. Guide for Accounting Officers Public Finance Management Act October 2000.

<http://www.treasury.gov.za/legislation/pfma/guidelines/Accounting%20Officers%20Guide%20to%20the%20PFMA.pdf> (accessed 22 January 2019).

National Treasury Republic of South Africa 'Estimates of National Expenditure' 2018. <http://www.treasury.gov.za/documents/national%20budget/2018/ene/Foreward%20and%20Introduction.pdf> (accessed 20 September 2018).

National Treasury Republic of South Africa 'Medium Term Budget Policy Statement 2018' 24 October 2018.

<http://www.treasury.gov.za/documents/mtbps/2018/mtbps/FullMTBPS.pdf> (accessed 25 October 2018).

SARS 2018. <http://www.sars.gov.za/TaxTypes/VAT/Pages/default.aspx> (accessed 5 October 2018).

'SARS: VAT' 2018. <http://www.sars.gov.za/TaxTypes/VAT/Pages/default.aspx> (accessed 20 September 2018).

South African Revenue Service 'VAT 404 Guide for Vendors' 24 January 2017 <http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-VAT-G02%20-%20VAT%20404%20Guide%20for%20Vendors%20-%20External%20Guide.pdf> (accessed on 3 October 2017) 1.

The Davis Tax Committee 'First Interim Report On Value-Added Tax For The Minister Of Finance.' 2015.

The Davis Tax Committee 'DTC: Macro Analysis Final Report Executive Summary: April 2016' 16.

<http://www.taxcom.org.za/docs/20160421%20DTC%20Macro%20Analysis%20Final%20Report%20-%20Executive%20Summary.pdf> (accessed 20 September 2018).

The Davis Tax Committee 'Davis Tax Committee Secretariat: Closing Report: March 2018' 9.

[http://www.taxcom.org.za/docs/20180329%20DTC%20Closing%20Report\(2\).pdf](http://www.taxcom.org.za/docs/20180329%20DTC%20Closing%20Report(2).pdf)  
(accessed 20 September 2018).

### **Dissertations:**

Published: Kearney M 'Restructuring Value-Added Tax In South Africa A Computable General Equilibrium Analysis' Published: LLD University Of Pretoria, 2003 30.

Published: Zulch H 'South African Value-Added Tax: Place of supply rules for cross border supplies of services – a comparative analysis with Chapter 3 of the OECD's International VAT/GST Guidelines' Published: Master of Commerce (Taxation) University of Stellenbosch 2017.

Unpublished: Beelders DP 'Value Added Tax – Place Of Supply And The Taxation Of Electronic Cross Border Supplies Of Services And Intangibles.' M.COM Taxation University Of Cape Town, 2015.

Unpublished: Chinyati DT 'An Examination Of The Relationship Between Input Tax And Taxable Supplies According To The Value Added Tax Act 89 Of 1991' Unpublished: University of Pretoria LLM, 2017.

Unpublished: Pakkies L 'Fiscal Sustainability and the South African Financial Management Challenge at National Government Level' Unpublished University of Stellenbosch: Masters in Public Administration, 2016.

### **Internet Sources:**

Applying for a social welfare grant. <https://www.westerncape.gov.za/general-publication/applying-social-welfare-grant> 17 July 2018. (Accessed on 3 December 2018).

Bloomberg 'Eskom counts R2.3 billion in losses as irregular spending blows up to R19.6 billion' 23 July 2018 <https://businesstech.co.za/news/energy/260169/eskom-counts-r2-3-billion-in-losses-as-irregular-spending-blows-up-to-r19-6-billion/>  
(accessed 24 July 2018).

'Budget Review: Government debt and contingent liabilities'  
<http://www.treasury.gov.za/documents/national%20budget/2018/review/Chapter%207.pdf> (accessed 10 December 2018) 90.

'CNBC Africa 'Is a 2% VAT increase necessary in South Africa?' 16 February 2017.  
<https://www.cnbc.com/news/southern-africa/2017/02/16/is-a-2-vat-increase-necessary-in-south-africa/>. (accessed: 10 July 2018)

Corruption Perceptions Index' 2016.

<https://www.nationsonline.org/oneworld/corruption.htm> (accessed 19 September 2018).

'Crime Index Rate' June 2018. [https://www.numbeo.com/crime/rankings\\_current.jsp](https://www.numbeo.com/crime/rankings_current.jsp) (accessed 18 September 2018).

'Denmark Corruption Index' 2018. <https://tradingeconomics.com/denmark/corruption-index> (accessed 19 September 2018).

Denmark Corruption Report' 2017. <https://www.business-anti-corruption.com/country-profiles/denmark/> (accessed 19 September 2018).

Ebrahim S, The VAT Increase Is An Assault On The Poor And Lower-Income Earners. 22 February 2018. <https://www.thedailyvox.co.za/vat-increase-assault-on-the-poor-and-lower-income-earners-shaazia-ebrahim/> (accessed 9 July 2018).

'Education in South Africa' [https://www.expatica.com/za/education/education-in-south-africa\\_803205.html](https://www.expatica.com/za/education/education-in-south-africa_803205.html) (accessed 17 September 2018).

Ensor L, Child support grant 'below food poverty line' 25 May 2018 <https://www.timeslive.co.za/politics/2018/> (accessed 9 July 2018).

Ensor L 'SAA seeks extra R5bn bail-out from state' 24 April 2018 <https://www.businesslive.co.za/bd/companies/transport-and-tourism/2018-04-25-saa-seeks-extra-r5bn-bailout-from-state/> (accessed 24 July 2018).

'Eskom: Annual financial statements' 31 March 2018.

<http://www.eskom.co.za/IR2018/Documents/Eskom2018AFS.pdf> (accessed 20 September 2018).

Erichsen S and Egesberg MR 'Value Added Tax in Denmark' January 2018.  
<https://www.pwc.dk/da/publikationer/2018/pwc-value-added-tax-in-denmark-en.pdf>(accessed 14 September 2018).

Fin24 'SA faces big chance of VAT increase - tax expert' 2 November 2017.  
<http://www.fin24.com/Budget/BudgetInsider/sa-faces-big-chance-of-vat-increase-tax-expert-20170211-2>. (accessed 11 July 2018).

Healthcare in Denmark Overview'  
2017.<http://www.healthcaredenmark.dk/media/1479380/Healthcare-english-V16-decashx-3.pdf>(accessed 17 September 2018) 1.

Independent Panel Of Experts For The Review Of Zero Rating In South Africa 6 August 2018. 'Recommendations on Zero Ratings in the Value-Added Tax System'  
[http://www.treasury.gov.za/comm\\_media/press/2018/2018081001%20VAT%20Panel%20Final%20Report.pdf](http://www.treasury.gov.za/comm_media/press/2018/2018081001%20VAT%20Panel%20Final%20Report.pdf) (accessed 27 September 2018).

Isaacs G 'VAT hike will hit the poor hardest as their spending power is eroded' 27 February 2018. <https://www.businesslive.co.za/bd/opinion/2018-02-27-vat-hike-will-hit-the-poor-hardest-as-their-spending-power-is-eroded/> (accessed 10 July 2018).

Mabena S 'Auditor-General exposes Tshwane's R1.9-billion spending spree on eve of election' 21 June 2017 <https://www.businesslive.co.za/rdm/news/2017-06-21-auditor-general-exposes-tshwanes-r19-billion-spending-sprees-on-eve-of-election/> (accessed 24 July 2018).

Magubane K & van der Merwe M 'Parliament very worried about Eskom's R19.6bn irregular expenditure' 23 July 2018  
<https://www.fin24.com/Economy/Eskom/parliament-very-worried-about-eskoms-r19bn-irregular-expenditure-20180723> (accessed 24 July 2018).

'Minimum Data Sets For Human Resources For Health And The Surgical Workforce In South Africa's Health System' September 2015  
[http://www.who.int/workforcealliance/031616south\\_africa\\_case\\_studiesweb.pdf](http://www.who.int/workforcealliance/031616south_africa_case_studiesweb.pdf) (accessed 17 September 2018).

Ministry of Foreign Affairs in Denmark 'Growing Smart Cities In Denmark' 2018.  
um.dk/da/nyheder-fra.../~/media/UM/.../Growing\_Smart\_Cities\_in\_Denmark  
(accessed 11 October 2018).

Musviba N, SA Budget 2018 – Higher VAT will increase inequality – Wits research unit. 22 February 2018. <http://www.sataxguide.co.za/sa-budget-2018-higher-vat-will-increase-inequality-wits-research-unit/> (accessed 10 July 2018).

Nicolson G, Explainer: Budget VAT rise will hurt poor, despite mitigating efforts. 23 February 2018. <https://www.dailymaverick.co.za/article/2018-02-23-explainer-budget-vat-rise-will-hurt-poor-despite-mitigating-efforts/#.W0MNQtUzblU>(accessed 9 July 2018).

Nieuwoudt MN 'Under-estimation of taxable income' April 2018.  
<https://www.pwc.com/na/en/assets/pdf/pwc-tax-first-newsletter-april-2013.pdf>  
(accessed 7 Septmeber 2018).

Noack R 'Why Danish students are paid to go to college' 4 February 2014  
[https://www.washingtonpost.com/news/worldviews/wp/2015/02/04/why-danish-students-are-paid-to-go-to-college/?noredirect=on&utm\\_term=.caf516a1a0ca](https://www.washingtonpost.com/news/worldviews/wp/2015/02/04/why-danish-students-are-paid-to-go-to-college/?noredirect=on&utm_term=.caf516a1a0ca)  
(accessed on 20 September 2018).

'OECD Better Life Index' 2018.  
<http://www.oecdbetterlifeindex.org/topics/safety/>(accessed 17 September 2018).

OECD (2018) 'Income inequality (indicator)' <https://data.oecd.org/inequality/income-inequality.htm> (Accessed on 20 September 2018).

Omarjeel 'Top 10 municipalities responsible for R13.4bn irregular spend' 23 May 2018 <https://www.fin24.com/Economy/revealed-top-10-municipalities-responsible-for-r134bn-irregular-spend-20180523> (accessed 24 July 2018).

Osman R 'Public vs private' 25 June 2015 <https://www.wits.ac.za/news/latest-news/general-news/2015/2015-06/public-vs-private.html> (accessed 17 September 2018).

Ottoson AM 'Denmark: Guide To Business Taxation In Denmark - Part 1' 2011. <http://www.mondaq.com/x/134442/Capital+Gains+Tax/Guide+To+Business+Taxation+In+Denmark> (accessed 20 October 2018).

PACSA Monthly Food Price Barometer: January 2018. [https://www.pacsa.org.za/images/food\\_barometer/2018/January\\_2018\\_PACSA\\_monthly\\_food\\_price\\_barometer.pdf](https://www.pacsa.org.za/images/food_barometer/2018/January_2018_PACSA_monthly_food_price_barometer.pdf) (accessed 9 September 2018)

PACSA Monthly Food Price Barometer: May 2018. [https://www.pacsa.org.za/images/food\\_barometer/2018/May\\_2018\\_PACSA\\_monthly\\_food\\_price\\_barometer.pdf](https://www.pacsa.org.za/images/food_barometer/2018/May_2018_PACSA_monthly_food_price_barometer.pdf) (accessed 9 September 2018)

Scheepers A 'The Impact Of Increased VAT' 16 May 2018. <http://www.fenns.co.za/impact-increased-vat/> (accessed 11 July 2018).

Slabbert A 'Sixth of Tshwane's budget spent on 'illegal contracts'' 27 January 2016 <https://citizen.co.za/news/south-africa/962966/sixth-of-tshwanes-budget-spent-on-illegal-contracts/> (accessed 24 July 2018).

'South African Airways; Financial Statements' 2017 10. [http://pmg-assets.s3-website-eu-west-1.amazonaws.com/SAA\\_IAR\\_2017.pdf](http://pmg-assets.s3-website-eu-west-1.amazonaws.com/SAA_IAR_2017.pdf) (accessed 19 September 2018).

'Tax Incidence' [https://www.investopedia.com/terms/t/tax\\_incidence.asp](https://www.investopedia.com/terms/t/tax_incidence.asp) (accessed 7 September 2018).

'The Danish Parliament' <https://www.thedanishparliament.dk/en/about-the-danish-parliament> (accessed 5 December 2018).

'The Role of the National Treasury' <http://www.treasury.gov.za/nt/info.aspx> (accessed 5 December 2018).

The Official Website of Denmark. <http://denmark.dk/en/society/welfare> (accessed 17 September 2018).

The Parliamentary Monitory Group 'SAA 2016/17 financial statements & irregular, fruitless & wasteful expenditure: hearing' 2018. <https://pmg.org.za/committee-meeting/26212/> (accessed 20 September 2018).

Van WyngaardtM, Social grants set to increase faster than inflation as taxes rise. 21st February 2018 .<http://www.engineeringnews.co.za/article/social-grants-set-to-increase-faster-than-inflation-as-taxes-rise-2018-02-21>(accessed 9 July 2018).

'What Is a Smart City?' <https://www.cisco.com/c/en/us/solutions/industries/smart-connected-communities/what-is-a-smart-city.html> (accessed 6 December 2018).

Wiking M 'Why Danes Happily Pay High Rates of Taxes' 20 January 2016 <https://www.usnews.com/news/best-countries/articles/2016-01-20/why-danes-happily-pay-high-rates-of-taxes> (accessed 17 September 2018).

**Other:**

Erero JL, 2015. *Effects of Increases in Value Added Tax: A Dynamic CGE Approach*. Economic Research Southern Africa (ERSA) is a research programme funded by the National Treasury of South Africa.pg 3.

R Botha, 2012 'The VAT rate- a third decade at 14%' *VAT 21 Journal* 6.

Unpublished: Francis D & Valodia I 'Very little fact and clear thinking in tax talk. Analysis: Unpacking the tax proposals in the 2018/19 National Budget though publicly available data.' University of Witwatersrand Journal, 2018.

Unpublished: Jansen A et al 'Improving the targeting of zero-rated basic foodstuffs under value added tax (VAT) in South Africa - An exploratory analysis' Unpublished Stellenbosch Economic Working Papers Stellenbosch University 2012.

Unpublished: Jansen A & Calitz E 'How effective is VAT zero rating as a pro-poor policy?' ATRN working paper 01. African Tax Research Network, 2016.

Unpublished: Jansen A & Calitz E 'How effective is VAT zero rating as a pro-poor policy?' University of Stellenbosch, 2015.