



STATEMENT

The worst of both worlds: Spending cuts and VAT increases

19 February 2025

The Institute for Economic Justice (IEJ) is both disappointed and relieved that the Cabinet, at the 11th hour, made the unprecedented decision to postpone the Budget to 12 March 2025. We are disappointed that the National Treasury prepared a budget that failed to adequately resource government priorities in the Medium-Term Development Plan (MTDP). However, we are relieved that sanity has prevailed and the regressive VAT increase of 2 percentage points has seemingly been put on hold. The government now has an additional window of time to table alternative progressive revenue-raising measures and ensure adequate resourcing for social and economic priorities.

A budget that limped along

The now-withdrawn budget contained the following highlights:

- A two percentage point increase to VAT (from 15 to 17%)
- Partial inflationary increases to some personal income tax brackets and rebates, above-inflation increases on sin tax, and no inflationary increase to medical tax credits.
- A welcome 2.2% real increase in per capita non-interest expenditure in 2025/26 but real per capita spending reductions in the outer years, meaning an overall *fall* in per capita non-interest expenditure (that is, spending on essential government functions) of, on average, 0.7% between 2024 and 2028.
- Positive yet insufficient inflation-adjusted increases to critical public services such as basic education (1.3%), healthcare (1.3%), and peace and security (0.3%), that are currently failing to provide adequately for the needs of those who rely on them.

- A failure to resource an expansion and improvement in the SRD grant, either immediately or over the medium term, in line with the order made by the Pretoria High Court.
- Despite public commitments to expand them, only R20 billion is allocated to public employment programmes with no clarity on scaling up the Presidential Employment Stimulus.
- A doubling down on the Government's 'de-risking' strategy for infrastructure, expecting the necessary investment to come from the private sector, and is now committed to introducing a credit guarantee vehicle.

The IEJ will publish a fuller assessment of the now-withdrawn budget in the coming days.

Why is the VAT increase bad policy?

The IEJ supports the government's need to raise additional revenue. However, VAT is the least desirable option as it disproportionately impacts poor and low-income households, in an environment where these households are already suffering under high interest rates, poor public service provision, and endemic poverty. Additional zero-rating would inadequately shield these households, can be costly, and may not always reach its intended target. In addition, the previous increase in VAT failed to generate the expected tax intake due to lower-than-expected economic growth and changes in consumer spending behaviour. In the first year of the previous VAT increase, National Treasury had predicted VAT collection of R348 billion, yet SARS only managed to collect R325 billion - around R22 billion less than expected. With the current fragile economy, it is quite likely that a VAT increase would further depress economic activity.

What should National Treasury be doing instead?

The planned VAT increase is even more startling when considering the government has other revenue-raising options that are far less likely to have a damaging effect on the poor. Assertions that Personal and Corporate Income Tax have reached their limits have not been substantiated.

Potential sources of revenue include:

- **Raise the Corporate Income Tax back to 28%** as the previous reduction to 27% failed to attract investment.
- **Remove tax breaks for high-income earners**, such as those linked to pensions or medical aid contributions.
- **Scrap ineffective corporate tax breaks**, such as the employment tax incentives.
- **More effectively tax wealth and income from owning wealth**, for instance through greater inheritance taxation, taxing financial transactions, and planning for a net wealth tax.
- **Raise Personal Income Tax rates**, particularly on the highest earners through not adjusting tax brackets, or through levying a progressive Social Security Tax.
- **Secure additional unconventional financing mechanisms**, for instance by tapping the Gold and Foreign Exchange Reserve Account (GFECRA) for additional revenue.

In the coming days, IEJ will publish updated data to show the revenue opportunities from these sources.

The failure of oversight

The postponement of the budget was a missed opportunity for Parliament to exercise its powers to deliberate on the budget, assess its merits and shortcomings, and reject the budget proposals if it deems them inappropriate to deliver on government priorities. The next few weeks present an opportunity for civil society to put forward an alternative human-rights-centred budget that can grow our economy and centre the needs of our people and for government to engage with all stakeholders, particularly those most affected. The budget to be tabled in March needs to go beyond a reversal of the proposed 2 percentage point VAT increase and revise the fiscal framework as a whole.

The political cul-de-sac of National Treasury's making

This will not be possible unless we find our way out of the political cul-de-sac that National Treasury has presented to the ANC leadership in government. This road-to-nowhere sought to limit further egregious budget cuts through the unpalatable proposal of increasing taxes on the poorest. At the same time, National Treasury failed to provide a robust positive vision for the transformative potential of public spending, thus making the pill of tax increases impossible to swallow. This is symptomatic of National Treasury's broader policy failing. What National Treasury should be offering is a thoughtful and ambitious programme for how public spending can transform lives and our economy, accompanying this with the mobilisation of the necessary revenue, secured progressively. The IEJ outlined [six pillars](#) for such an approach before the SONA, and we are ready and willing to engage on these proposals in a similar spirit to our intervention that successfully mobilised resources from the GFECRA last year. For this, we need a National Treasury that embraces the positive potential of a developmental fiscal policy, not one that is ideologically committed to shrinking the role of the state.

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The Institute for Economic Justice (IEJ) is a progressive economic policy think tank committed to advancing economic justice, systemic change, and the equitable distribution of resources to ensure rights realisation and planetary wellbeing.

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