STATEMENT

Reversal of VAT should not open the door for budget cuts

24 April 2025

The Institute for Economic Justice (IEJ) welcomes the decision to reverse the ill-advised VAT hike - a regressive tax that would have disproportionately harmed the poor, low-income workers, and the struggling middle class. We caution that this reversal should not open the door for budget cuts as appears to be the National Treasury's preference.

There is an overwhelming acceptance by political parties, together with civil society formations, of the importance of protecting essential services from budget cuts going forward.

The joint statement from the parties states that "fiscal consolidation must not mean austerity for the vulnerable," and that "alternatives must preserve the social wage, and enable inclusive economic growth. Treasury, in collaboration with parliament, must continue to ensure sound, equitable and developmental financing."

This is in stark contrast to the position held by the National Treasury that the removal of the VAT will result in a shortfall of R75 billion over the medium term (incorporating a further 0.5 percentage point increase in 2026/27) and therefore necessitates the proposal of "expenditure adjustments to cover this shortfall in revenue" - a clear indication of its intentions to resort to budget cuts rather than finding alternative ways to raise revenue.

While begrudgingly conceding on the issue of the VAT hike, the National Treasury and Minister of Finance appears to double down on their ideological rejection of progressive revenue alternatives. This flies in the face of evidence presented in parliament by the IEJ and other civil society organisations, as well as by political parties, which show that many alternatives are readily available. This leads to a false binary that it is either we have a VAT hike or budget cuts.

Their dogmatic adherence to the need for a VAT increase, and their argument that it was impossible to reverse it, also exposes their ideological agenda to impose this on the country, even if it meant creating a political and constitutional crisis. There appears to be no other explanation for this, given that the 0.5% VAT increase, at best, would secure R13.5 billion in revenue, which is a tiny 0.5% of the national budget. It has recently emerged that the revenue overrun collected by SARS (of approximately R9 billion) alone, without further revenue or budget cuts, largely fills this hole.

It also highlights the failure by the National Treasury to find innovative ways to raise revenue that can immediately unlock resources to further finance essential services and expand public investment.

As parliament takes this forward, the IEJ reiterates the following *immediate* sources of revenue:

- Tapping into the Gold and Foreign Exchange Reserve Account (GFECRA), which still has over R300 billion available to the government.
- Removing tax breaks for high-income earners (those earning above R1 million per year), such as those linked to pensions or medical aid contributions. The government spent approximately R51 billion on these in 2022/23 (equal to R60.4 billion in 2024/25).
- Raising the Corporate Income Tax rate back to 28%, as the previous reduction to 27% failed to attract investment. This would have raised an extra R12 billion in 2024/25.

Over the medium term, other measures, including a wealth tax, social security tax, and financial transactions tax, are available that could generate significant revenue and reduce inequality.

The Minister and National Treasury have failed to respond to this budget crisis, of their own making, in a way which takes political party and public concerns into account until the very last minute, effectively holding the country to ransom in the process. There is now the fear that they will abuse their power to advance further unnecessary, and damaging budget cuts. The cross-party collective made clear what the IEJ has long maintained: South Africa needs a budget that adequately supports inclusive growth and funds the priorities set out in the Medium-Term Development Plan. The National Treasury can no longer continue to fail on its mandate without any consequences. The President must ensure that there is accountability and consequences for the incompetence and arrogance displayed by the National Treasury and Minister of Finance.

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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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