

BLUEPRINT FOR GROWTH 2:

CUT VAT & BEE
PREMIUMS



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Online Briefing

AGENDA

- 1** Tax Value for Money Transcends Ideology
- 2** Getting less Paying more Tax - Data
- 3** Popularity Tax Cuts
- 4** Why VAT? What about debt?
- 5** Zondo Dividend: Value-for-Money Opportunity
- 6** BEE Premiums Cuts: Popular Demand vs. Political Dysfunction

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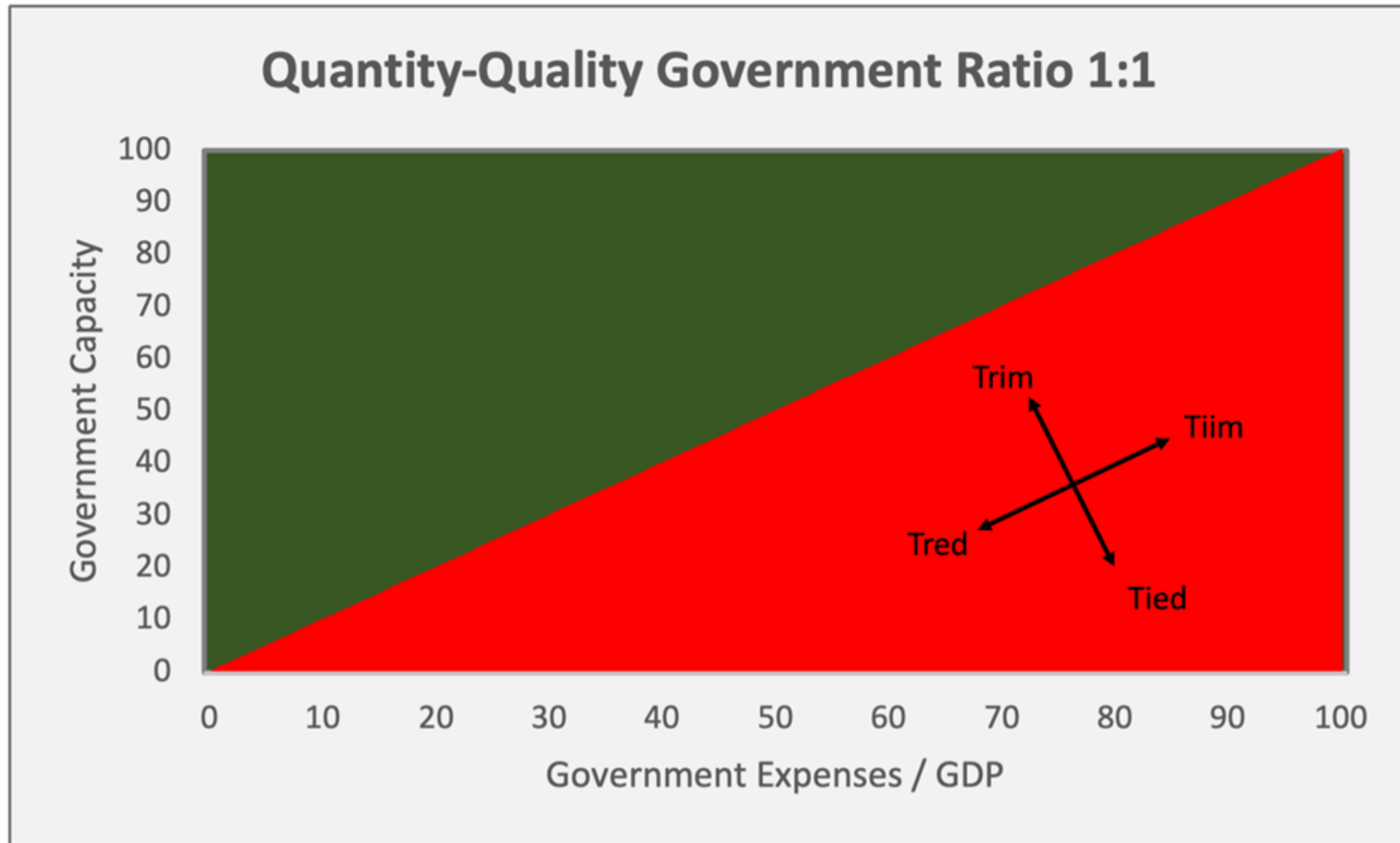
Value-for-Money

	More Effective Government	Less Effective Government
Less Tax	Great	Good* (Right-wing)
More Tax	Good* (Left-wing)	Bad

- Green – Double Win
- Grey – Trade-offs
- Red – Double Loss

Table: Fukuyama Matrix

Tax Value for Money Compass - TIED

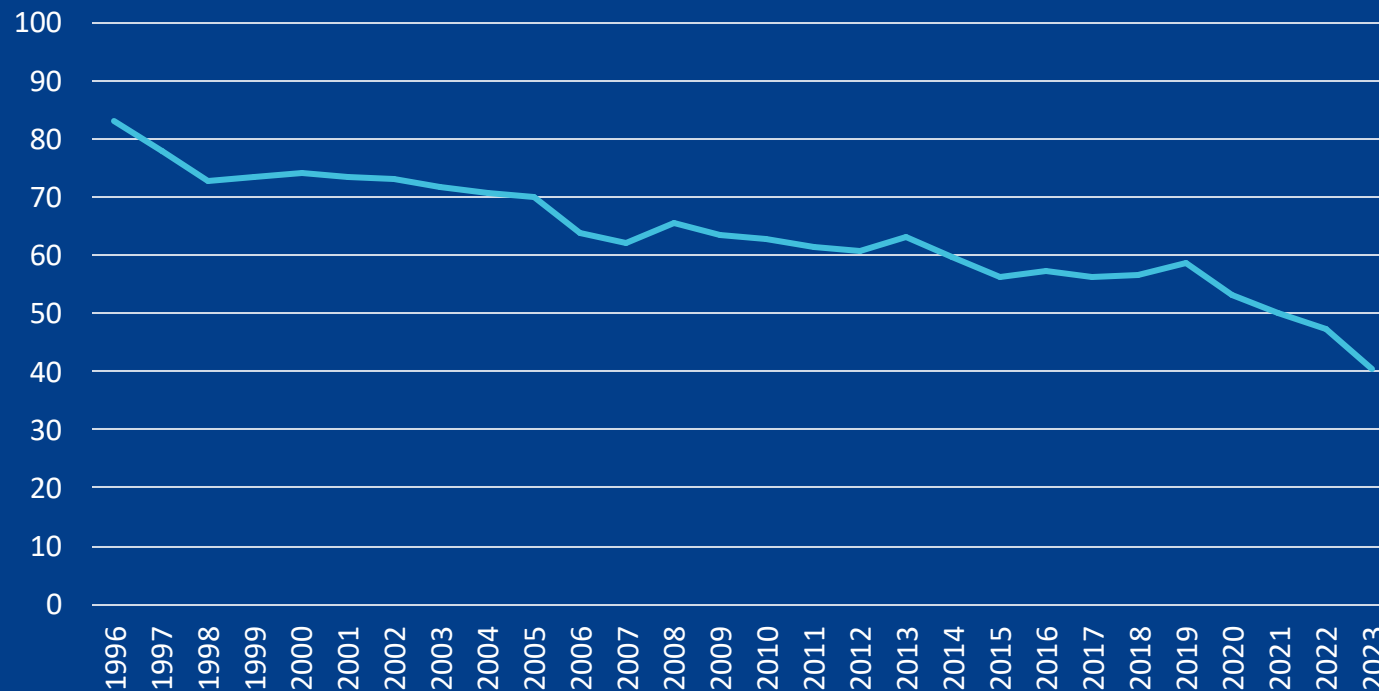


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Government Effectiveness

Government Effectiveness:
Percentile Rank South Africa



Graph: Source?

- **Ranking Collapse** – South Africa's government effectiveness ranking dropped from the 83rd to the 41st percentile, a 52% decline
- **Recent Decline Accelerated** – Half of the total drop happened after 2019, highlighting a rapid deterioration in governance
- **World Bank Measure** – The Government Effectiveness Index reflects public service quality, policy implementation, and governance credibility.

Government Effectiveness (percentile rank)

Country	Government Effectiveness (percentile rank)		Decline in Percentile Rank
	1996	2023	
Puerto Rico	85	36	49
Lebanon	51	6	45
South Africa	83	41	42
Lesotho	53	17	36
Maldives	81	45	36
Zimbabwe	44	12	32
Yemen, Rep.	32	0	31
Venezuela, RB	34	6	29
Mauritania	53	25	28
Belize	64	37	28

Table: WIG

- **Third Fastest Decline** – South Africa suffered the **third worst drop globally** in government effectiveness since 1996.
- **Worst Among Democracies** – It ranks **worst among peaceful, sovereign democracies**, with only Puerto Rico and conflict-ridden Lebanon faring worse.
- **System-Wide Failure** – The measure **captures national decline over time**, making it a **robust indicator** of systemic governance failure.

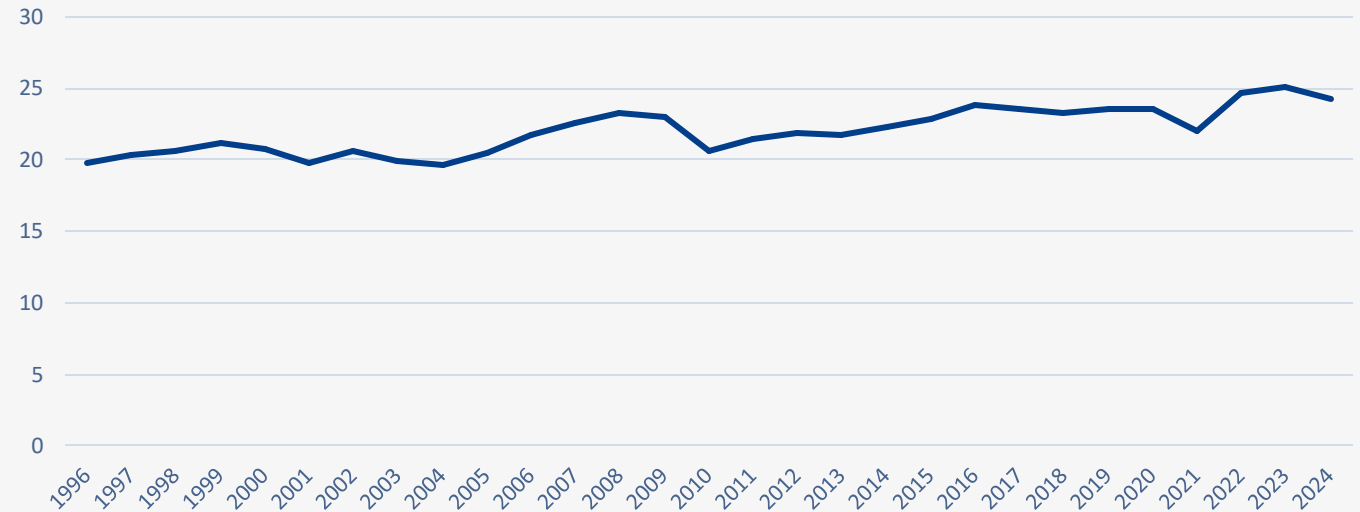
Paying More Getting Less Effective Government



Revenue Increase

Government revenue has risen as a portion of GDP, but **not steadily.**

Revenue / GDP South Africa



	Government Revenue / GDP		
Country	1996	2022	Change
Ecuador	18	39	21
Argentina	13	33	20
Kyrgyz Republic	20	37	17
Ukraine	34	50	16
Nicaragua	13	29	16
Colombia	12	28	16
Cambodia	8	24	16
China	10	26	16
DRC	2	17	15
Azerbaijan	18	32	15
Georgia	12	27	14
Equatorial Guinea	17	31	14
Mozambique	13	27	14
Greece	37	50	13
Türkiye	14	26	13
Mongolia	22	34	13
Cyprus	29	42	12
Chad	12	24	12
Honduras	14	25	11
Brazil	33	43	10
South Korea	17	27	10
Grenada	23	33	10
Bahamas, The	11	21	10
Rwanda	15	24	9
Norway	55	64	9
...
South Africa	24	28	4

Table: IMF

- **South Korea vs. South Africa** – South Korea grew its state capacity to match South Africa's, demonstrating a **more effective** use of government revenue despite similar tax-to-GDP ratios.
- **Norway's Success – High taxes** in Norway correlate with **high state capability**, highlighting that **effective governance** justifies higher revenue.
- **DRC's Challenge** – The **DRC's low tax revenue** is due to **state incapacity**, not a lack of need, showing that **tax decisions should align with state capacity** and needs.

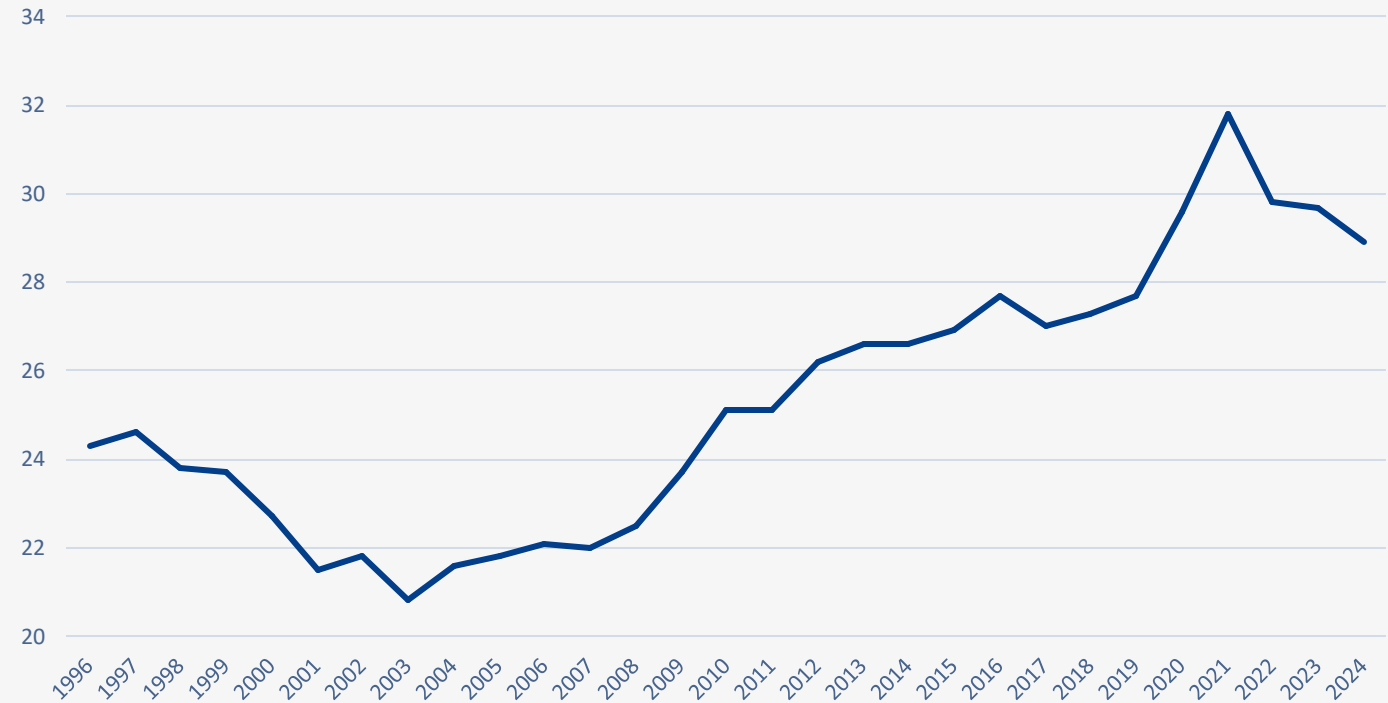
Government Expense



Focus on Government Spending

The previous report emphasized **government expenses**, as they determine the need for taxation, either immediately or through inflation.

**Government Expense / GDP
South Africa**

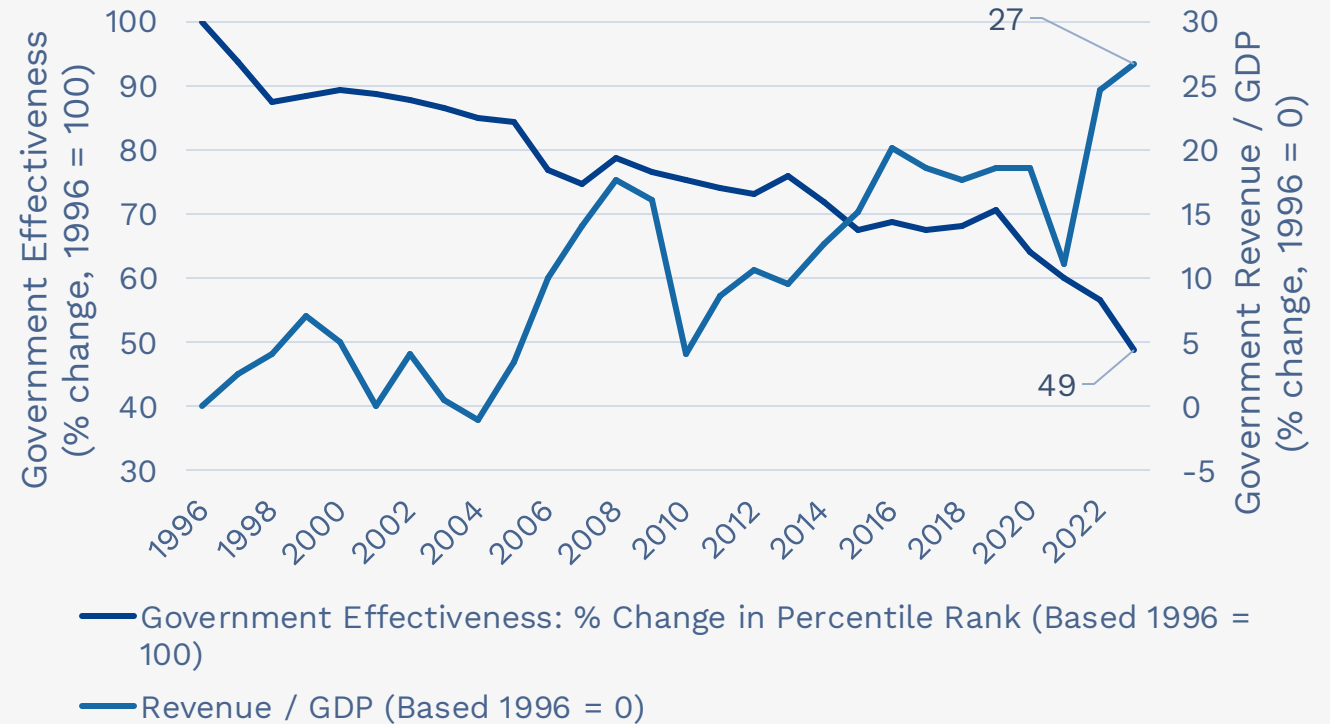


Paying More Getting Less Effective Government

- **Effectiveness Decline** – Government effectiveness dropped **51.2%**, signaling a major performance decline.
- **Revenue Increase** – Government revenue as a share of **GDP rose by 26.8%**, increasing the tax burden.
- **Value-for-Money Failure** – Higher taxation coincided with declining effectiveness, showing **poor returns on spending.**



Value-for-Money South Africa

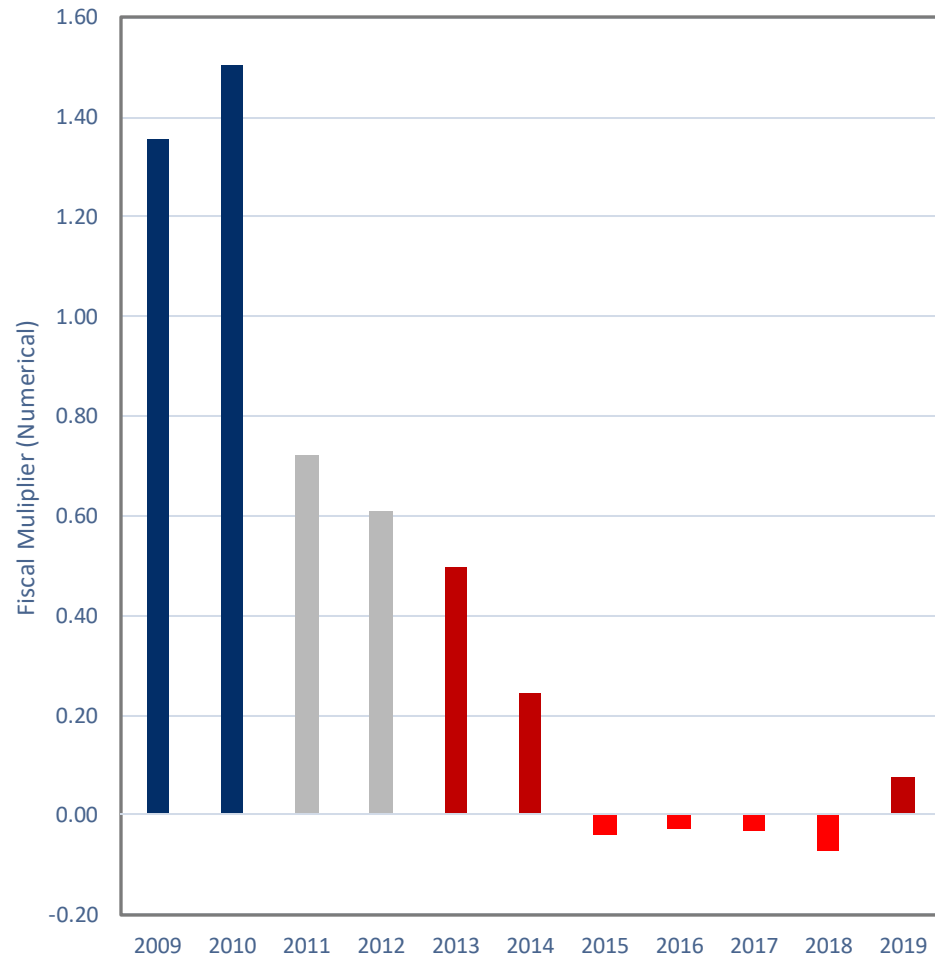


	Revenue			Effectiveness			TIED score
	1996	2023	Increase	1996	2023	Decrease	
South Africa	24	28	4	83	41	42	23.1
Argentina	13	33	20	60	36	24	22.0
Maldives	25	30	4	81	45	36	19.9
Kyrgyz Republic	20	37	17	42	19	23	19.8
Mozambique	13	27	14	50	26	24	19.1
Nicaragua	13	29	16	34	13	21	18.5
Bahamas, The	11	21	10	87	62	26	17.7
Chad	12	24	12	31	8	23	17.6
Grenada	23	33	10	75	51	24	16.9
Greece	37	50	13	78	58	20	16.7

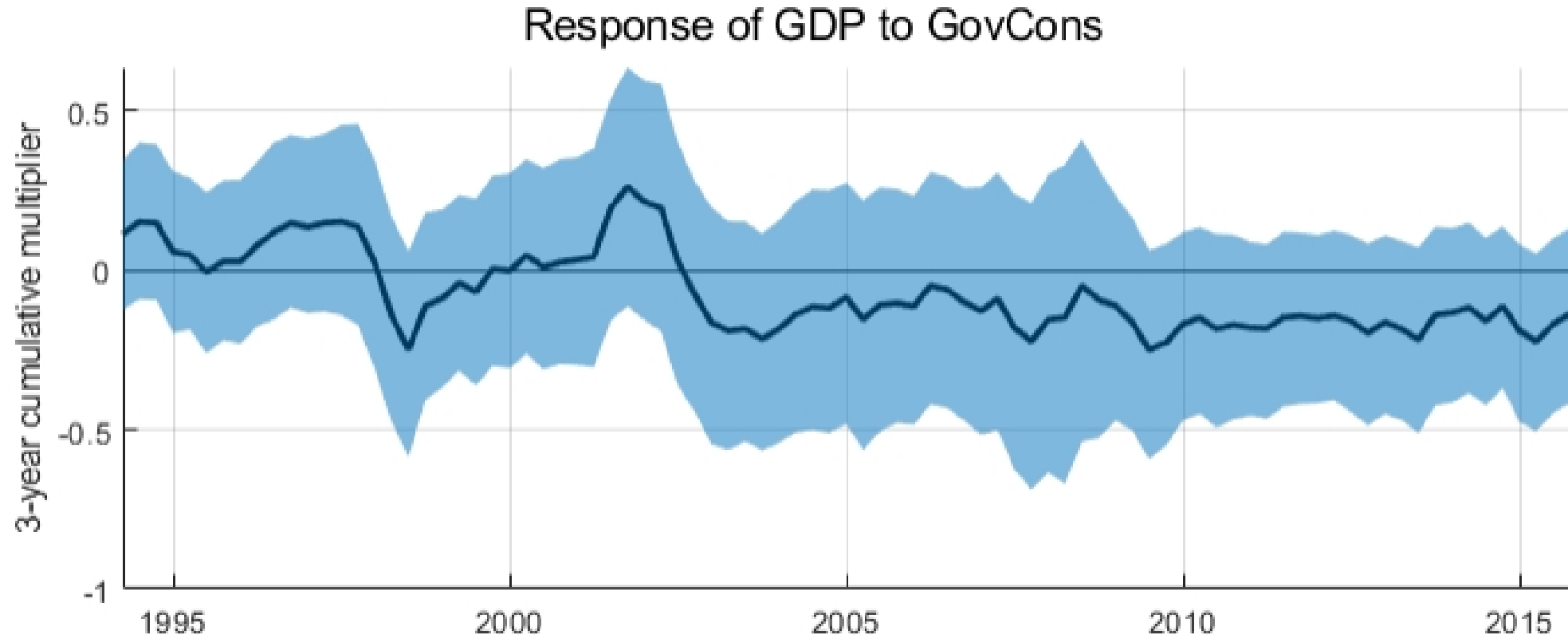
Table: IMF and WIG and own calculations

- **TIED Trend** – South Africa has moved in a Tax-Increase-Effectiveness-Decrease (TIED) direction, reducing value-for-money.
- **Worst Global Score** – South Africa ranks worst in the world for declining government effectiveness vs. rising taxation.
- **Call for Change** – This is a failure, not an achievement, highlighting the urgent need for reform.

Fiscal Multiplier South Africa



- **Fiscal Multiplier Concept** – A fiscal multiplier **above 1** indicates that government spending generates more GDP, while below 1 signals **inefficient spending**.
- **Negative Multiplier in South Africa** – South Africa has experienced **negative fiscal multipliers**, meaning each rand spent by the government **destroys output**.
- **Recent Findings** – A 2023 study confirmed that **government spending** has a **negative impact** on GDP, undermining stabilization efforts and worsening fiscal policy outcomes.



Source: du Rand, Hollander, van Lill, UN University Working Paper, 2023

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Popularity

- **Tax Cuts Popularity** – A majority of South Africans (48%) believe **taxes are too high**, indicating strong support for tax cuts.
- **Rich Taxation Perception** – 44% of South Africans feel **the rich are taxed too much**, while only 34% think they are taxed too little, reflecting dissatisfaction with the current system.
- **Tax vs. Services** – 53% agree that **higher taxes are acceptable if they result in better services**, but only "IF" that improved service delivery.
- **Value-for-Money Concern** – The desire for tax cuts is driven by a belief that the government is **not delivering value for money**, making higher taxes unjustifiable.
- **Public Sentiment** – Despite the political silence on tax cuts, **public opinion** strongly favors reducing taxes, especially due to **ineffective governance**.

Political Dysfunction

- **Lack of Tax Cut Proposals** – No political party in South Africa has proposed serious **tax cuts**, highlighting a **gap** in policy responses.
- **DA's Zero-Rating VAT Proposal** – The **DA** advocated for more **zero-rating exemptions** on VAT, but the **Davis Tax Report** showed this approach is **ineffective**.
- **Public Support for Tax Cuts** – **Tax cuts** are the most **popular option** among South Africans, reflecting dissatisfaction with the current tax system.
- **Global Comparison** – South Africa has the **worst TIED score** (Tax-Increase-Effectiveness-Decrease), indicating **severe value-for-money inefficiency** in its fiscal system.
- **Political Dysfunction** – The **failure to address tax size** in a meaningful way is the clearest sign of **system-wide political dysfunction** in South Africa's young democracy.

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Zero-rated products	Savings, Rands (Millions)					
	1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile	Total
Mealie meal	383.6	414.7	607.6	347.6	206.9	1960.4
Bread flour #	62.1	72	101.8	57.1	31.5	324.5
Rice	91.5	128.3	253	220.1	180	872.9
Mealie rice	36	44.7	72.5	52.1	39.8	245.1
Brown bread	162.7	239.2	515.2	435.5	308.8	1661.4
Cooking oils	77.7	104.1	286.6	404.2	516.5	1389.1
Fresh milk	48.1	72.2	192.3	251.7	385.9	950.2
Sour milk	16.4	22	46.1	42.3	31.7	158.5
Milk powder	24.4	36.9	79.8	66.6	47.4	255.1
UHT milk	13.9	17	32.5	39.4	68.7	171.5
Eggs	50.1	73.4	169.7	165.7	178.2	637.1
Potatoes	103	109.8	197.7	183.2	148.1	741.8
Mealies	10.2	9	9.4	6.1	14.3	49
Tomatoes	49.9	62.7	125	112.6	108	458.2
Lettuce	0.4	1	4.4	13.3	43.8	62.9
Apples	0	0.1	0.4	1.1	2.9	4.5
Bananas	0	0.1	0.2	0.4	1	1.7
Oranges	0.9	1.9	9.4	26.1	53.9	92.2
Paraffin	2.1	3.4	9.5	12.1	18.9	46
Total	1133	1412.5	2713.1	2437.2	2386.3	10082.1

- **Regressive Nature of VAT** – VAT is **regressive**, disproportionately affecting the poor compared to the rich.
- **Misconception of Zero-Rating** – Zero-rating does not make VAT progressive; **higher income groups benefit more** from VAT savings on goods like lettuce and milk.
- **Targeted Benefits** – Only specific zero-rated items, like **mealie meal and bread flour**, provide **more benefit** to poorer South Africans.

Source: pg.114, <https://www.treasury.gov.za/publications/other/vat%20merit%20goods%20final%20report%20%20-%202015%20oct%202007.pdf>

Benefit of VAT cut

The following is a calculation of the estimated benefit of a R100 billion VAT cut, achieved by dropping the VAT rate from 15% to 11.5%, based on an estimated 70% pass through and Treasury data on VAT payment by decile.

Decile	Savings, Rand (Billion)
1 (poorest)	1.4
2	2.1
3	2.6
4	3.1
5	3.5
6	4.1
7	5.1
8	7.3
9	12.4
10 (richest)	27.6
Total	69.0

Source: Long Report, own calculations from <https://www.sars.gov.za/wp-content/uploads/Docs/TaxStats/2022/TStats-2022-Highlights-booklet-A5.pdf>

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BEE Premiums

- **State Capture & Value-for-Money** – The **Zondo Report** identified the failure to prioritize **value-for-money** as central to **State Capture**, where procurement activities were exploited for corruption.
- **Tension in Procurement Objectives** – Conflicting goals of maximizing **value-for-money** vs. **transformative potential** in procurement created ambiguity, allowing for exploitation and corruption.
- **Procurement Officials' Dilemma** – Procurement officials often had to choose between conflicting objectives without clear legal direction, leading to inefficiency and corruption.
- **Recommendation for Clear Legislation** – The Zondo Commission recommended that **value-for-money** should be prioritized to avoid conflicting goals and ensure national interests are served in procurement.

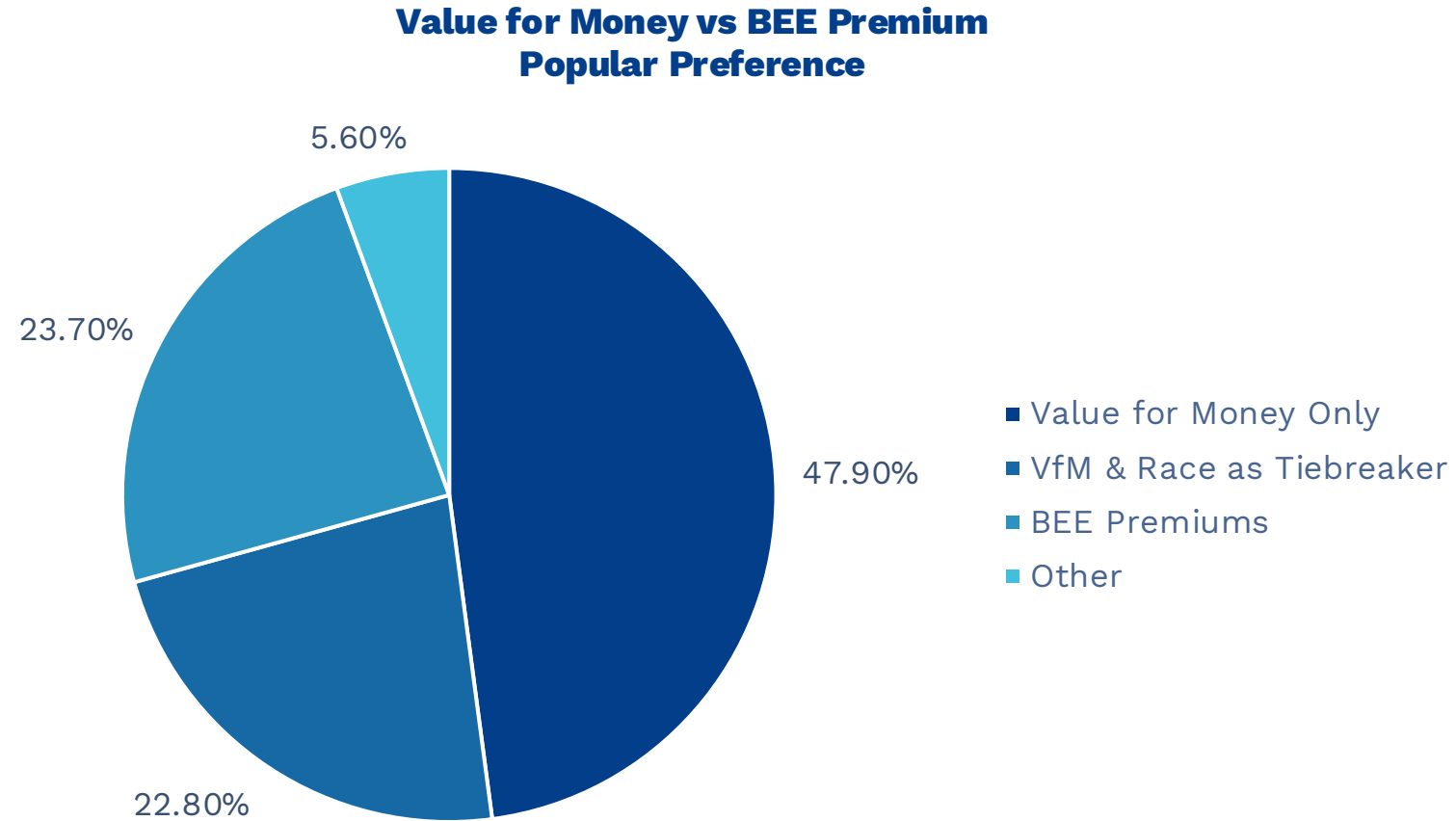
BEE Premium Costs

- **Violation of Constitutional Duty** – Treasury's failure to account for **BEE premiums** violates **Section 216** of the Constitution, which mandates **transparent cost control**.
- **BEE Premium Costs** – The **direct cost** of BEE premiums is estimated at **R17 billion**, with an **indirect cost** of **R133 billion** due to flaws in legislation facilitating **state capture**.
- **Zondo Dividend** – Implementing **Zondo Report** recommendations could save **R150 billion**, highlighting the lost **value-for-money** in public procurement.

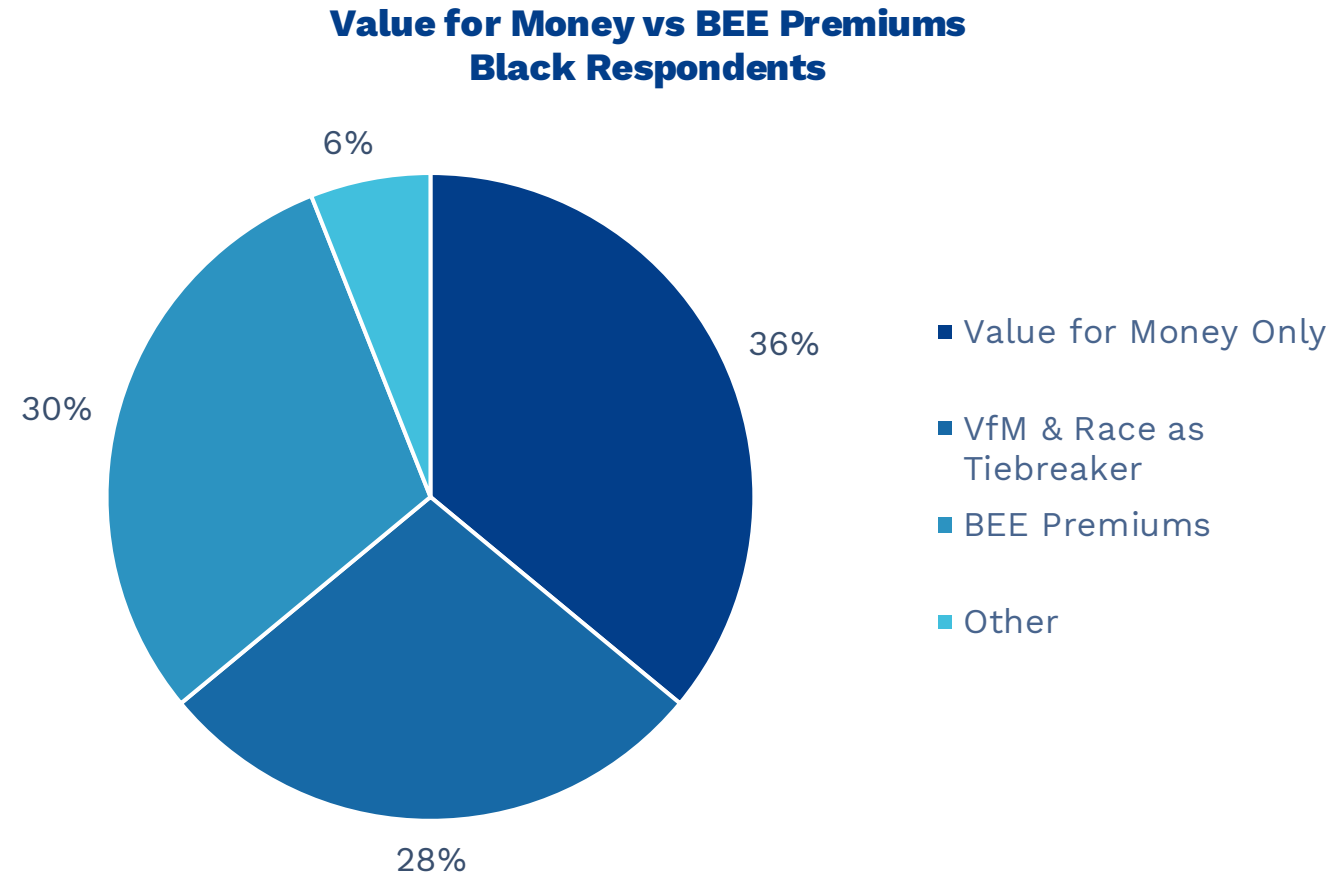
	Official	Estimate		
		% Total Procurement	% Real Procurement	Nominal (R billion)
Number of Contracts with Recorded BEE Premiums	?	10%	-	-
Recorded BEE Premium Per Contract	?	5%	5.8%	-
Total Recorded BEE Premiums	?	0.5%	0.6%	5.7
Number of Contracts with Unrecorded BEE Premiums	?	20%	-	-
Recorded BEE Premium Per Contract	?	5%	5.8%	-
Total Unrecorded BEE Premiums	?	1%	1.2%	11.3
Total BEE Procurement Premiums	?	1.5%	1.7%	17.0
Present Cost of Corruption in Public Procurement	?	21.2%	24.4%	240.6
Corruption Cost after Zondo value-for-money advice	?	9.5%	11%	108.3
Zondo Difference	?	11.7%	13.4%	132.3
Pre-Zondo Procurement (R Billion, Q3 2023)	1134.78	100%	115.2%	-
Post Zondo (Real) Procurement	?	86.8%	100%	985.4
Zondo Dividend	?	13.2%	15.2%	149.3

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Source: IRR Survey 2024



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