2026 EDITION

The IRR's Blueprint for Growth:
Cut VAT & BEE Premiums

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Introduction

This report summarises evidence and arguments for two simple ideas: to cut VAT and to cut BEE premiums in public procurement to R0. This will save South African consumers R100 billion, to the benefit of poor people especially. That is good for three basic reasons. Cutting VAT and BEE premiums:

1. Will stimulate economic and jobs growth;
2. Is the most popular choice, and
3. Will alleviate poverty.

This report builds on the 2025 report of the same name. Key new developments to focus on are:

I. IRR Legal & National Treasury exchange, in which the latter conceded that value for money procurement is constitutionally complaint.
II. IRR Legal & National Treasury exchange, which revealed that the state currently categorizes race as "goods and services" in the annual budgeting process for BEE Premiums.
III. IRR Legal & Parliament exchange, exposing tactics used to preserve BEE Premiums.
IV. Relevant polling by the IRR, and others, indicating mass popularity of both cutting VAT & cutting BEE Premiums.

BEE Premiums are the extra amount the state is prepared to spend on the same exact goods and services to promote BEE. Currently, BEE Premiums are "capped", in the language of senior treasury official Willie Mathebula, at 25% for contracts below R50 million, and at 11.1% for contracts above R50 million.[1]

Popularity of Cutting Tax

Polling from multiple sources shows that a plurality or most South Africans would like taxes to be cut.[2]

Afrobarometer

In 2023 Afrobarometer asked: "Do you think that the amount of taxes that ordinary people in South Africa are required to pay to the government is too little, too much, or about the right amount?"[3]

The plurality, 48%, said the current amount is "too much".

Table 1: Tax Amount Too Much, Too Little, or About Right?

Tax		
Too Little	About Right	Too Much
16%	36%	48%

Respondents were also asked about taxes on the rich: "Do you think that the amount of taxes that **rich people** in South Africa are required to pay to the government is too little, too much, or about the right amount?"

Table 2: Tax on the Rich Too Much, Too Little, or About Right?

Tax		
Too Little	About Right	Too Much
34%	32%	44%

Amazingly, given the total party political absence of serious proposals to cut taxes, the most popular answer by far was that the rich are taxed "too much".

In summary, a plurality say that tax on the rich is currently too high, and a stronger plurality say that tax generally is too high.

Social Research Foundation

In 2024 the Social Research Foundation gave respondents the following prompt [with emphasis added]:[4]

- "A future coalition government **reduces tax rates** and instead focuses on creating an environment where large and small businesses can more easily invest and create jobs." OR
- "A future coalition government **increases taxes** on South Africans so that it can increase the money available for the government to spend on service delivery."

Two thirds, 65.8%, strongly agreed with the first statement, and another 8.1% agreed with the first statement. Together, that means 73.9% agree that if taxes must go up, or down, they had better go down.

Furthermore, the breakdown by race was roughly even, with 68% of black respondents preferring to reduce taxes.

Value for Money v Right-wing-Left-Wing Ideology

The renowned classical liberal Francis Fukuyama proposed a way to think about tax and regulation in South Africa, summarized in the table[5] below, which cuts across the traditional left-right ideological deadlock. In the traditional schema, the "left" always wants tax, government expenditure and regulation to increase, while the "right" always wants to cut all three. (Note that "less tax" means less cost through state interference both immediately through taxation and costly regulation and at a delay through state deficit spending followed by inflation.)

Table 3: Fukuyama Framework		
	More Effective Government	Less Effective Government
Less Tax	Great	
More Tax		Bad

While the traditional left-right divide remains relevant in the grey zones of the Fukuyama Framework, in the colourful zones everyone (except the most bizarre extremists) agrees that one option is good, and the other is bad, regardless of ideological commitments. Getting better service delivery for less cost is good; and incurring a higher cost for deteriorating services is bad.

The major insight of the Fukuyama Framework is that that if one can identify that a particular state is in the red zone, then a non-ideological solution is at hand.

Specifically, if a state is in the red zone Fukuyama argued it is reasonable to reduce the tax-burden (moving up to the "Less Tax-Less Effective Government" quadrant) even if one would be a "left-winger" in other contexts where the state was more capable. In the red zone the preference for cutting tax is not down to "right-wing", libertarian, or minarchist unconditional convictions. Rather, it is just a matter of the commonsense preference for *value for money*.

In a situation where taxpayers are not getting value for money out of the state, including a failure for the state to deliver social benefits to others in a cost-effective way, there is an ideologically neutral reason to prefer for the state to spend less until the value for money position leaves the red zone.

So, the question about the cut-tax preference group in South Africa is: do most people want to cut to cut tax because they are right-wing, libertarian minarchists, or because they want better value for money?

Polling suggests the latter, rather than the former. Afrobarometer asked whether more taxes would be worth extracting **IF** that meant more services?[6]

"Respondents were asked: Which of the following statements is closest to your view?"

"Statement 1: It is better to pay higher taxes if it means that there will be more services provided by government."

"Statement 2: It is better to pay lower taxes, even if it means there will be fewer services provided by government."

53% agreed with Statement 1, and 40% agreed with Statement 2. Statement 1 matches the left-wing "More Tax-More Effective Government" quadrant. In other words, most people have a conditional left-wing preference. However, there is an "**IF**" in Statement 1, which distinguishes it from an unconditional left-wing preference.

In summary, raising tax is the most popular choice **IF** that means better service delivery. But South Africans largely doubt that the "**IF**" applies in reality in South Africa. So, cutting tax is the most popular choice. That shows a clear predominance of the kind of *contextual, classically liberal* thinking that cuts across left-right divides through evidence-based thinking that Fukuyama noticed in the "More Tax-Less Effective Government" situation occurring in South Africa.

Political Dysfunction

Not one political party offered a serious proposal to cut tax in its 2024 manifesto.[7] This is puzzling, to put it mildly.

Returning to the SRF poll:

- a majority, 60%, of ANC supporters preferred to reduce taxes;
- 86% of DA supporters preferred to reduce taxes; and
- 77% of IFP supporters preferred to reduce taxes.

However, neither the ANC, DA, nor IFP 2024 election manifesto called for a serious reduction in tax rates, nor have they reduced taxes significantly during the period of coalition government even though collectively these parties command a roughly two-thirds majority in Parliament.

Of course, it is true that the DA, the IFP, and other parties, worked hard to avoid the VAT increase proposed by the ANC. This is the most important positive achievement in the history of coalition government in the Rainbow Republic.

However, the fact that no major party is seriously trying to cut tax despite the massive popular will demonstrates that there is a pathetic disconnect between political entrepreneurs and the electorate. Politicians are not sensitive to the preferences of the people when it comes to cutting tax.

However, the South African state has largely defended a free press system. That means however slow information intermediaries may be to communicating the preference for tax cuts, eventually the political ignorance of popular preference will be replaced by common knowledge. This author predicts that a powerful tax-cut drive will manifest in party politics between 2026 and 2029.

Popularity of cutting BEE Premiums

The broader context is that BEE's popularity is demonstrably waning. First, a note on the general decline of BEE popularity, and then focus on BEE Premiums.

In 2025 a News24/Ipsos poll found that a plurality of South Africans believe BEE "must end", while a majority think BEE slows down economic growth.[8] Furthermore, the Institute of Justice and Reconciliation found that a majority think it is time to phase out BEE.[9]

IRR

In October 2024 the IRR commissioned a field survey that included a question about BEE premiums in public procurement. The prompt was as follows:

"The government spends over a trillion rand per year buying goods and services. How should it decide who to buy from?

- The government should buy on a value for money basis, making sure to buy the best product from any company at the best price without overpaying.
- The government should buy on a value for money basis, making sure to buy the best product at the best price. If two companies are tied, the black-owned company should get the contract.
- The government should buy more from black-owned companies, even if it means paying more and getting less value for the same money."

48% preferred the first option, and 23% supported the second option. In combination, that means 71% supported a maximum value for money procurement system.

Furthermore, focusing only on black respondents: 36% chose value for money only; 28% chose value for money with race as a tiebreaker; and 30% chose BEE Premiums.

That means 64% chose value for money as the first priority, reducing BEE premiums to R0.

In March 2025 the next IRR field survey asked the same question in the midst of a national budget crisis, when awareness of fiscal limits was heightened.

The total preference for maximum value for money went up to 81.7%: 54.1% pure value-for-money and 27.6% including race as a tiebreaker. Once again, the results were similar if one only focussed on black respondents.

Political Dysfunction

Political support for cutting BEE Premiums remains rhetorical. The ANC has doubled down on BEE Premiums by voting through (although not yet implementing) the Public Procurement Act, which removes the cap on BEE Premiums allowing them to rise without limit.

The DA, on the other hand, has tabled a Private Member's Bill to keep Procurement Premiums, but to replace the BEE scorecard with another scorecard inspired by the UN. The DA scorecard allows the UN Premium to be lifted to 66% in government spending.[10] Rather than move towards value for money, the DA has kept the premium system alive and is proposing to expand it. Furthermore, no DA-run departments in national government have erased premiums in national expenditure, even though section 3 of the Public Procurement Policy Framework Act allows requests for exemptions from preferential procurement in the national interest.

In short, the legal framework exists to begin cutting out BEE premiums, but is unused.

VAT

If some tax should be cut, why should it be VAT? Why not cut corporate tax, or income tax, etc.?

Of all major taxes, the regressive VAT falls the most heavily on poor South Africans,[11] making it the best tax to cut to stimulate demand, alleviate poverty, and drive economic growth.

R100 Billion Saving Breakdown

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.

Table 4: Estimated benefit of a R100 billion VAT cut

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

This VAT cut is expected to leave R12.6 billion in the pockets of the poorest 50%, and R29.1 billion in the pockets of the poorest 80%. Those billions can be far better spent where it is held before taxation, than by government officials after taxation.

The richest 20% (about two thirds of whom have not been white since 2015) would also be spared roughly R40 billion in taxation. That is expected to also have a positive impact on consumer demand, and so economic growth and employment.

BEE Premium related data

There are two components to note in relation to BEE Premiums. The first is the estimated savings that would occur if BEE Premiums were cut to R0. The second is the estimated effect on majority black-owned businesses if BEE Premiums were cut.

Zondo Dividend

A Harvard University report showed that BEE premiums hurt poor people, and growth.[12]

The Zondo Report showed that confusion due to BEE premiums contributed to state capture.[13] It furthermore advised that a "maximum value-for-money" system should be adopted by public procurers.

Referring to "value-for-money" versus BEE Premiums the report stated:

> *There is an inevitable tension when a single process is simultaneously to achieve different aspirational objectives.*
>
> *There are of course many cases, one hopes the vast majority, in which the award of the tender satisfies both objectives of the Constitution but undoubtedly there are other cases some of which may well be high-value tenders in which one or other of these two objectives must be preferred, and it is in such cases that the legislation fails to give guidance.*
>
> *In the view of the Commission the failure to identify the primary intention of the Constitution is unhelpful and it has negative repercussions when this delicate and complex choice has to be made, by default, by the procuring official.*
>
> *Ultimately in the view of the Commission the primary national interest is best served when the government derives the maximum value-for-money in the procurement process and procurement officials should be so advised.*[14]

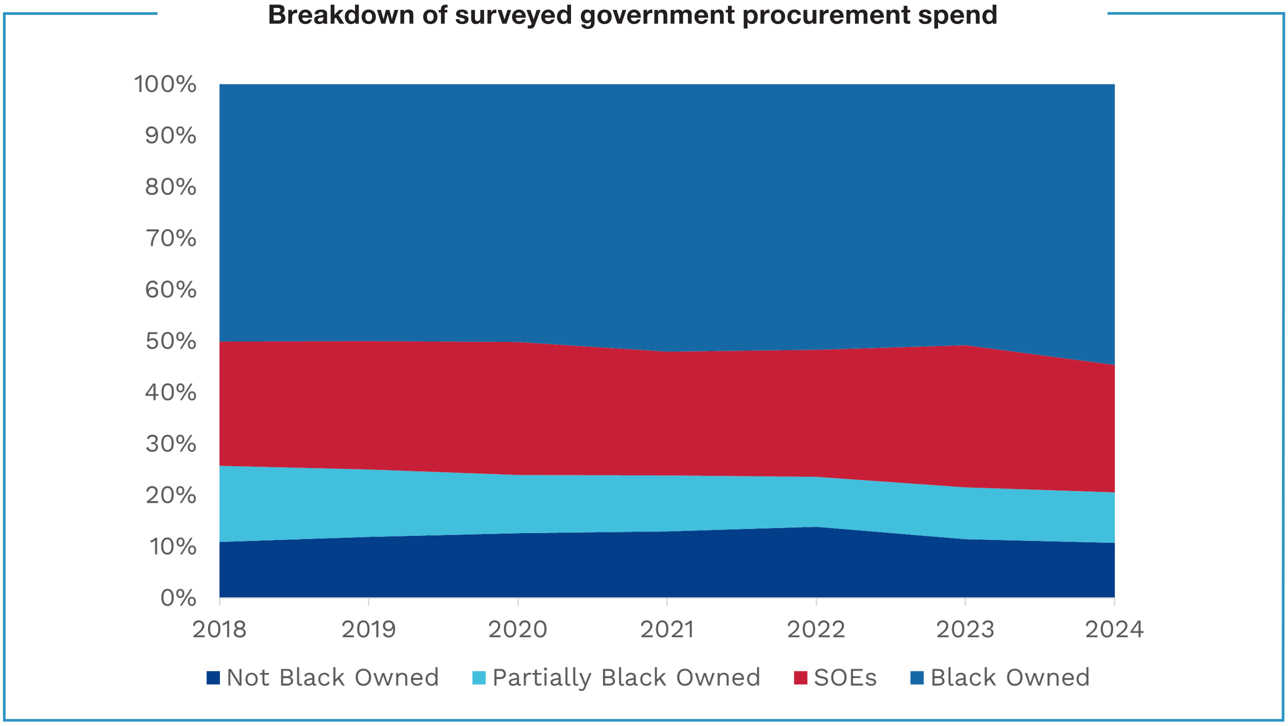
The "Zondo Dividend" is the amount that would be saved by implementing "the maximum value-for-money in the procurement process" proposal of the Zondo Report. It is estimated to be R150 billion, broken down into R17 billion in savings on licit BEE Premiums and R133 billion savings on illicit flows.[15]

Black business in post-BEE system

The original rationale for compromising on value for money in public spending was to support black businesses that could not compete in a white-dominated market. White-owned businesses in apartheid and the years soon thereafter not only enjoyed established asset books, credit lines, and network advantages, but also continued to benefit from statistical and taste-based discrimination in much of the private sector.

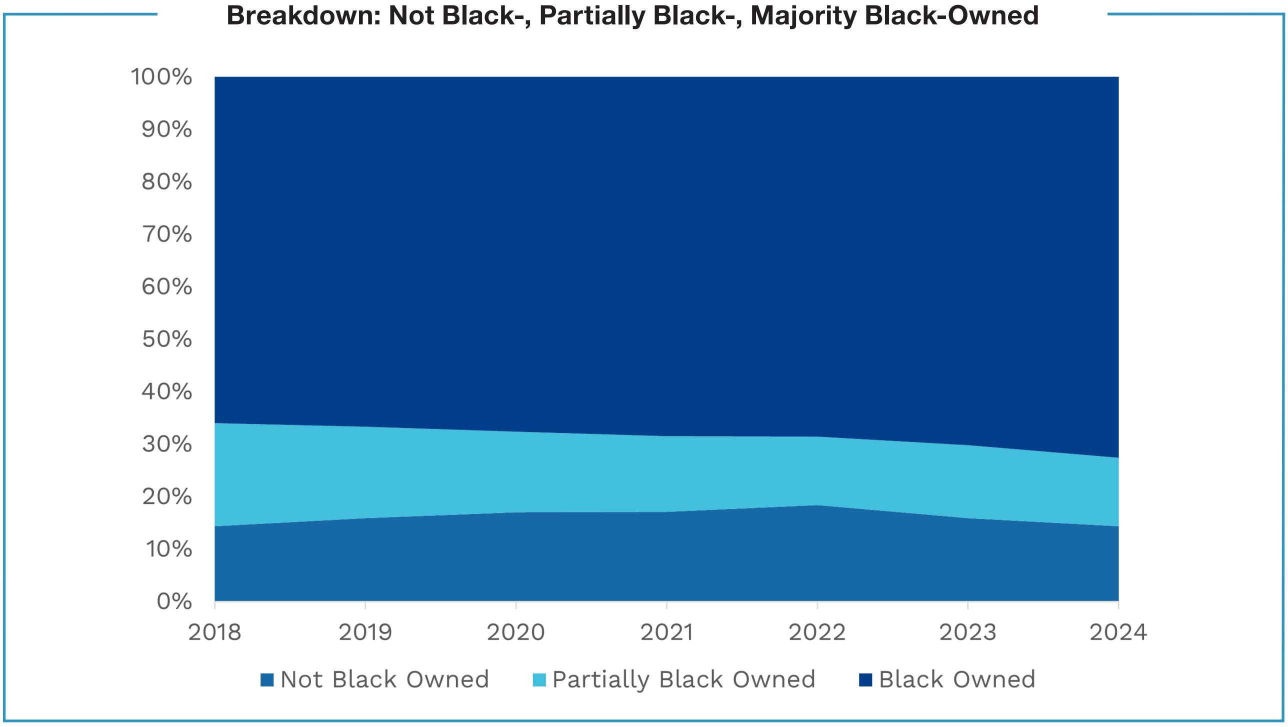
However, official data shows that most procurement spending towards the private sector now goes to majority black owned businesses, and has done so for years. In other words, the market is no longer dominated by white-owned businesses, and the "training wheels" of BEE can now be removed without threatening black-owned businesses.

Graph 1: Breakdown of surveyed government procurement spend



In 2024 a slim majority of 50.3% of total surveyed procurement spend was to majority black-owned businesses. Furthermore, it is noteworthy that a significant portion of public procurement spend is government-to-government through spending on SOEs (mainly Eskom).

Graph 2: Breakdown of surveyed government procurement spend (SOEs excluded)



73% of spend surveyed spend to the private sector was to majority black-owned companies, and this has been the case for years.

Clearly, BEE premiums are no longer necessary for majority black-owned firms to do business. The first-order impact of removing BEE premiums is expected to be that most procurement spending continues to go to majority black-owned businesses, with the major difference being in price competition on a value for money basis.

Furthermore, if the BEE premium were removed the second-order impact of improved economic conditions is expected to benefit most black-owned businesses greatly.

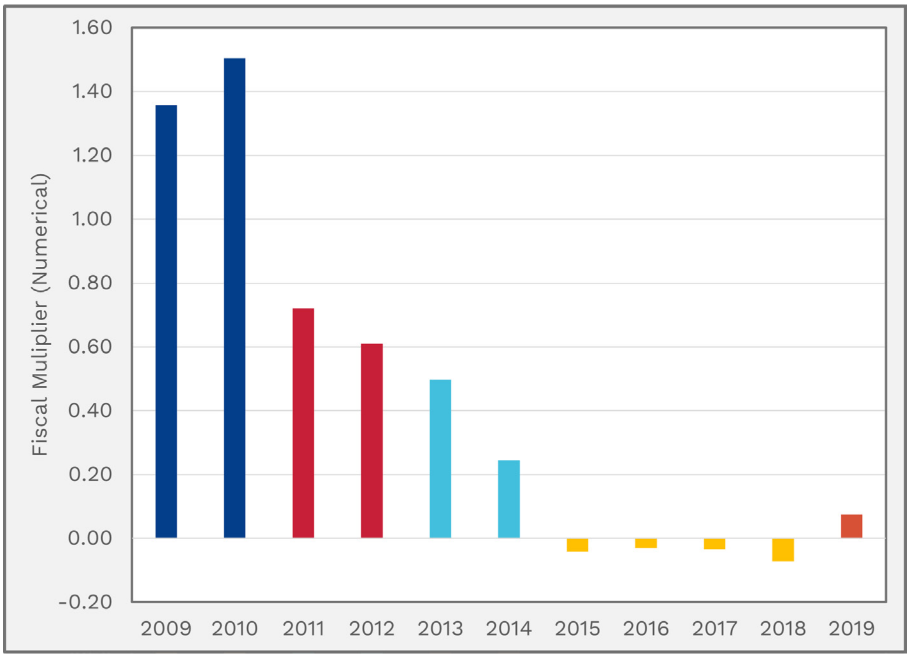
Value for Money data

Fiscal multiplier

The previous “Slash Waste, Cut Taxes” report focused extensively on a fiscal multiplier evaluation by Theo Janse van Rensburg, Shaun de Jager, and Konstantin Makrelov, published by SARB as a working paper, and then (revised) by the *South African Journal of Economic and Management Sciences*, titled ‘Fiscal Multipliers in South Africa after the Global Financial Crisis’. The graph showing annual estimates is reproduced here.

Graph 3: Fiscal multiplier, South Africa

Fiscal multiplier, South Africa



The fiscal multiplier is a measure of impact of government fiscal expenditure. Typically, a fiscal multiplier above 1 is desired, since it means that for every R1 spent on the margins more than R1 of GDP is added. If, instead, that R1 had been spent privately with even greater positive GDP impact then purely from a productivity perspective it would be preferable for that R1 to be spent privately. But still, a multiplier above 1 indicates some form of government productivity.

When the fiscal multiplier is below one that means spending R1 produces a GDP impact of below R1. The fiscal multiplier is not usually thought of as being able to enter the negative range. However, the South African state is breaking new ground, conceptually, and practically. With a negative fiscal multiplier estimate, for every rand the state spends on the margin it literally destroys output. Setting the money on fire would have been less destructive than entrusting it to state spending. Multiple years of negative fiscal multipliers were found by the economists, with 2019 being statistically significant.

A more recent paper published by UNU-Wider, by Gideon du Rand, Hylton Hollander, and Dawie van Lill, reinforces this negative finding. This 2023 paper is titled *Time-varying fiscal multipliers for South Africa, A large time-varying parameter vector autoregression approach*.

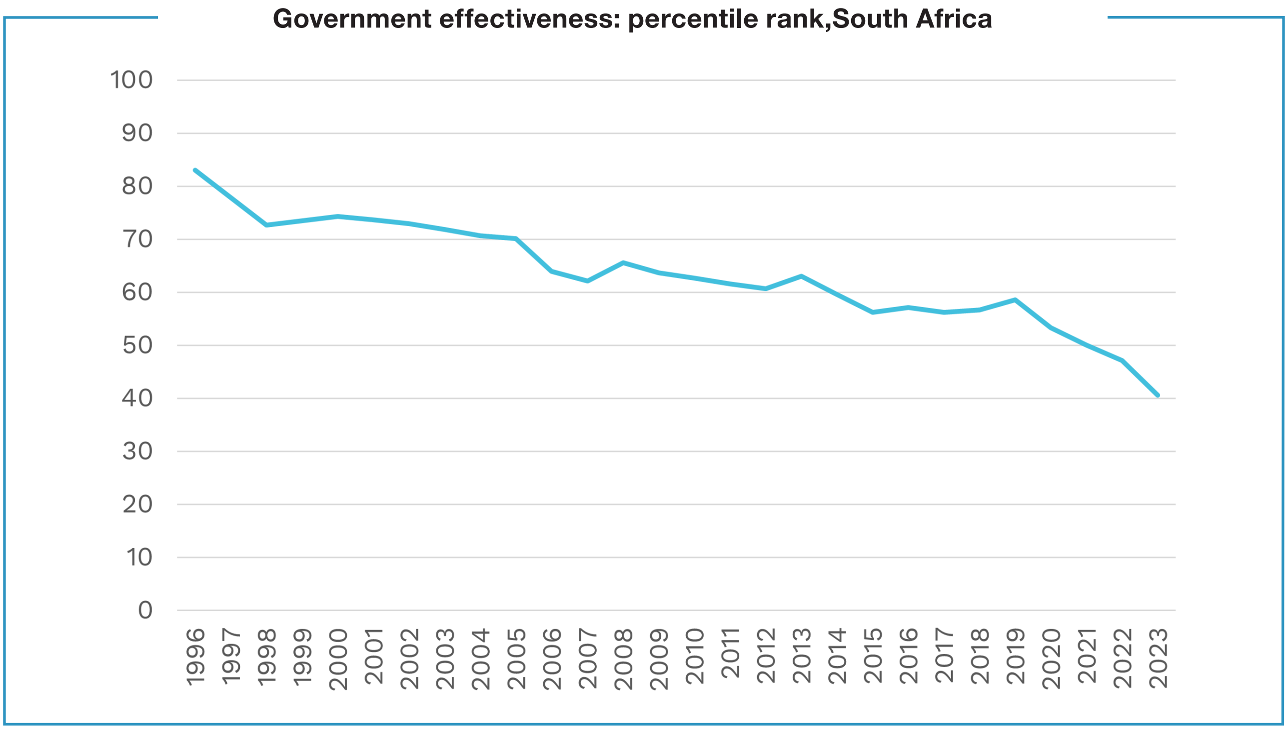
It shows a negative response to GDP from government consumption dating back to the 2000s, with narrower confidence bounds from 2009.

The authors urged caution in interpreting their own different models for calculating fiscal multipliers, but concluded (with added emphasis): "That being said, our main results do not bode well for stabilization efforts via fiscal policy—**all the multipliers we find** suggest that **resources spent through government decision-making processes in South Africa are net negative** on both individual components of GDP and on the aggregate."

Government effectiveness

South Africa's government effectiveness has dropped badly.

Graph 4: Government effectiveness decline, South Africa



Notice that the overall drop is from the 83rd percentile to the 41st percentile. That is a roughly 42 percentile point drop, or a fall in the rankings by 52%, meaning South Africa more than halved its rank position.

Why should this measure matter? The Government Effectiveness Perception Index comes from the World Bank's Worldwide Governance Indicators (WGI), with particular reference to *The Worldwide Governance Indicators: Methodology and Analytical Issues* by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi (2010). This is updated regularly, though there is usually a delay of one to two years to allow for data processing, which is why the graphs stop at 2023.

In the rankings, South Africa suffered the third fastest decline globally since 1996.

Table 5: Comparative government effectiveness ranking			
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

The decline in South Africa's government effectiveness is the worst of any peaceful, sovereign democracy (since Puerto Rico is not sovereign, and Lebanon is not peaceful).

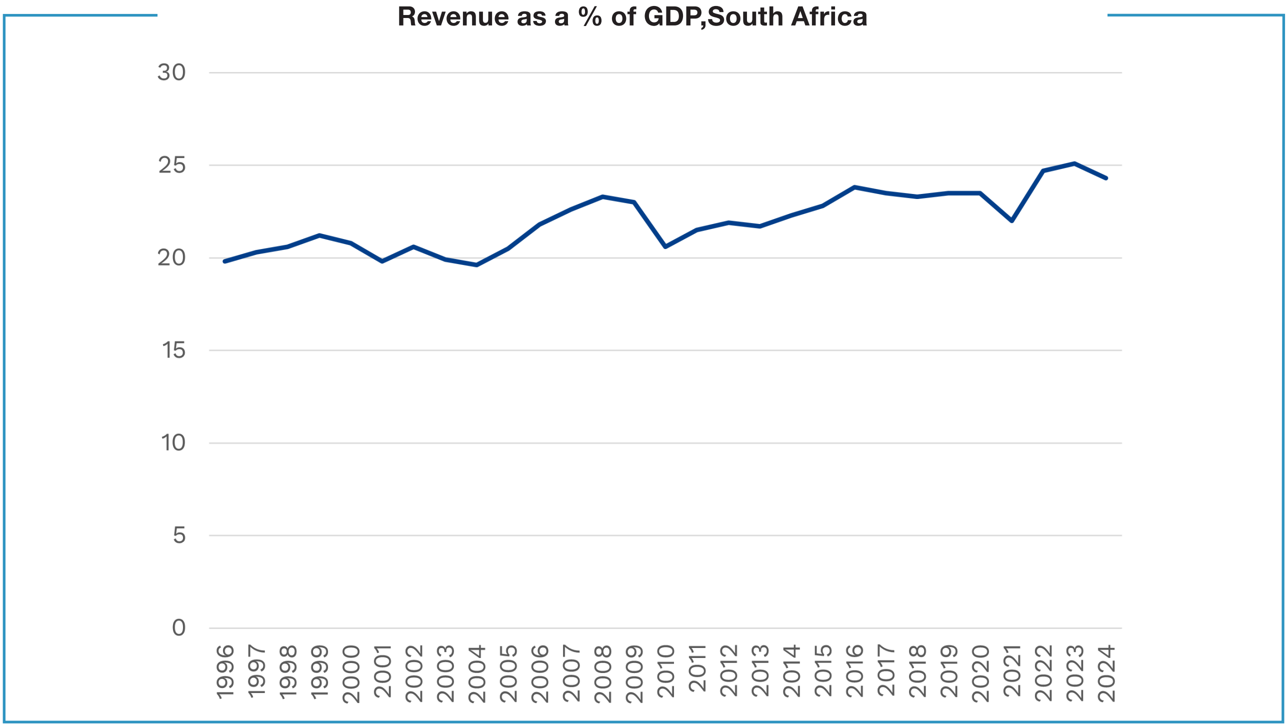
The reader might wonder about differences within the state. For example, the Department of Land Reform and Rural Development may be the most corrupt and inept in the country, while SARS is still relatively effective. Many municipalities are dysfunctional, while others are still able to maintain roads and neat pavements and even working traffic lights.

The government effectiveness measure loses this kind of granular detail. However, it gains a system-wide perspective by aggregating scores.

Government Revenue

Government effectiveness has gone down, but revenue has increased as a portion of GDP. This has not been a steady increase, because during times of crisis revenue has decreased as a portion of GDP. This is not due to reductions in tax rates, but rather a reduction in profits and income, which then reduces tax revenue.

Graph 5: Revenue as a percentage of GDP, South Africa[16]



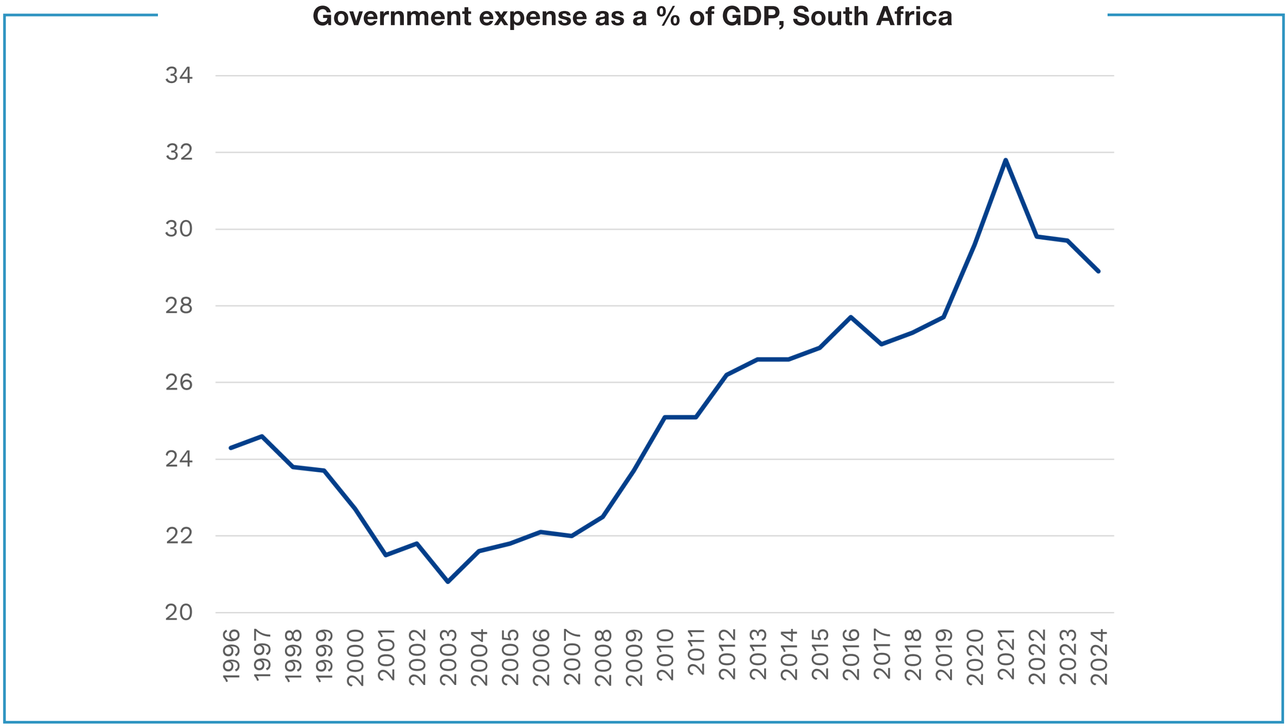
If one looks at a table of the countries whose government revenues have increased the fastest relative to GDP there are clearly examples of both positively and negatively estimable states. This, like the Fukuyama Framework, debunks the “one-size-fits-all” notions on both the left and the right about whether it is good for the state to grow relative to GDP.

Table 6: Growing governments, Revenue as a percentage of GDP			
	Government revenue as % of 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

Government Expenses

Government expenses increased even more dramatically than government revenues.

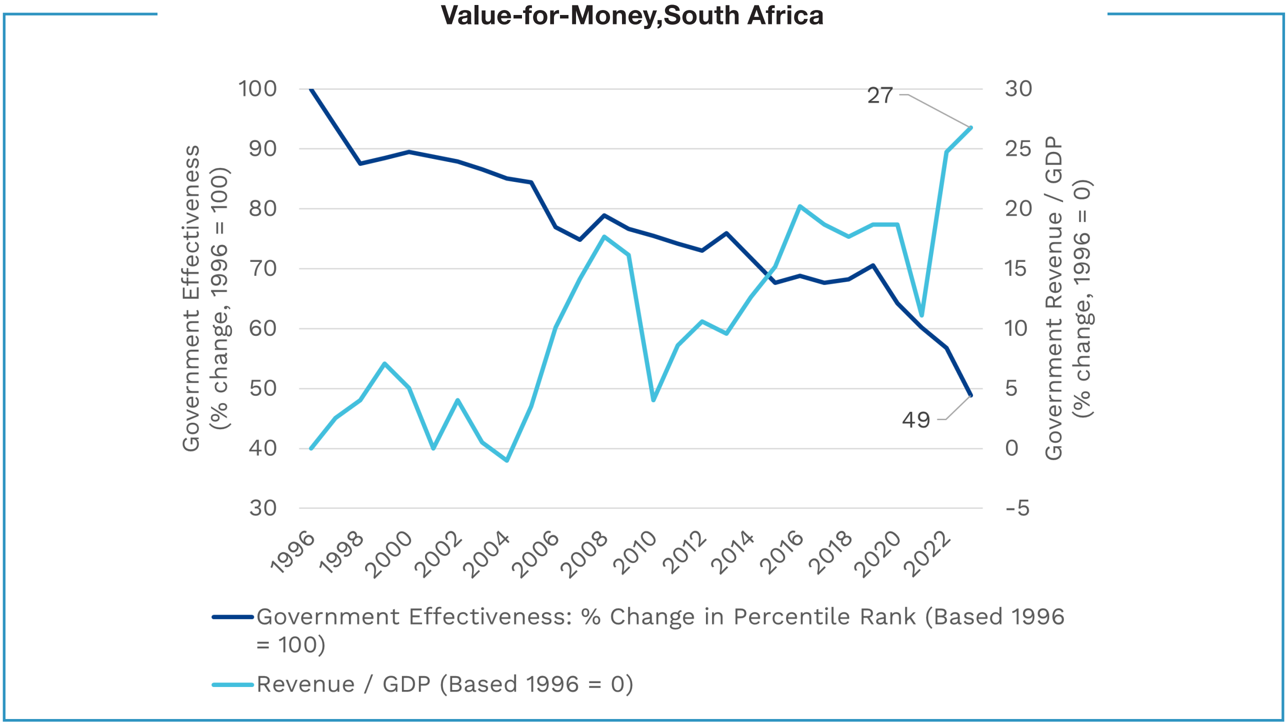
Graph 6: Government expenses as a percentage of GDP, South Africa



That is a lot more money being spent by the state. But are South Africans getting value for that money?

Paying more, getting less effective government

Graph 7: Value-for-Money, South Africa



The above graph shows a dramatic decline in government effectiveness together with an increase in government revenue as a portion of GDP in South Africa.

To explain the axes: Government effectiveness (the measure will be explained in more detail below) dropped 51.2%. The 1996 percentile rank of 83.1% is rebased to 100 in the graph. As such, the final effectiveness score comes down from 51.2% to 48.8%.

Meanwhile Government revenue as a percentage of GDP (measured on the right-hand Y-axis) increased by 26.8% of its initial value. The initial revenue of 19.8% in 1996 is rebased to 0, meaning that in 2000 and 2004 the revenue score (on the right-hand axis) is below 0%, since actual revenue was less than 19.8% of GDP in those years. The final revenue score comes up to 26.8%, which translates to an actual revenue as a percentage GDP rate of 25.1%.

The graph would look similar, but in some ways more dramatic, if government expenses were used instead of government revenues to contrast with the decrease in effectiveness.

In summary, South Africa spent 27% more of its annual output on tax while dropping 51% in the global rankings of government effectiveness. That is evidence of a system-wide failure to get value for money.

Tax Value for Money Index – TIED empirical scores

Another way to measure the extent to which a country is in the “red zone” of the Fukuyama Framework identified above is to quantitatively measure movement in the Tax-Increase-Effectiveness-Decrease (TIED) direction. There are 50 countries that have been recorded as moving in a TIED direction between 1996 and 2023. Moving in a TIED direction is bad, because it means reducing value for money in fiscal terms.[17]

Of the 50 countries that have moved in a TIED direction, the top ten are listed below.

Table 7: Tax Value for Money Index: TIED score

	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

South Africa has the worst TIED score in the world, meaning it has moved most severely in the TIED direction within the red zone of the Fukuyama Framework.

Limited resources

Why is it bad to move in a TIED direction, regardless of ideology? Why is it bad to get less value for money?

South Africa, like all countries, has limited resources. Due to various factors, including the legacy of apartheid and of pre-apartheid colonial government, South Africa is unusually poor, given its other circumstances. When historically limited resources fail to produce value for money, they are effectively limited even more.

Imagine, for example, a household that historically is undersupplied with piped water, and so has to survive on a few litres a day. If someone pours two litres of that water down the drain, then the water scarcity is even worse. Moving in a TIED direction makes a bad situation worse.

Those with the most limited resources are the poor. These taxpayers are failing to get value for money at the margins, which is a non-ideological reason to cut tax.

Revenue-neutral stimulus

Removing BEE Premiums is expected to save over R150 billion per annum over time. The short-run gain of R100 billion per annum allows a VAT cut of 3.5%, from 15% to 11.5%.[18] Hence, the proposal to cut BEE Premiums pays for the proposal to cut VAT to 11.5% in a revenue-neutral manner.

In short, the proposal's short-run effect is to redirect R100 billion into the hands of all South Africans who can get better value from it. This is expected to have an economic stimulus effect. However, since it is revenue-neutral, the stimulus in terms of net aggregate demand, GDP growth, and second-order jobs growth, is not through increased deficit spending. Instead, the revenue-neutral stimulus redirects wastefully spent illicit funds into the formal market under value-add incentives.

The underlying liberal economic assumption is that there is a deadweight loss in illicit spending of the kind produced by the BEE premium system where market actors have to engage in costly competition to cover up their criminal activity while chasing rewards that are more closely indexed to extractive, rather than value-additive, abilities.[19]

Legal disclosures

IRR Legal has made official submissions to National Treasury, and several Parliamentary Committees over 30 months to propose cutting VAT and BEE Premiums. This has led to exchanges that disclose key legal facts.

National Treasury concedes cutting BEE Premiums is constitutional

There has been some disagreement, historically, about whether the Constitution requires BEE premiums, or some kind of preference premiums. Some self-proclaimed (but ill-informed) liberals have assumed that section 217 of the Constitution requires preference premiums.

However, IRR Legal posed the challenge to National Treasury (NT) directly to explain that view in a long exchange with several Directors General and Senior Counsel speaking on behalf of the NT. Under pointed questioning, NT conceded that the Constitution does not require preference premiums. Instead, for example, preference could only be given as a tiebreaker to preserve an unambiguous prioritization of value for money.

Asked if the elimination of BEE premiums (with race used as a tiebreaker) is inconsistent with the Constitution NT Senior Advocate Empie van Schoor (SC) said: “It’s more of a policy question. At the state we are in this country, it wouldn’t suffice. Maybe in ten or twenty years’ time that may be the only tool we need.”

Ms Leanda Pietersen, NT Director of Supply Chain Management Policy and Legal, concurred. “It’s a policy call based on where we are currently...my statement was not that a tiebreak would be unconstitutional.”

In other words, NT supports BEE Premiums as a matter of policy, not as a matter of Constitutional necessity. The removal of BEE Premiums is an alternative policy that could be Constitutionally complaint.

This positive concession should forever put to bed the ridiculous notion that the South African Constitution prohibits what the Zondo Report called “maximum value-for-money” public procurement.

National Treasury claims BEE puts a "Qualification" on expenditure control

No one knows how much BEE premiums cost every year. This is a direct violation of the Constitution.

Treasury is obliged by Section 216 of the Constitution to implement transparent cost control. Its failure to account for BEE premiums is a dereliction of that duty. Treasury submitted that BEE puts a "qualification" on both "expenditure control" in terms of section 216(1) and "cost-effectiveness" in terms of section 217(1) of the Constitution. Advocate Empie van Schoor reiterated that "in respect of the expenditure control aspect" there is a "qualification" emanating from section 217(2) of the Constitution. Van Schoor further conceded that there is no preceding authority for this position.[20]

IRR Legal is committed to ending the systematic violation of the constitutional requirements of cost control.

National Treasury supports a race-market

In 2025 IRR Legal drew attention to the fact that the Constitution requires both "expenditure control" and "transparency", and that this must apply to BEE Premiums. Furthermore, it noted that NT, through Advocate Empie van Schoor, emphasized that "217(2) doesn't allow you to sacrifice transparency" whatsoever.

So, IRR Legal requested that NT explain how BEE Premiums are distributed in the annual budgeting process, specifically in appropriations, which are governed by section 214 of the Constitution.

Treasury replied that it defines BEE Premiums not as "subsidies and transfers", but rather as "goods and services".

There are several major problems with NT's decision to define BEE premiums as "goods and services":

1. It is illegal. According to the official Guidelines (2009) that are legally enshrined in the contemporary Appropriation Act (2025) as interpretive tools for budgeting processes appropriations the key distinction is whether payment is "requited" or "unrequited". An unrequited payment, or subsidy, is one in which the state gets something positive out of its payment, but that positive is not something the state gets back into its possession or use "directly in return" for the payment. For example, the state might subsidize busses or trains, which makes transport cheaper for poor people, which is a social good, but not a requited benefit to the state's possession. BEE Premiums are unrequited payments, since the state gets nothing directly back into its possession or use for the payment of these Premiums.
2. It obscures transparency. The high-level reporting requirements for subsidies are more granular and transparent than for "goods and services". Therefore, by classifying BEE Premiums as "goods and services", NT obscures transparency and expenditure control.

3. It horrendously erects a race market at the heart of the state. Defining BEE Premiums as "goods and services" essentially means defining race as a marketable product. For example, if two people sell exactly the same kind of car, if one of them is black and the other is white, then they are selling different "goods", since one is somehow a racially black-car and the other is somehow a racially white-car for the purposes of accounting, inventory keeping, and other bookkeeping. This flagrantly violates Chapter 1 of the Constitution, which places "non-racialism" as a Founding Value of the Rainbow Republic.

Overall summary

Cutting VAT & BEE is the popular choice.

South Africa has the worst TIED score on earth, and its fiscal multiplier is 0 or negative.

In that context, cutting the state back to size is a rational choice for people with both moderate left- and right-wing political preferences.

Cutting BEE premiums is set to boost black business, black employment, and economic growth for all.

Cutting VAT is set to promote consumer demand, which attracts investment, which stimulates long-term sustainable economic growth.

VAT is also the most regressive tax, meaning its burden falls disproportionately on poor South Africans, so that cutting VAT is a direct form of poverty relief that leaves over R12 billion in the pockets of the poorest 50% every year, on conservative estimates. That is equivalent to increasing the R370 Social Relief Distress Grant by a third, to roughly R480 per person.

Rich people might not think much of that difference, but the polls show that people generally want taxes to be cut, and the most urgent need is for tax cuts to help poorer South Africans.

The most underutilized resource in the rainbow republic is the brainpower of millions of people who think more clearly when buying for themselves than government officials do when buying for others. This argument transcends ideological gridlock; its focus is value for money, which everyone from minarchists to communists agree is key to economic growth.

Endnotes

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