

Rich people buy zero-rated food to feed their dogs



Efficient Group chief economist Dawie Roodt explained that a basket of VAT-exempt items is a bad idea and that there are better ways to help the poor.

Roodt shared his views during a discussion about South Africa's tax regime on [The Main Stage Podcast](#).

He stated that he opposed the government's strategy of imposing no value-added tax (VAT) on products and services.

Numerous products are zero-rated, including 19 basic food items, illuminating paraffin, petrol, diesel, farming inputs, and exports.

International transport services, sales of going concerns, and certain government grants are also exempt from VAT.

Many services, including non-fee financial services, educational services, residential rental accommodation, and public road and rail transport, are also exempt from VAT.

Roodt argued that all products sold in South Africa should be subject to the same value-added tax rate. The only exception should be exports.

He explained that when the government starts zero-rating some products to lower their prices, it undermines the allocation of resources in the economy.

Having different VAT rates further opens the door to corruption, misallocation of resources, and other problems.

That does not mean that the government should not assist the poor. However, that should be done on the expenditure side of the budget.

“The poor should not get a break on taxes. Instead, the government should increase grants to improve poor people’s financial situation,” he said.

Roodt explained that using expenditure will help the government to track precisely how much it spends to improve the lives of poor people.

However, zero-rating a basket of goods and services provides no accurate indication of how much money is allocated to the poor.

This is because wealthy people also purchase zero-rated foods, such as brown bread, rice, beans, eggs, and milk.

“Rich people buy some of the zero-rated food products and feed them to their dogs, because it is cheaper,” he said.

“What the government is essentially doing is giving a tax break on items which help rich people feed their dogs.”

He said the government should not do that. It is much better to have a VAT rate which is the same across all products, and to help the poor on the expenditure side.