

# The big VAT announcement that is not good news for South Africa



While consumers welcome relief from the reversal of the VAT hike in South Africa, the decision also means that the basket of zero-rated items will not be extended.

The Consumer Goods Council of South Africa (CGCSA) argued this is a double-edged sword for low-income households in the country.

In the initial budget tabled by Finance Minister Enoch Godongwana, he proposed extending the basket of zero-rated goods to cushion low-income households from the accompanying VAT increase.

In South Africa, certain basic food items are zero-rated, exempting them from Value Added Tax (VAT).

Currently, South Africa's VAT-free basket comprises 21 basic foodstuffs, including items such as eggs, fruit and vegetables.

Godongwana proposed expanding this to include chicken feet, organ meats from sheep, poultry, and other animals, canned vegetables, and dairy liquid blends.

During his speech in March, Godongwana said that the government is very aware of the cost-of-living pressures households face, including high food and fuel prices and rising electricity and transportation costs.

Therefore, he added that we are taking concrete steps to protect vulnerable households, including expanding the basket of VAT zero-rated food items.

Despite this, in the VAT increase reversal statement of 24 April 2025, the National Treasury announced that the move also means these items will not be added to the zero-rated basket.

“No VAT increase means that the measures to cushion lower-income households against the negative impact of the rate increase need to be withdrawn and other expenditure decisions revisited,” it said.

On Wednesday, 21 May, Godongwana confirmed this decision when he delivered the third reiteration of the 2025 National Budget Speech.

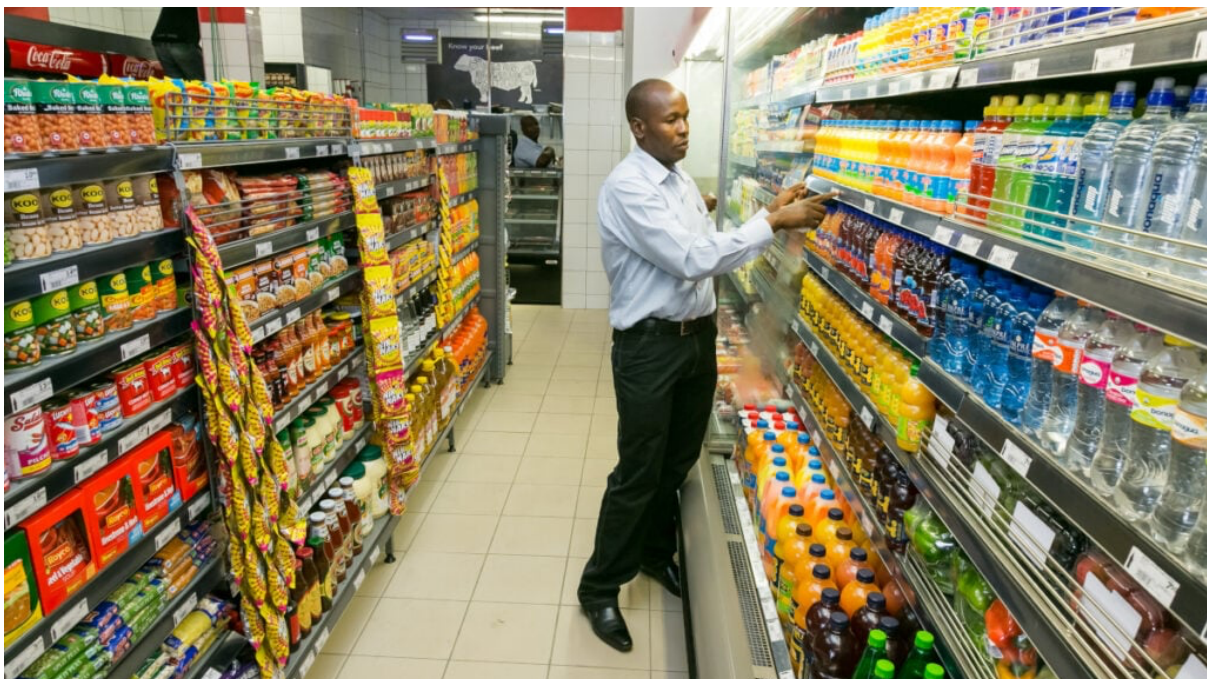
“As I have already said, the proposed increases in the VAT rate in 2025/26 and 2026/27 have been dropped.

“As a result, the expansion of the zero-rated basket, which was included to cushion poorer households from the VAT rate increase, falls away,” said Godongwana.

He added that compared to the March estimates, tax revenue projections have been revised down by R61.9 billion over the three years.

“This reflects the reversal of the VAT increase and the much weaker economic outlook.”

## Double-edged sword for some consumers



Following Treasury’s announcement to scrap the VAT hike, the CGCSA said it cautiously welcomed the decision to stop the increase.

CGCSA CEO Zinhle Tyikwe noted that the decision will significantly ease the financial burden on South Africans, especially poor households.

However, she stressed it's a double-edged sword for these households, as expanding the zero-rated basket would've helped them cope with the increasing cost of living.

The council argued that expanding the basket of items exempt from VAT should have remained in the budget.

Tyikwe said this concerns the council and its members, as many South Africans are hard-hit by the cost of living.

"The zero-rating of the additional products would have gone a long way toward cushioning consumers, improving healthy eating and lifestyles, and improving food security," said Tyikwe.

"Expanding the basket of VAT zero-rated food items would have greatly benefited consumers."

This is because VAT is inherently a regressive tax when there are no zero-rating provisions or exemptions in place.

Lower-income households pay more of their disposable income in VAT on essential goods and services compared to high-income households.

Although high-income households may pay more in total VAT due to their larger spending, the burden relative to their income falls more heavily on those with lower incomes.