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Centre for Social Justice

CSJ and IEJ Joint Statement on the South African Budget: A Call for Social Justice and Transformative Governance

**Cape Town, South Africa
10 March 2025**

The Centre for Social Justice (CSJ) and the Institute for Economic Justice (IEJ) express deep concern regarding the yet-to-be tabled budget, particularly concerning its implications for hunger, poverty, inequality as imperatives of transformative governance under the constitutional commitment to establish a society based on social justice and human rights.

Introduction and Context

The postponement of the budget speech, which was rescheduled from 19 February 2025, due to widespread opposition to a proposed 2 percentage points Value Added Tax (VAT), which meant a 13.3% increase to VAT, has presented an opportunity for reimagining constitutionally congruent revenue generation choices facing for addressing the budget shortfall. On Thursday, 06 March 2025, the CSJ and IEJ hosted a Think Tank Roundtable & Café to examine emerging policy proposals on generating and distributing additional revenue, assess the social and economic justice implications, explore the efficacy of more constitutionally attuned and social justice congruent policy.

We firmly believe that the current approach by the National Treasury fails to adequately prioritise the needs of the most vulnerable and risks exacerbating existing inequalities, potentially worsening the multi-dimensional nature of the issues that South Africa seeks to address. At risk in this regard, is the exacerbation of hunger, poverty and inequality.

There is no gainsaying that the challenges regarding finding additional revenue for increasing demands on the state fiscal are real. However, in searching for alternatives the hard choices made by the Government of National Unity (“GNU:”) must ask hard questions that start with constitutional obligations as the Constitutional Court has affirmed in cases such as *Mahlangu v Minister of Labour*. Social justice is a key constitutional obligation. There is a need for courageous decision-making that ensures the ‘hard trade-offs’ are made without shifting the burden of disproportionate sacrifice to the disadvantaged majority, that is vulnerable to the exacerbation of hunger and poverty due to reduction of disposable income or diminished access to social services like health, education and grants.

While the specific details of the budget are still under review, we remain deeply concerned about the potential implementation of a VAT increase. Preliminary evidence from the anticipatory social justice impact assessment conducted by the CSJ, using various AI

informed by the Social Justice Impact Assessment Matrix (SIAM) tool has indicated, even a modest VAT increase can have a devastating impact on low-income households, disproportionately all poor people, particularly African women and people with disability thus exacerbating hunger, poverty and inequality. Even a modest one percentage point increase which translates to a 6.9% increase in VAT, accompanied by additional zero-rated items primarily consumed by poor households, will still inflict disproportionate hardship on poor and lower middle-class households at a time when costs are already rising due to global geopolitical seismic shifts that might result in an economic black swan.

We are also alarmed by reports that if the VAT increase is reversed, some parties will support cuts to social spending. Such cuts would undermine the social wage and jeopardize the progress made in advancing social and economic rights. We believe both alternatives that involve regressive tax increases, or cuts in critical areas of expenditure are incongruent with constitutional governance dictates. The evidence is compelling that neither of these options are desirable or necessary.

Constitutional Guardrails Relevant to Fiscal Policy and Revenue Generation

The Constitution of the Republic of South Africa, 1996 provides crucial guardrails for constitutional governance, at the core of which is transformative governance that must inform all state decisions, including fiscal policy and revenue generation. In ***Government of the Republic of South Africa v Grootboom***, (“***Grootboom***”) the Constitutional Court affirmed South Africa’s commitment to the attainment of social justice and achievement of equality. Indeed, as the Constitutional Court pointed out, the Constitution envisions a society based on democratic values, social justice and fundamental human rights where every citizen's life is improved and every person's potential is freed. The Constitution further entrenches equal enjoyment of all human rights and freedoms, including civil & political rights, economic and social rights, cultural rights, and environmental rights, included among which are rights to food, education, health, housing and social assistance.

The further Constitution requires the state to make an earnest effort to progressively realise socioeconomic rights, while advancing substantive equality, as can be noted in reading the Constitution’s **section 9(2) with sections 7(2) and 237 with the preamble**. In doing so the state is required to do a balancing exercise that incorporates pragmatism, hence we welcome, government's allusion to hard choices. In making such hard choices, the Constitutional Court has directed in cases such as ***Mahlangu v Minister of Labour*** (“***Mahlangu***”), that constitutional obligations and plugging the apartheid gap, be prioritised. The duty to plug the apartheid gap was also highlighted in ***Minister of Finance v Van Heerden*** (“***Van Heerden***”).

Accordingly, the making of such choices must be twinned with hard questions beginning with dictates of constitutional commitments and values, mindful that the values questions need to be consonant with the values of achievement of equality, freedom, human dignity and the suite of values that underpin ubuntu, as affirmed in ***S v Makwanyane*** (“***Makwanyane***”). The attempt to generate additional revenue to realise these rights is in line with the state’s duty, but due care needs to be taken to ensure that the manner of raising the revenue doesn’t undermine the very rights the state seeks to address. In this context, we believe that the VAT increase both undermines these rights and is unnecessary and untenable.

Important Constitutional Court decisions, in cases such as **Grootboom**, **Mahlangu** and **Makwanyane** have affirmed, clarified and reinforced the constitutional obligation on the state to progressively realise human rights, substantive equality and broader social justice. Incorporating considerations of social justice in social and economic policy design is therefore not an optional extra, but is a requirement for all policymakers

Debunking the Myths of VAT

Arguments in favour of VAT increases often include the following claims:

- **Myth:** Additional zero-rating of essential products will shield poor households.
 - **Reality:** There is limited scope for additional zero-rating, and it is unclear if the benefit of the 2019 expansion of zero-rating was actually passed on to consumers.
- **Myth:** Additional relief to poor households through increases in social grants and inflation adjustments of lower income tax brackets will shield poor households.
 - **Reality:** Additional relief to poor households has not been adequately provided, even in the scrapped budget.
- **Myth:** Higher-income households bear most of the burden of the VAT.
 - **Reality:** VAT makes the tax mix more regressive and places a disproportionate cost on lowest-income households.
- **Myth:** VAT will have less of a negative impact on economic growth than increases in CIT or PIT due to its broad base and simplicity in design.
 - **Reality:** We must consider the impact on growth, inflation, inequality, and destitution. On the latter three, VAT is unequivocally the worst option. On growth, it is likely that VAT is also worse, given different households' propensity to spend on domestic goods.
- **Myth:** The South African VAT rate remains below the average of peer countries.
 - **Reality:** The relevant context is essential; previous VAT increases have disappointed in their outcomes, and we must learn from those lessons.

The reality is that increasing VAT would have a regressive impact. It unfairly treats everyone the same, which is formal equality, while placing a disproportionate burden on the disposable income of the poor. It is worth noting that not all poor are recipients of grants or social services through which collected revenue is redistributed. Anticipatory impact assessments of the mooted a 1 or 2 percentage point VAT increase predicts an exacerbated gender, race and disability gap and increased Gini-Coefficient. Alternative options, such as increasing company tax, implementing a wealth tax, or raising personal income tax in higher income brackets might be less expedient but are more attuned to address South Africa's budget constraints without violating constitutional governance dictates.

Pathways Out of The Immediate Crisis and Alternative Ways of Generating Revenue

Given the limitations of relying solely on VAT increases, we urge the government to explore alternative revenue-generating strategies. The focus must extend beyond VAT as a silver bullet for revenue generation and include addressing the underlying growth crisis that limits South Africa's capacity to fund essential social services. This should include decolonising and democratising the economy in all its dimensions at all levels. South Africa needs to look at the package of policies and assess whether they both promote economic growth and equitably include people who have previously been economically excluded while fostering a

wellbeing nation as envisaged in the Constitution. Evidence suggests that current economic policy fails on both counts. Fostering wellbeing also seems neglected.

Options to Raise Resources

Raise Borrowing Strategically: While not a long-term solution, carefully considered and targeted borrowing can provide immediate fiscal space for essential social programs and investments. This must be done with a clear plan for repayment and within sustainable debt levels. Measures must be taken to lower the cost of borrowing South African faces.

- **Use Existing Pathways More Effectively:**
 - **Improve Tax Collection Efficiency:** Strengthen tax administration, enhance enforcement, and modernize systems to reduce tax evasion and avoidance.
 - **Combat Illicit Financial Flows (IFFs):** Implement measures to track, prevent, and recover funds lost through IFFs.
- **Remove Inefficient and Regressive Tax Breaks:** Review existing tax expenditures (tax breaks, exemptions, deductions) to identify and eliminate those that are inefficient, regressive, or no longer serve their intended purpose.
- **Make Adjustments to Existing Taxes:**
 - **Progressive Taxation:** Adjust existing income tax brackets to ensure a more progressive tax system, increasing rates for higher income earners.
 - **Increase Company Tax:** Re-evaluate the company tax rate to ensure it is competitive while contributing adequately to government revenue.
- **Implement New Taxes:**
 - **Wealth Tax:** Consider implementing a wealth tax on high-net-worth individuals.
 - **Digital Services Tax:** Explore the possibility of taxing digital services provided by multinational corporations.
- **Leverage the State Balance Sheet:**
 - **Improve SOE Performance:** Enhance the efficiency, governance, and financial performance of State-Owned Enterprises (SOEs) to reduce their reliance on government funding and generate revenue.
 - **Strategic Asset Sales:** Consider the strategic sale of non-core government assets to raise capital for investment in priority areas.
 - **Leverage Ideal Capital:** Make use of ideal surplus funds, for instance, in the Government Employees Pension Fund or Unemployment Insurance Fund.

A Call for Constitutionally Attuned Revenue Sources

We echo the sentiment that hard choices must be made but also add that questions must be asked regarding the most constitutionally attuned sourcing of additional revenue, concomitantly. Increasing VAT places a disproportionate burden on the poor even with zero rating while its efficacy in yielding adequate additional revenue is contested. The Constitution, as clarified in cases such as *Grootbom*, *Van Heerden*, *Makwanyane* and *Mahlangu*, dictates a more just, fair and transformative way of governing.

As highlighted in the Roundtable discussion, constitutionally attuned choices require courage and wisdom, balancing economic exigencies with constitutional objectives and shunning the lure of expediency. We call on the government to seize this opportunity to prioritise policies that advance the rights and well-being of all South Africans, particularly the most vulnerable to deteriorations in hunger, poverty and inequality.

Worth considering is the need to leapfrog South Africa's achievements as it traverses the last lap of the global sustainable goals, particularly regarding goals relating to zero poverty (Goal 1), zero hunger (Goal 2), and reduced inequality (Goal 10), including gender inequality and empowerment of women and girls (Goal 5). Immediate revenue generation and expenditure reduction choices should also be anticipatory impact assessed against making progress on the G20 objectives of Solidarity Equality, and sustainability. We need courage to become the guardians of all people's rights in pursuit of social justice thus assuring peace and sustainable development for all.

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