



# Is another VAT increase looming to fill the deficit caused by COVID-19?

Finance Minister Tito Mboweni will deliver a special emergency budget this week during which he will propose a new financial framework to respond to the devastation caused by COVID-19. It has now been two years since the Minister of Finance announced a 1% increase of value-added tax (VAT) as part of government's efforts to contain a budget deficit. Even this 1% increase, in the absence of the pandemic, arguably was not sufficient to contain the deficit. At the time, no-one could have imagined or predicted that the entire globe would become engulfed in turmoil causing overwhelming job losses, disease, public health strain and catastrophic economic consequences more dire than the 2008 financial crisis. To add insult to injury, just prior to and in the midst of lockdown, South Africa was downgraded twice.

Although the government will be desperate for cash, it needs to balance this with a perhaps predominant necessity which is to stimulate the economy. Raising the VAT rate will firstly do the opposite and secondly tends to impact the poor more than the wealthy. In the trail of destruction caused by collapsing businesses and an ever increasing unemployed population, Mboweni is fast running out of options. A tax on the super wealthy and even the introduction of a new tax on the supply of electronic services could be introduced.

In conclusion, although an increase remains an option, it is unlikely given the consequences it will have on the general population. Having said this, it remains a powerful tool that Mboweni may use when pushed into a corner.



Article written by  
Severus Smuts, Director: Indirect Tax  
Leader, Deloitte Africa Tax & Legal



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