Press Release

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South African Institute of Race Relations
The power of ideas

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Sugar tax is a revenue grab that will have zero health benefit to SA and may worsen socio-economic circumstances – new report

A report released by the IRR this morning shows that the proposed sugar tax will do almost nothing to improve the health of South Africans. It is rather an attempt to raise more money by a desperate government that is running short of revenue. The tax will place more financial pressure on already stressed households and worsen their socio-economic position.

International experience shows that sugar taxes work badly in countering obesity, notes the IRR in a policy paper on the Treasury's proposal to introduce a 20% excise tax on sugar-sweetened beverages (SSBs) next year.

Despite their ineffectiveness, sugar taxes get by far the most media attention – while more successful interventions are largely overlooked. That sugar taxes yield useful amounts of revenue is also why governments prefer them to initiatives known to work far better against obesity.

This international experience is directly relevant to South Africa, where the yield from the proposed SSB tax is likely to be substantial.

Says the IRR: "Based on 2015 sales figures for the SSBs likely to be subjected to the tax, the yield from the new tax could well be R10.5bn and perhaps even more."

This is roughly half the R20bn in additional revenue that a one percentage point increase in the VAT rate (from 14% to 15%) would bring in. Moreover, once the SSB tax has been implemented, the government is planning to push for similar taxes on other sugary foods, as well as on other products seen as contributing to obesity, such as 'fast foods' and those high in salt.

Before long, SSB and similar taxes could thus bring in the full R20bn that could be generated by increasing the VAT rate to 15% – but without the government having to confront the public outcry that an overt VAT increase would spark.

Adds the IRR: "Consumer spending contributes around 60% to South Africa's GDP, making it a critical factor in the country's growth rate. However, consumers already face a toxic mix of high inflation and interest rates, crippling debt levels, and diminishing employment, with some 500 000 jobs already lost this year.

"With consumers already so hard pressed, increasing the tax burden on the many in an attempt to change the buying habits of the few simply cannot be justified.

"Moreover, since the proposed SSB tax is unlikely to reduce obesity, it amounts to little more than a stealth tax: an attempt to increase the VAT rate without having to pay the political price of an overt decision to do so."

The IRR policy paper can be accessed by clicking here.

Ends.