

Fiscal Framework and Revenue Proposals

Submission to the Standing Committee on Finance and the Select Committee on Finance on the Fiscal Framework and Revenue Proposals

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By IRR Legal NPC

Introduction – Value for Money

This submission will analyse the Fiscal Framework and Revenue Proposals on a range of points, though two recommendations stand out.

- 1) Make the cost of BEE “preference premiums” in public procurement transparent to the public.
- 2) Reduce the cost of BEE “preference premiums” in public procurement to R0. The latter is consistent both with the retention of race as a matter of preference to break ties between competing bids, and the eradication of race as a matter of preference in public procurement.

These recommendations are achievable within existing legislative and regulatory frameworks. They would improve the fiscal framework and alleviate otherwise irreconcilable tensions between contesting revenue proposals to alleviate the public debt while exacerbating poverty and unemployment through an increase of the Value-Added Tax (VAT) versus any proposal to alleviate poverty and unemployment through a reduced VAT that would (absent other measures) increase the public debt.

Truly, the National Treasury overseen by the two Parliamentary Committees stands in an (almost) impossible position. Were it not for the option to cut BEE “preference premiums” to improve value for money, it is hard to imagine how any win-win fiscal determinations could be made.

Happily, IRR Legal’s proposal to pivot to maximizing value for money is already favoured in the 2025 Budget Review. Chapter 5 of the 2025 Budget Review, titled “Consolidated Spending Plans” opens with the following overview [with added emphasis]:
“Consolidated government spending is projected to increase from R2.4 trillion in 2024/25 to R2.83 trillion in 2027/28...**South Africa needs to get better value for money from this large budget.**”

Annexure A of the Budget Review, the Report of the Minister to Parliament in terms of Section 7(4) of the Money Bills and Related Matters Act, likewise includes an admonition to maximize value for money near the beginning of the text, stating [with

added emphasis] that “**all accounting officers must implement measures to minimise inefficiency and waste to improve value for money.**”

The very next sentence, however, mentions “preferential procurement”.

There is an inevitable tension between “preferential procurement” and “value for money”. This assertion is not a matter of idiosyncratic opinion that any Members of Parliament can easily ignore. The Commission of Inquiry into State Capture Report, commonly known as the Zondo Report, states: “There is an inevitable tension when a single process is simultaneously to achieve different aspirational objectives.¹”

This statement was made in relation to the intention to “procure goods at least cost” versus the intention to “prioritize the transformative potential” of what is commonly know as BEE².

IRR Legal submits that the Standing Committee on Finance and Select Committee on Finance ought to oversee National Treasury’s delivery on the promise noted above, made to Parliament by the Minister of Finance Enoch Godongwana, to “improve value for money from this large budget”.

This can, and must, be done by minimizing BEE “preference premiums”, as Acting Chief Procurement Officer Willie Mathebula has described them, and thus maximizing value for money. National Treasury has, in effect, already promised to do so. However, as it has not done so, and as the Fiscal Framework and Revenue Proposals fail to reflect the practical steps necessary in order to execute this simple step, the relevant Parliamentary committees in both houses are needed to oversee the executive to perform its duties.

Revenue Estimates

South Africa’s fiscal problem is, on the one hand, a crisis of revenue. Total government revenue for FY25 is estimated at R2.029 trillion and FY26 is estimated at R2.222 trillion. The vast majority, R2.006 in FY26 is estimated to be tax revenue. Gross tax revenue into the National Revenue Fund is estimated to be approximately R1.846 trillion in FY25.

This is clearly not enough to meet the needs of the public, which includes over 18 million unemployed people according to Stats SA’s expanded unemployment rate. This also includes an estimated 21.7% of infants that are estimated to suffer stunting from

¹ Commission of Inquiry Into State Capture Final Report, Volume 1, paragraph 530, page 769, Section G, “Intractable Problems”, subheading “Problems in the legislative design”.

² *Ibid* paragraph 529.

malnutrition and 21% of infants that are estimated to suffer from obesity due to another form of malnutrition, known collectively as “the double burden of malnutrition”³.

This also includes South Africa’s dismal public school performance as the worst country measured in the Progress in International Reading Study (PIRLS), with 81% of children found not to be able to read for meaning, worse than the 2016 result in which 78% of students were found to be unable to read for meaning⁴.

These are just a few of the challenges that will, one way or another, require more revenue. The rainbow republic needs more money.

Expenditure for FY25 is estimated in the 2025 Budget Review at approximately R2.15 trillion with main budget deficit of -4.7% of GDP, at over R350 billion. How to get all the extra money?

There are, in abstract terms, several ways to increase revenue. One is to raise tax rates. However, this is only effect in circumstances where the combination of tax enforcement, tax morality, and economic conditions are such that raising tax rates will not have a net negative impact on revenues by suppressing consumer demand or increasing the incidence of tax avoidance and evasion. In economic jargon raising tax rates only works in states below the well-known Laffer curve.

IRR Legal submits, based on expert economic evidence⁵⁶ and warnings⁷, that in general South Africa is at the apex, or beyond the apex of the Laffer curve, and that in particular raising Value-Added Tax VAT is counterproductive. The latter claim will be elaborated upon in the section specifically dedicated to VAT.

Another way to raise revenue is to stimulate economic growth. This again can be done in a variety of ways, including by stimulating consumer demand through increased deficit spending. However, debt-service costs already consume 22 cents of every rand of revenue, will stabilise in the current year according to the Budget Review. As Minister Godongwana said in the 2025 Budget Speech debt-service costs are “more than what we spend on health, the police and basic education.”

³ Kaldenbach, S. et al, Infant feeding, growth monitoring and the double burden of malnutrition among children aged 6 months and their mothers in KwaZulu-Natal, South Africa (2021), <https://doi.org/10.1111/mcn.13288>

⁴ <https://www.iea.nl/studies/iea/pirls/2021>

⁵ “Our estimates place the new top tax rate on the wrong side of the Laffer curve”, Axelson, C. et al, Taxing top incomes in the emerging world (2024), SA-TIED, in cooperation with NT, UNU-Wider, Wider Working Paper 2024/37.

⁶ Naape, B., & Mahonye, N. (2021). Does South Africa’s tax effort fall short of its tax capacity? *Development Southern Africa*, 38(5), 750–768. <https://doi.org/10.1080/0376835X.2021.1883418>

⁷ <https://businesstech.co.za/news/government/816420/tax-revolt-warning-in-south-africa/>

Minister Godongwana wisely urged a reversal of the primary deficit, targeting “a growing primary surplus” instead to “enable the government to reduce debt-service costs as a proportion of revenue.”

These facts and determinations define the shape, at a high level, of the fiscal framework: the state cannot tax more, or borrow more, but it needs to spend more. So, what can possibly be done? The revenue that it is already spending can be better spent. That is commonly known as *maximizing value for money*.

Given the fiscal constraints that National Treasury acknowledges the maximization of value for money is not a “nice to have” next step. It is a must.

Constitutional Duty to Make “Preference Premiums” Transparent & to Maximize Value for Money

Since this is a submission within the context of the Fiscal Framework and Revenue Proposals tabled on March 12, 2025, it is important to note that the recommendations fall within the ambit of National Treasury to execute within the current legislative framework. However, it is also a duty under the Constitution. First the Constitutional duty will be established, as both Parliamentary Committees must oversee National Treasury in the execution of its duty. Then the practical steps to maximizing value for money within the existing legislative framework will be discussed.

Transparency

First, BEE “preference premiums” must be made transparent.

Section 215(1) of the Constitution states [with added emphasis]:

“National, provincial and municipal budgets and **budgetary processes must promote transparency**, accountability and the effective financial management of the economy, debt and the public sector.”

Transparency is not an option, it is a duty.

Furthermore, National Treasury Acting Head of the Office of the General Counsel, Advocate Empie van Schoor stated to IRR Legal in public hearings overseen by Parliament that the Constitutional requirement of transparency is not qualified by any imperative for what is colloquially termed transformation or technically termed categories of “preference” under 217(2) of the Constitution. In other words, transparency is required and must not be blocked in the name of “transformation”.

And yet neither the 2025 Budget Speech, nor the 2025 Budget Review, nor the Estimates of National Expenditure report any data on the cost to the fisc of BEE “preference premiums” in public procurement in 2025.

Whatever the number was, nobody (in the public) knows. That is a clear failure of transparency.

IRR Legal recommends that the Standing Committee on Finance and Select Committee on Finance draw this failure to National Treasury's attention.

Maximize Value for Money

Second, BEE "preference premiums" must be reduced to R0. This means clearly prioritizing value for money over race preference.

The Zondo Report states, with regards to the "inevitable tension" between value for money and preference premiums: "In the view of the Commission the failure to identify the primary intention of the Constitution is unhelpful and it has negative repercussions when this delicate and complex choice has to be made, by default, by the procuring official.⁸"

Members of both Finance Committees are recommended to become clear about which is more important, value for money or race preferences. The idea that anyone who oversees the public procurement budget of more than R1.1 trillion per annum can sit on the fence, failing to identify the primary intention is indeed "unhelpful" and "has negative repercussions" as it leaves discretion and opacity where there should be transparency and order.

The Zondo Report was clear on the best priority. "Ultimately in the view of the Commission the primary national interest is best served when the government derives the maximum value-for-money in the procurement process and procurement officials should be so advised.⁹"

The Constitution is equally clear. Section 217(1) of the Constitution states [with added emphasis]:

"When an organ of state...contracts for goods or services, it **must** do so in accordance with a system which is fair, equitable, transparent, competitive and **cost-effective.**"

Cost-effectiveness is a "must".

By contrast, 217(2) of the Constitution states [with added emphasis] that the above:

"...**does not prevent** organs of state" from "implementing a procurement policy" providing for "a) categories of preference in the allocation of contracts;" and "b) the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination."

⁸ *Ibid* above see n 1, paragraph 531.

⁹ *Ibid* paragraph 532.

While 217(3) says that the policy referred to in (2) “**must** be implemented” this does nothing to undermine the first “**must**” in 217(1). Rather, the two must on established canons of construction be read harmoniously.

Members of the Committees on Finance face a simple question: how can both “musts” of 217(1) cost-effectiveness and 217(2) policy be implemented concurrently? How can both be satisfied at the same time? How can this be possible without one needing to be compromised for the other?

There are three clear answers. One is that public procurement contracts must always go to the company able to provide the best value for money. In cases where two companies are tied in terms of cost-effectiveness, then race may be used to **break the tie**. In such a scenario the 217(1) “must” applies, as value for money is always maximized, and the 217(3) “must” applies, as there is always a policy of to break ties when they occur.

Second is that **the same tie-breaker method is used** as in the first answer, but categories **other than race** are used to assign preference in terms of 217(2)(a) and to recognize disadvantage in terms of 217(2)(b).

Third is that public procurement contracts must always go to the company able to provide the best value for money, and that this *is* a policy that satisfies 217(2).

In terms of 217(2)(a) the “categories of preference in the allocation of contracts” are whichever categories ensure the maximization of value for money. Contracts might be preferred for companies that have **a good credit history, or good record of delivery** on time and within budget. Public procurement experts have severally submitted to National Treasury the kinds of categorization scores of this sort that would improve value for money.

In terms of 217(2)(b) the **currently 18 million plus South Africans looking for work**, and those who have given up actively seeking work, are classifiable as “**disadvantaged by unfair discrimination**”. If race must be included, this can refer only to black, Indian, and coloured South Africans, to use the official racial designations maintained by Stats SA.

A system of preferences for companies that deliver on time and in budget with good credit scores and similar qualities is good for maximizing value for money, which is in turn good for alleviating the budgetary crisis South Africa is in, which is good in turn for attracting investment, driving economic growth and stimulating employment. That in turn is good for the relevant group identified in terms of 217(2)(b), namely poor, black (in the BEE sense of the term), unemployed persons.

Whether a member of either Finance Committee prefers the first, second, or third solution to the tension otherwise identified in the Zondo Report is presently of

secondary importance. What matters is, as the Zondo Report stated, the following [with added emphasis]:

“Ultimately in the view of the Commission **the primary national interest is best served** when the government derives the **maximum value-for-money** in the procurement process...¹⁰”

Practical Steps - Transparency

The proposal to make BEE “preference premiums” explicit is distinct from the proposal to reduce these “preference premiums” to R0 in order to maximize value for money in order to alleviate unemployment. Members of either of the Finance Committees who reject the maximization of value for money ought, preferring that National Treasury should keep spending strained revenue on BEE “preference premiums” instead, should nevertheless join hands with members who oppose these premiums.

That is because all Members of Parliament (MP) should want transparency in how BEE “preference premiums” are spent, *a fortiori* those MPs on the relevant Finance Committees in both houses of Parliament tasked with overseeing fiscal decision making.

The practical steps to do this are required by the Constitution to be placed in national legislation. 215(2) of the Constitution states:

“National legislation must prescribe ...(c)...the way in which proposed expenditure will comply with national legislation”.

This refers inter alia to the Public Procurement Policy Framework Act (PPPFA), which has not yet been superseded as a practical matter by the Public Procurement Act.

This also refers, inter alia, to the Public Finance Management Act (PFMA).

Section 2 of the PPPFA provides for a “preference points” system. As Mr Mathebula has repeatedly explained this “caps” the BEE “preference premiums” at 25% for contracts under an amount set by National Treasury, currently R50 million, and at 11.1% for contracts above that amount.

The legislation also provides for a very practical means to calculate the baseline, explicit cost of BEE premiums in any given contract. All that needs to be done is to rank all bids in terms of points for “price” and for “specific goals”, as per Section 2 of the PPPFA. Then compare the winning bid (in total) with the bid that would have won if only price was calculated. The difference in price (if there is any) gives the preference premium cost according to the following formula (on the 90-point scale):

¹⁰ *Ibid*, paragraph 532.

$(\text{Price Winner Price Points} - \text{Bid Winner Price Points}) / 90 = \text{Preference Premium Cost (\%)}$.

On the 80-point scale the formula is the same with 90 replaced by 80.

A hypothetical example is provided of a contract that received ten bids.

Company	Price	SG
1	90	10
2	91	5
3	84	10
4	80	5
5	84	0
6	70	10
7	70	5
8	65	5
9	50	0
10	44	5

Company 1 is the winner, with 100 points, and Company 2 is the runner-up on 96 points. However, Company 2 would have won on price alone, on 91 points. According to the formula:

$$(91 - 90) * 100 / 90 = 1.11\%$$

The maximum premium on a 90 point scale is $(100 - 90) / 90 = 11.1\%$ as Mr Mathebula has noted.

The maximum premium on a 80 point scale is $(100 - 80) / 80 = 25\%$.

Step 1 is to make BEE “preference premiums” transparent.

As such, *all* that is needed is two data points from each bid in a tender for a public procurement contract to calculate the cost. The data is already gathered by every organ of state conducting open bids. The collection of two data points from the record per bid is practically achievable.

This is no accident. National legislation must provide for transparency, and so it does.

What is needed is for National Treasury to act straightforwardly on that possibility created by the legislative scheme. That in turn is more likely to happen if the relevant Finance Committees that oversee National Treasury make a point of both this practical possibility *and* the constitutional duty to execute *and* the relevance to the current fiscal framework.

Relevance to Fiscal Framework

The relevance is, again, simply this. The rainbow republic's fisc is desperately strained, so much so that National Treasury is thinking about exacerbating poverty, inequality, and unemployment by hiking the VAT, the country's most regressive tax. Every decent fiscal decision maker is looking for ways to avoid that by saving money. In order to achieve that goal, it is necessary know how revenue has been spent, and how it will be spent. That in turn means "transparency" about fiscal outlays. With a cap of 25% for contracts below R50 million, and 11.1% for contracts above R50 million, the size of total expenditure on BEE premiums is likely to be considerable. Knowing its size more precisely will allow fiscal decision makers to weigh up the costs and benefits of retaining the current expenditures on BEE premiums or adjusting them to maximize value for money.

Practical Steps – Reducing BEE Premiums

Section 5(1) of the PPPFA allows the Finance Minister to issue regulations, and Sections 2(1)(b)(i) and (ii) specifically refer to the Minister's determination, through regulations, of the prescribed threshold above which the cap on preference premiums drops from 25% to 11.1%.

In other words, Minister Godongwana has the power to issue draft regulations tomorrow that reduce the threshold for the 11.1% cap from R50 million to R500,000. After a reasonable period for public comment those regulations can then take effect. That would, in turn, reduce the maximum cap on legal deviations from maximum value for money from 25% to 11.1% for all contracts between R500,000 and R50 million. That is expected to cover the vast bulk of the R1.1 trillion plus annual procurement spend.

That is a simple, urgent step that any member of either Finance Committee can urge the Minister to execute to improve value for money, as promised, to relax the strain on the current fiscal framework.

Second, section 3(c) of the PPPFA allows the Minister to issue exemptions from the point system that deviates from value for money "if – ... (c) it is in the public interest".

As the Zondo Report indicates, see above, it is "ultimately" in the "national interest", which is the public interest, to maximize value for money in "all" procurement offices. Hence, the Minister can grant such exemptions to any organ of state that applies.

To be clear, the Minister may only grant such exemptions "on request". It is therefore significant that the two Finance Committees ventilate the need for organs of state to make these requests too. Parliament's function in this time of budgetary crisis is not just to address the general public, but also to address government functionaries who have direct access to the levers of power that must be pulled to return this republic to a path of jobs and economic growth.

In summary there are two, immediate practical steps that would reduce the strain on the fiscal framework: reduce the threshold and grant exemptions.

Estimated Savings

It is difficult to estimate savings that would result from reducing BEE premiums, due to the lack of transparency. However, a range of experts have suggested pursuing savings in this regard. This comes not from hostility to the project of assisting black people that were viciously oppressed by apartheid to get out of its ghastly shadow. Just the opposite. These recommendations to get savings by pursuing value for money rather than by continuing to pay BEE “preference premiums” are targeted at curing society’s major ills today, the most important of which is unemployment officially recorded at above 32%, which are in part a result of apartheid’s legacy.

IRR – R150 billion

The 2024 “Slash Waste, Cut Tax” Report, published by the IRR, estimated a direct saving of R17 billion per annum and a combined saving (including indirect savings) of R150 billion per annum¹¹.

It is important to note that the indirect saving is largely due to the estimated reduction in corruption that would result from following the Zondo Report’s advice to simplify the procurement process by clearly prioritizing maximum value for money above all else.

It is equally important to note that those companies that benefit from legal BEE premiums of an estimated R17 billion per annum are operating within the statutory and regulatory scheme. They are, in other words, profit maximizing according to the rules of the day.

By contrast, those in the private sector and public sector that benefit from corruption that is facilitated by confusion around value for money in procurement are, it is supremely important to note, racially diverse, including members of all race groups.

IMF – 3% of GDP

IMF report stated [with added emphasis]: “The **preferential procurement** system is **costly and ineffective**. The cost concerns have arisen not only because of the trade-offs with competitive procurement, but also because the **Zondo commission reports have illustrated how the preferential procurement system has been used as an avenue for corruption**, state capture, and rent seeking.¹²”

¹¹ pg 20, Crouse, G. Slash Waste Cut Taxes, IRR Blueprint for Growth 2, 2024, https://irr.org.za/reports/the-irrs-blueprint-for-growth/the-irr-blueprint-for-growth-2024/2_the-irrs-blueprint-for-growth-2-slash-waste-cut-taxes

¹² Simone, A. & Balasundharam, V., Public Procurement in South Africa: Issues and Reform Options, IMF Selected Issue Paper, June 2023.

It also noted, “the [official government 2015 Supply Chain Management Review] SCMR notes that the perception is that desired local and enterprise development has not been achieved and that **the system favors established businesses**, including businesses that were disadvantaged in the past but are no longer so, erecting barriers to entry.¹³”

Furthermore [with added emphasis], “Given South Africa’s need to consolidate, strengthening its public procurement is essential to make spending more efficient and achieve savings. The 2015 Supply Chain Management Review (SCMR) suggested that **savings from improving procurement practices could be sizable, up to 20 percent of the cost of goods and services procured (3 percent of GDP or 12.7 billion US dollars)**, if use of strategic sourcing is increased (i.e., having differentiated but standardized procurement processes throughout the public sector that optimize procurement strategies for different groups of goods and services). Other research, such as IMF (2018), also points to opportunities to improve spending efficiency in health and education as **South Africa spends considerably more than comparator countries but achieves worse outcomes.**¹⁴”

South Africa spends more and gets worse outcomes, currently. But by maximizing value for money savings of up to 3% of GDP were estimated by the state itself, in 2015. By comparison, the IRR estimate of R150 billion in savings is modest.

Harvard Growth Lab – up to 31% in some contracts

The famous paper issued by Harvard University’s Growth Lab, “Growth Through Inclusion in South Africa” also addressed the fiscal framework through maximizing value for money. It advocated for “relaxing preferential procurement rules and focusing the power of government procurement more strategically”¹⁵.

It specifically advocated in the electricity sector to “Remove all preferential procurement requirements for the REIPPP [Renewable Energy Independent Power Producer Program]. Develop strategic procurement programs that strengthen industries with clear potential to eventually compete in global markets (and move toward this targeted approach instead of widespread, ineffective preferential procurement)”¹⁶.

This advice was clearly generalized: “Expand relaxation of preferential procurement requirements on all SOEs and other public entities.”¹⁷”

Again, this was grounded in the Zondo Report’s connection between corruption, or rent-seeking, and the preference system. “Things have been made worse by a mistaken belief that preferential procurement rules could be imposed on complex organizations,

¹³ *Ibid.* pg 4.

¹⁴ *Ibid.* Pg 4.

¹⁵ Hausmann, R., et al., 2023. Growth Through Inclusion in South Africa. <http://www.tinyurl.com/y/vjzp2d>

¹⁶ *Ibid.* pg 36.

¹⁷ *Ibid.* pg 36.

such as the network industries, at little cost. Rather, these rules have overburdened critical public organizations by adding financial costs, reducing effectiveness, and expanding space for patronage systems to take hold. Political patronage has been a widespread problem, as well documented by South...Zondo Commission. While it can be easy to place the blame of state collapse on corruption and patronage, this would overlook the direct ways that gridlock, ideology, and overburdening have contributed to struggling and failing public systems.”¹⁸

While the Harvard report mentions Treasury’s own recognition of the costs of BEE preference premiums it fails to produce a numerical estimate for how much that cost is. “[P]referential procurement as structured by the Preferential Procurement Framework of 2000 has led to numerous inefficiencies (National Treasury, 2015).¹⁹”

However, the Harvard report does neatly summarize the extremely valuable work of the late professor Stephen Oseko Migiro: “Public sector procurement and black economic empowerment in South Africa: Challenges of preferential procurement and decentralisation of the provincial tender board” (2010, Journal of Social Development in Africa.)

“Migro (2011) documents procurement costs in different government departments of the North West Province in 2006-2007. He shows that the premium paid for PPPFA compliance in this period was 27% in the transport department, 28% in agriculture, 9% in education, 28% in public works, and 62% in sports, arts & culture (Migro, 2011). In this case, not only was the cost of compliance very high on average (31%), but the very high variation in the premium paid across departments suggests large differences in the resulting market power of qualifying contractors in different municipalities and different activities.²⁰”

These premiums of up to 31% (on average) are extremely high. If that holds generally today it would make the R150 billion estimate of the IRR extremely modest.

Estimated Savings in Context of Budget Framework

A saving of R150 billion is, according to the Budget Review’s GDP estimate, roughly 2% of GDP. This can be compared to VAT savings.

National Treasury estimates the total VAT adjustment will increase revenues by R39.2 billion over the next two years, which comprises an increase of R13.5 billion this year, and R29.8 billion next year, as well as an annual decrease of about R2 billion through new zero-rated items including offal and canned vegetables. National Treasury also

¹⁸ *Ibid.* pg 40.

¹⁹ *Ibid.* pg 55.

²⁰ *Ibdi.* Pg 74.

estimates increasing revenue through Personal Income Tax (PIT) bracket creep of R19.5 billion. The estimated combined revenue increase is roughly R49.3 billion.

This is one third of the estimated savings that could be achieved by cutting BEE premiums to R0. The savings would be even greater if the IMF's reference to the SCMR was accurate.

A saving of R150 by reducing BEE premiums to zero would provide for far more than the recommended VAT adjustment and PIT bracket creep.

Members of both Committee's are recommended to consider alternative ways to manage the fiscal framework, including the reduction of BEE premiums in procurement, for this reason.

VAT – Who Pays

Given the recommendation to hike VAT, IRR Legal has made some basic calculations as to what poorer South Africans will be expected to pay if the decision is made to preserve the current shape of the fiscal framework, rather than to pursue maximum value for money. Using National Treasury data in the 2025 Budget Review on VAT burdens by deciles, and Stats SA data on decile expenditure breakdowns by household:

Households spending less than R1,300 per month will be expected to spend **R1.2 billion** extra in tax over two years.

Households spending less than R2,100 will be expected to spend **R3.5 billion** extra in tax.

Households spending less than R3,600 will be expected to spend **R7 billion** extra in tax.

Households spending less than R6,900 will be expected to spend **R12.7 billion** extra in tax.

Given the extremity of this burden on poorer South Africans, it is estimated that increasing VAT will increase poverty, unemployment, and income inequality. This in turn is expected to inhibit economic activity, resulting in reduced activity to tax, ultimately producing a failure to increase revenues.

Public Procurement Act (2024)

Both Committees are well aware that the PPPFA is to be replaced by the Public Procurement Act. The latter has been promoted by National Treasury before Parliament precisely for the purpose of increasing the scope of BEE “preference premiums”, thereby decreasing value for money. Concerningly, there is no allowance in the budget for additional expenditure on BEE premiums. Nor is it easy to understand how such an allowance could be made given the fiscal framework and revenue constraints.

There are also mixed messages coming out of National Treasury. On the one hand, the Budget Review of 2025 states the relevant policy to implement the Public Procurement Act has not even begun to be developed. “Prior to the enactment of the Public Procurement Act (2024), the National Treasury advised the department to develop a policy on preferential procurement within government. This policy would require departments to procure goods and services from SEEs; however, development of this policy has yet to commence.”

On the other hand, it says that regulations are already being developed. “Key procurement reforms include the recent Public Procurement Act (2024), for which regulations are being developed.”

Both Finance Committees are recommended to require that National Treasury clearly demarcate the costs of this new phase of BEE preference premiums in the fiscal framework to allow fiscal decision makers the opportunity to investigate the relevant drain on revenues given the current budget crisis.