Plan to scrap VAT concessions for farmers

By Amanda Visser

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Proposals by the Treasury to scrap the value added tax (VAT) concession of a zero rating on goods and services bought by farmers for production purposes will raise input costs 14%.

AgriSA's Dawie Maree warns that input costs for farmers will increase sharply if the zero-rating on goods and services bought by farmers is scrapped. Image: Accounting Academy

The sector spends R100bn a year on goods such as fodder, stock and fertiliser and if the VAT concession is scrapped, input costs could rise by R14bn a year.

AgriSA Senior Economist Dawie Maree said farmers could claim the VAT input tax payments back if they were registered for VAT, but they would carry the cost while waiting for the refund. Many small-scale farmers were not registered for VAT and could not claim refunds.

The Treasury said in a memorandum, published with the draft Taxation Laws Amendment Bill, there was "strong evidence" that the concession was open to abuse. It is believed the fiscus has lost more than R200bn a year to fraudulent VAT claims.

AgriSA said farmers - many already highly - would have to secure financing of R200m a year while waiting for VAT refunds.

Tax-free savings plan

Agricultural bodies will meet the South African Revenue Service (SARS) soon to thrash out possible solutions to corruption and fraud, without scrapping the VAT concession. Stakeholders have until 17 August to comment on the proposals in the bill.

The bill also contains a proposal on a tax-free savings account mooted in the 2014 budget, aimed at stimulating household savings. Individuals will be limited to contributing R30,000 a year, with a lifetime cap of R500,000.

The returns will be exempt from income and dividends tax. However, any contribution that exceeds these limits will attract a penalty of 40%.

Peter Stephan, Senior Policy Adviser at the Association for Savings and Investment South Africa, said SARS needed to ensure people did not get more tax relief than they were entitled to.

"Once taxpayers have used up their tax-free savings account allowance they can save in other ways if they do not want the 40% tax penalty to apply," Stephan said.