

5 IMPORT VAT AND CUSTOMS DUTIES

10-YEAR REVIEW

- For the 10-year review period, from fiscal years 2007/08 to 2016/17, the two import taxes collectively accounted for an average of 17.7% to Total Tax Revenue, with Import VAT's share at 13.5% and Customs Duties at 4.2%. This equated to a joint average contribution of 4.5% to GDP for the decade, at 3.4% for Import VAT and 1.1% for Customs Duties. The CAGR over the review period for Import VAT was 7.5% which coupled with 6.2% for Customs Duties; amounting to a combined average of 7.2%.
- Looking at the first five fiscal years, 2007/08 to 2011/12, the trends in revenue performances over this period centred on the global financial crisis which caused a worldwide slump in trade. As a consequence, this impacted negatively on South Africa's overall trade and import taxes culminating in Import VAT collections plummeting by 23.6% in 2009/10, after registering growth rates of 16.5% in 2007/08 and 18.1% in 2008/09. Customs Duties reflected an 11.7% growth rate in 2007/08, followed by a deterioration of 14.0% in each of the two subsequent years. The revenue collapse of both taxes during the crisis period was largely driven by tumbling import levels of the principal contributors to Total Import Tax, namely *Vehicles, Aircraft and Vessels* and *Machinery and Electronics*, both of which exhibited deterioration rates in excess of 20.0% in 2009/10 compared to prior years.
- In the fiscal years that followed, collections in 2010/11 and 2011/12 experienced a significant recovery moving from a low base, when Import VAT strengthened by 16.9% and 23.9% respectively; and Customs Duties rose by 36.1% and 28.4% for the corresponding years. This improvement was underpinned by the principal contributing commodities of *Vehicles, Aircraft and Vessels* and *Machinery and Electronics* rebounding to yield growth levels in excess of 30.0% and 10.0% respectively in each of the two years.
- The resurgent growth rates from the post-recession years began to moderate from 2012/13 to 2016/17, with slowing levels of key commodity imports in line with waning domestic demand and currency depreciation pushing up import costs.
- Import VAT collections for 2012/13 experienced a reduction in the growth rate to 9.4% before accelerating to 17.6% in 2013/14. This was primarily a result of robust imports of capital equipment and vehicles, buoyed by State-Owned Entities (SOEs) with capital outlay into major projects boosting their imports of equipment such as steam turbines and other production machinery. Collections of Customs Duties in 2013/14 and 2014/15 displayed strong double-digit growth levels of 14.0% and 13.3% respectively on the back of sustained growth in vehicle imports. The other leading contributing commodities in their respective sections, such as clothing, cellular phones and footwear, all maintained average-to-progressive levels of growth.

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- Import VAT growth in 2014/15 reduced to a modest 4.2% uptick due to the sluggish domestic economy and capital projects reaching completion. Customs Duties experienced a sharp 7.9% moderation in 2014/15 collections as a result of a drop in vehicle imports adding to the negative effect of the re-allocation of imported fuel levy from Customs Duties to Excise during the year.
- In 2015/16, the significant currency depreciation during the year coupled with steady imports of key commodities continued to impact positively on collections with a 10.4% increase in Import VAT and 13.7% rise in Customs Duties, with the latter aided by the low base effects of 2014/15, coupled with hikes in duty rates of specific goods. The overall positive impact was restricted by the vehicle sector remaining muted and weak growth in both domestic demand and merchandise imports.
- Collections of Import VAT and Customs Duties in 2016/17 revealed contractions of 1.0% and 1.5% each as a consequence of a broad-based deterioration in imports of key consumption and capital goods, resulting from currency-driven high costs of imports against the backdrop of difficult economic conditions, weak consumer spending and muted capital investment.
- Over the five fiscal years, from 2012/13 to 2016/17, Customs Duties observed an average effective tax rate of 3.1%. Commodities with the highest effective Duty rates were *Footwear and Accessories* at 23.0%; *Textiles and Clothing* at 17.0%; *Food, Beverages and Tobacco* at 8.9% and *Vehicles, Aircraft and Vessels* at 7.9%. These four commodity sections combined to make up an average of 66.4% of the total Customs Duties over the period.