



28 September 2026

The Accountant-General of South Africa (National Treasury)

Attention: Mr. Shabeer Khan

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The Commissioner of the South African Revenue Service (SARS)

Attention: Dr. Johnstone Makhubu

Email: commissioner@sars.gov.za

The Chief Ombud of the Community Schemes Ombud Service (CSOS)

Attention: Mr. Lesiba Seshoka

Email: info@csos.org.za (Marked: For Attention of Chief Ombud Seshoka)

The Minister of Electricity and Energy

Attention: Dr. Kgosientsho David Ramokgopa

Email: Tsakane.Khambane@dee.gov.za (Ministerial Registry)

The Director-General: Department of Electricity and Energy

For Attention: Mr Joseph Maraba

Per Email: EPP.Comments@dee.gov.za

The Minister of Water and Sanitation

Attention: Ms. Pemmy Majodina

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The Chief Executive Officer of the Organisation Undoing Tax Abuse (OUTA)

Attention: Mr. Wayne Duvenage

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The Director of the Helen Suzman Foundation (HSF)

Attention: Director / Executive Director

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Dear Sir,

SUBJECT: FORMAL SUBMISSION AND REQUEST FOR LEGISLATIVE REVIEW OF THE VALUE-ADDED TAX (VAT) ACT NO. 89 OF 1991 TO PROVIDE TARGETED ZERO-RATING AS THE PRIMARY RELIEF FOR ESSENTIAL DOMESTIC ELECTRICITY, WATER AND MUNICIPAL UTILITY SERVICES, WITH A SARS-ADMINISTERED UTILITY VAT CREDIT OR REFUND MECHANISM AS ALTERNATIVE AND TRANSITIONAL RELIEF, INCLUDING A FIVE-YEAR REPRIEVE FOR DOMESTIC CONSUMERS

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1. **PURPOSE: THE CORE OBJECTIVE AND ADDRESSING THE TAX INJUSTICE**

- 1.1 This submission addresses a structural inequity in the South African Value-Added Tax (VAT) framework. Domestic consumers pay standard-rated VAT on essential water and electricity services, whether through direct municipal accounts, body corporate or landlord utility recoveries, or prepaid electricity purchases. These services are basic household necessities linked to dignity, sanitation, food preparation, lighting, communication, safety and habitable living conditions, rather than luxury or discretionary consumption.
- 1.1 The affected consumer categories include: direct municipal account holders who receive post-paid electricity and water accounts; sectional title homeowners, tenants and occupants who carry VAT-inclusive utility costs through levy contributions or utility recoveries; and prepaid consumers who pay VAT at the point of purchasing electricity tokens and, where applicable, prepaid or metered water purchases.
- 1.2 Unlike registered commercial VAT vendors, who may claim qualifying utility VAT as input tax where the expense is incurred while making taxable supplies, domestic consumers are not ordinarily VAT vendors because they acquire these services for household consumption and not for the purpose of carrying on an enterprise that makes taxable supplies.
- 1.3 Consequently, residential households act as the absolute final point of consumption, absorbing the full 15% standard-rated tax as a non-recoverable out-of-pocket expense.
- 1.4 With average domestic utility bills compounding into thousands of Rands annually, households face an additional non-recoverable cost on essential services that directly affects affordability and household financial resilience.
- 1.5 This submission requests an immediate joint legislative review by National Treasury, SARS, the Department of Electricity and Energy, the Department of Water and Sanitation, the Community Schemes Ombud Service (CSOS), and the relevant Parliamentary Committees. The primary relief sought is the targeted zero-rating of qualifying essential domestic electricity, water and municipal utility services going forward. The alternative relief, where immediate zero-rating is not administratively or legislatively feasible, is a SARS-administered domestic utility VAT credit or refund mechanism linked to verified annual utility data.
- 1.6 In addition to prospective zero-rating, the requested reform should include a transitional domestic utility VAT relief window permitting qualifying domestic consumers to claim a verified VAT credit or refund for up to five prior tax years, or such period as National Treasury and SARS may determine after consultation, through the annual personal income tax return process. This transitional reprieve should apply to qualifying VAT already paid on municipal accounts, prepaid electricity purchases, and body corporate, managing agent or landlord utility recoveries, subject to documentary proof and SARS verification.
- 1.7 This submission does not contend that domestic consumers currently have an automatic VAT refund entitlement under the existing VAT Act. Rather, it requests legislative and policy reform to create prospective zero-rating as the preferred remedy and a

transitional, verified SARS-administered utility VAT credit or refund mechanism for historical VAT paid on essential domestic utility services.

2. **BACKGROUND**

2.1 The Constitutional Basis for Review

2.1.1 The current tax framework, which applies standard-rated VAT to life-sustaining domestic utility services, raises constitutional, equity and public policy concerns when assessed against the Constitution of the Republic of South Africa, 1996:

- Section 10 (The Right to Human Dignity): Access to affordable electricity, water and basic municipal services is closely linked to dignified household living, sanitation, safety, food preparation, communication and basic domestic functioning. A VAT framework that imposes a permanent, non-recoverable tax burden on essential domestic utility consumption therefore warrants legislative and policy review.
- Section 26 and 27 (Socio-Economic Interdependence): Access to adequate housing, healthcare, sufficient food, clean water and basic household functioning is closely linked to affordable electricity and municipal infrastructure. The application of VAT to essential domestic utility services therefore raises constitutional and public policy concerns where it contributes to affordability barriers affecting dignity, health, housing and access to water.
- Progressive Realisation and Non-Retrogression: Human rights principles require the State to avoid measures that unjustifiably weaken access to basic needs. Rising utility tariffs, combined with a non-recoverable VAT component for households, may contribute to affordability barriers and therefore justify policy review and targeted relief.

2.2 The Fiscal Policy Context: Affordability, Accountability and Essential Domestic Utility Services

2.2.1 The continued extraction of standard-rated VAT from residential consumers on essential domestic utility services should be assessed against the broader fiscal context, including concerns regarding affordability, public-sector efficiency, financial accountability and value for money in the delivery of basic services.

2.2.2 In terms of Section 32 of the Municipal Finance Management Act (MFMA) No. 56 of 2003 and Section 81 of the Public Finance Management Act (PFMA) No. 1 of 1999, accounting officers are legally mandated to prevent and penalise Unauthorized, Irregular, Fruitless and Wasteful Expenditure (UIFW).

2.2.3 Reports by the Auditor-General of South Africa (AGSA) have repeatedly highlighted irregular expenditure, fruitless and wasteful expenditure, weaknesses in financial controls and operational inefficiencies at municipal and public-sector levels. Against this background, the additional VAT cost borne by compliant domestic consumers on essential services strengthens the case for targeted zero-rating of qualifying domestic electricity, water and municipal utility services or, in the alternative, targeted relief, improved accountability and a fairer allocation of tax burdens.

2.3. The Middle-Class Tax Trap: Real-World Impact Profiles

- 2.3.1 To demonstrate the structural financial drain to the joint committees, we provide two specific real-world case studies reflecting standard middle-class housing frameworks:

Case Study 1: Community Scheme and Sectional Title Housing

Consider a middle-class consumer residing in a Body Corporate development who receives a monthly levy and/or utility recovery account of R2 800, including water and related recoveries. Over a 12-month fiscal cycle, this single household contributes R33 600 out of pocket into the community scheme and municipal utility recovery system. The unrecoverable VAT burden arises where the Body Corporate receives VAT-inclusive municipal utility accounts and passes those costs through to owners, tenants or occupants as part of levy contributions or utility recoveries. The consumer may not see VAT charged separately on the levy itself, but the VAT-inclusive utility cost is nevertheless carried indirectly by the household.

Case Study 2: Freehold / Full Residential Ownership

Consider a middle-class consumer with full residential title deed ownership who receives a standard monthly municipal statement and purchases prepaid electricity tokens, together with water charges or, where applicable, prepaid or metered water purchases, totalling R4 600 per month. Over a 12-month fiscal cycle, this household contributes R55 200 out of pocket into local government billing systems and utility vending structures. If this amount is VAT-inclusive, the VAT component is approximately R7 200,00 annually, calculated as $R55\,200 \times 15/115$. If the stated amount is VAT-exclusive, the VAT added would be R8 280,00 annually, calculated as $R55\,200 \times 15\%$. The calculation therefore depends on how the municipal statement or prepaid purchase receipt reflects the charge.

2.4 Essential Geographic and Policy Limitation Note

- 2.4.1 The mechanical remedies outlined in this submission apply strictly to consumers residing within general residential and suburban municipal areas.
- 2.4.2 These middle-class property owners and tenants bear the full financial burden of utility generation and tax collection.
- 2.4.3 This framework explicitly excludes households located within traditional areas or designated indigent registers, who are already shielded by municipal cross-subsidisation frameworks and receive Free Basic Electricity (FBE) and Free Basic Water (FBW) allocations.
- 2.4.4 This submission aims to reduce increasing financial pressure on compliant, tax-paying domestic consumers who fund municipal utility systems but do not receive an equivalent VAT recovery mechanism for essential household consumption.

2.5 Proposed Legislative Adjustments and Operational Mechanics

- 2.5.1 To remove administrative ambiguity, noting that domestic consumers cannot directly file VAT returns with SARS as VAT vendors, this submission proposes a hierarchy of remedies. The primary remedy should be upfront zero-rating of qualifying essential domestic electricity, water and municipal utility services so that relief is given at the point

of billing or prepaid purchase. The alternative remedy should be a SARS-administered domestic utility VAT credit or refund mechanism where immediate zero-rating cannot be implemented. The transitional remedy should be a five-year reprieve permitting qualifying domestic consumers to claim verified historical VAT already paid.

2.5.2 Proposed SARS Utility VAT Refund Data Flow

Step 1	Utility VAT information is captured • Post-paid accounts: Municipalities, Body Corporates, managing agents and landlords capture monthly statement data, including the consumer's account details, utility charges and VAT component. • Prepaid purchases: Banks, retailers, cellular networks and utility vending platforms capture token purchase data, including the consumer's meter/account details, gross purchase amount and VAT component.
Step 2	Data is submitted directly to SARS Both post-paid statement data and prepaid token VAT data are electronically transmitted to SARS through a mandatory third-party reporting mechanism linked to the consumer's ID number, tax number, municipal account, meter number or banking profile.
Step 3	SARS verifies and matches the data SARS matches the utility VAT information against the registered taxpayer profile to confirm the consumer, the utility source, the amount paid and the VAT charged.
Step 4	Alternative or transitional refund or credit is applied Where immediate zero-rating cannot be implemented, SARS may apply a verified utility VAT credit or refund directly to the taxpayer profile without requiring the domestic consumer to register as a VAT vendor or submit a VAT return. The same mechanism should support the transitional relief window for verified qualifying VAT already paid during up to five prior tax years, subject to documentary proof and SARS verification.

2.5.3 Automated Third-Party Data Reporting (The IT3 Mechanism for Accounts and Vouchers)

2.5.3.1 To reduce administrative ambiguity and improve verification, National Treasury and SARS should consider a statutory third-party reporting framework linking municipal billing systems, banking applications, retail point-of-sale systems, prepaid utility networks, managing agents and body corporate utility allocation records to SARS, subject to appropriate data protection, feasibility and implementation controls.

2.5.3.2 The administrative framework may be supported by Section 26 of the Tax Administration Act No. 28 of 2011, which empowers the SARS Commissioner, by public notice, to require third-party returns from persons who employ, pay amounts to, receive amounts on behalf of, transact with, or have control over assets of another person. This provides a legislative model for verified third-party utility data reporting, although specific implementation may require further regulation, public notices or legislative amendment.

2.5.3.3 The Prepaid and Token Mechanism should be that National Treasury consider expanding this framework to require entities selling prepaid electricity tokens, including commercial banks, cellular networks, retail stores and independent vending platforms, to submit automated annual utility tax data directly to SARS. Where applicable, this may also include prepaid or metered water purchases. The system must be capable of recording the consumer's meter or account profile, the gross amount paid and the VAT component charged at the point of token or voucher purchase.

2.5.4 Resolving the Sectional Title and Tenant Loophole via the CSOS Registry

2.5.4.1 A critical regulatory blind spot exists within South Africa's housing landscape, where millions of middle-class citizens reside in community schemes, estates, and blocks of flats governed by Body Corporates or rented via landlords.

2.5.4.2 The VAT treatment of community schemes requires careful distinction. In terms of Section 12(f) of the VAT Act, certain supplies by a Body Corporate to its members through levies may be exempt from VAT. However, this does not remove the VAT burden embedded in municipal utility accounts received by the Body Corporate. Where a municipality charges VAT on bulk water or electricity supplied to the scheme, and those VAT-inclusive costs are recovered from owners, tenants or occupants, the domestic consumer carries the VAT burden indirectly through utility recoveries or levy contributions.

2.5.4.3 Where the Body Corporate is not able to claim input VAT on the VAT-inclusive municipal utility cost, that cost remains trapped in the scheme's expense base and is ultimately recovered from individual households.

2.5.4.4 The result is that sectional title homeowners, tenants and occupants may carry VAT on domestic water or electricity usage even where VAT is not separately reflected on the levy invoice. The burden is therefore economically real, but administratively hidden.

2.5.4.5 The proposed CSOS-linked verification model should be carefully defined. CSOS may assist SARS by providing scheme registration and governance verification data. However, the detailed utility consumption, allocation and payment data required for SARS verification would need to be supplied by Body Corporates, managing agents, landlords, municipalities and prepaid vending platforms.

2.5.4.6 This approach would allow SARS to verify the existence and governance status of community schemes through CSOS, while relying on legally accountable parties within each scheme to provide auditable annual utility allocation summaries for owners, tenants and occupants.

2.6. We propose an inter-governmental automated reporting network operating as follows:

2.6.1 SARS may use CSOS scheme registration and governance data to identify and verify active Body Corporates and community schemes, subject to lawful data-sharing arrangements, data protection requirements and prescribed administrative rules.

2.6.2 Body Corporates, managing agents or landlords may be required, through a prescribed reporting mechanism, to submit annual utility allocation data, including sub-metered water or electricity data and private prepaid token systems managed within the scheme, to SARS in an approved certificate or third-party data format.

2.6.3 The prescribed certificate or data submission should link the owner, tenant or occupant's tax profile to the verified proportional share of VAT-inclusive municipal water or electricity costs allocated through the scheme, subject to documentary support and SARS verification.

- 2.6.4 The SARS Direct Utility Tax Credit (DUTC), if authorised through legislative amendment or prescribed SARS administrative rules, could operate during the annual tax season by cross-referencing pre-populated data sources, including post-paid municipal bills, body corporate or managing agent utility allocation summaries, and commercial prepaid token data streams. A verified utility VAT credit or refund could then be computed and applied through the taxpayer profile, subject to legislative authority, SARS verification, prescribed administrative rules and confirmation of banking details. This mechanism would provide structured relief without requiring domestic consumers to register as VAT vendors.
- 2.6.5 The transitional reprieve should operate only as historical and remedial relief, not as a substitute for prospective zero-rating. It should operate through the annual personal income tax return process and allow qualifying domestic consumers to claim verified utility VAT relief for up to five prior tax years, or such period as National Treasury and SARS may determine after consultation. Supporting proof may include municipal billing records, prepaid electricity token purchase records, meter or account-linked vending data, body corporate utility allocation summaries, managing agent statements, landlord utility recovery schedules, and proof of payment.
- 2.6.6 Legal References and Statutory Appendix for ensuring this submission carries full statutory weight, the proposed reviews must explicitly interface with the following legislative acts:
- Value-Added Tax Act No. 89 of 1991: The submission is grounded in section 7(1)(a), which imposes VAT on taxable supplies made by vendors in the course or furtherance of an enterprise; section 11, which provides for zero-rated supplies; section 12, which provides for exempt supplies; section 12(f), which is relevant to certain supplies by bodies corporate, share block companies and similar associations to their members; section 16, which governs the deduction of input tax by vendors; and section 1, which defines key concepts including “vendor”, “enterprise”, “taxable supply”, “input tax”, “goods”, “services” and “consideration”. The requested reform seeks legislative amendment to create targeted zero-rating as the primary prospective remedy, and a SARS-administered transitional utility VAT credit or refund mechanism as alternative and historical relief for qualifying domestic consumers.
 - Tax Administration Act No. 28 of 2011: Section 26 provides the statutory basis for third-party returns by persons who employ, pay amounts to receive amounts on behalf of, transact with, or have control over assets of another person, where required by public notice issued by the SARS Commissioner. This provision may support an automated utility data-reporting framework, subject to SARS public notices, prescribed forms, data governance safeguards and any legislative amendments required to give effect to the proposed relief.
 - Community Schemes Ombud Service Act No. 9 of 2011: CSOS may provide scheme registration and governance verification data to support SARS verification. Detailed utility allocation data should be supplied by Body Corporates, managing agents, landlords or other accountable scheme representatives through a prescribed annual reporting mechanism.

- Sectional Titles Schemes Management Act No. 8 of 2011: The Act may require review to determine whether Body Corporates and managing agents should be required to issue compliant annual utility allocation summaries for SARS verification, particularly where bulk municipal accounts are apportioned among owners, tenants or occupants.
- Public Finance Management Act No. 1 of 1999 and Municipal Finance Management Act No. 56 of 2003: These statutes support the broader accountability context by requiring responsible financial management and controls over unauthorised, irregular, fruitless and wasteful expenditure. The submission does not rely on these statutes as the direct basis for VAT relief but refers to them as part of the policy justification for fairer treatment of compliant domestic consumers.

3. **CONCLUSION AND CALL TO ACTION**

- 3.1 Domestic consumers are final household users of essential water and electricity services. Unlike VAT-registered businesses, they cannot claim input VAT. This means that VAT on domestic electricity and water creates a permanent, unrecoverable household cost. The burden applies to consumers billed directly by municipalities, sectional title owners and tenants who pay through levy or utility recovery systems, and prepaid electricity consumers who pay VAT at the point of token purchase. Because these services are essential household necessities and not luxury goods, the VAT framework requires legislative review, policy reform and targeted relief.
- 3.2 The requested relief should therefore operate on two levels: prospectively, by implementing targeted zero-rating or exemption for qualifying domestic water and electricity supplies; and retrospectively, by creating a transitional domestic utility VAT credit or refund reprieve for up to five prior tax years, subject to verified records and SARS oversight. This balanced approach recognises both future affordability and historical household VAT burdens.
- 3.3 This submission recognises that the existing VAT Act does not presently create an automatic refund entitlement for domestic consumers. The request is therefore directed at legislative and policy reform by National Treasury, SARS and Parliament, supported by administratively feasible third-party verification mechanisms.
- 3.4 In light of the affordability, equity and administrative issues raised, this submission has been simultaneously served to the Organisation Undoing Tax Abuse (OUTA) and the Helen Suzman Foundation (HSF) for review, public-interest engagement and possible collaboration with civil society in monitoring the State's response to the proposed reforms.
- 3.5 The preferred outcome is the implementation of targeted zero-rating for qualifying essential domestic electricity, water and municipal utility services. If this is not immediately implemented, the reasons for non-implementation should be provided in writing, including the legal, fiscal, operational or administrative constraints relied upon, together with any alternative relief measures under consideration.

Kindly acknowledge receipt of this submission and inform us of the public participation outcomes, the relevant authorities' response to the issues raised, and any subsequent legislative, policy or administrative review steps arising from this submission.

Yours faithfully



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Attachment: Copy of submission dated 28 September 2026 by MARRC on the proposed Electricity Pricing Policy.