TAXATION
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APRIL - AUGUST
OK to absorb VAT

CHAINSTORE group OK Bazaar has announced that it will absorb the Value Added Tax (VAT) on nine zero-rated foodstuffs for a limited period.

The zero-rating on the basic foods is due to be dropped on April 1. OK will absorb the VAT until April 20.

OK managing director Mr Gordon Hood said in a statement he hoped the step would provide temporary relief "to those communities hardest hit by the difficult economic climate". Hood also reiterated an appeal to Finance Minister Mr Barend du Plessis to reconsider the imposition of Value Added Tax on basic food items.

Yesterday Du Plessis hosted a news conference in Pretoria during which he addressed the VAT issue.
Tax on food stuffs 'is unfair'

IT was unfair for the Government to impose VAT on basic foodstuffs as this directly affected the poor, a spokesman for the Anti-VAT Co-ordinating Committee said last night.

Speaking on the Sowetan/Radio Metro Talkback Show, Mr Benay Fanaroff said unlike GST, VAT was being charged on water, transport and other basic services.

A caller from Soweto said his landlord charged VAT on his rental, something which Fanaroff described as unfair.

Andrew of Durban told host Tim Modise that until a democratic government was in place, the complaints of the poor would not be listened to.

He commended the Anti-VAT Co-ordinating Committee for its work.

Fanaroff said the businessmen's organisations such as Nascoc and Fabcos were represented in his committee and were helping to alleviate the plight of the small businessman.

Fanaroff said the Budget was not helping poor people, but the rich.
THE Government has retained the zero-rating of Value Added Tax (VAT) on brown bread, mealie meal, samp, mealie-rice, dried whole mealies and powdered milk.

However, from today milk and rice will be subject to VAT. These products will now be taxed at the standard rate of 10 percent. Finance Minister Mr Barend du Plessis announced in Pretoria yesterday.

**Economic recession**

Du Plessis said the Government was concerned about the consequences of the protracted economic recession on the less privileged. With this in mind, it wanted to ensure minimal disruption in the lives of the poor and had, at the time of the imposition of VAT decided to zero-rate certain basic foodstuffs.

"In view of responsible and persuasive representations, particularly by church and business leaders, the Government has decided to extend the temporary zero-rating on samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures until further notice.

"The temporary zero-rating on fresh milk and rice, as previously announced, will be abolished on April 1.

"The zero-rating on brown bread and mealie meal, foodstuffs which were initially targeted for long-term zero-rating, will not be affected and the zero-rating will therefore be retained," Du Plessis said.
Basic food exemptions to stay

BY ANTHONY JOHNSON
Political Correspondent

The government yesterday backed down on plans to impose VAT on most basic foodstuffs following pressure from organised business alarmed at the prospect of crippling labour strife.

The eleventh-hour climb-down was announced at a press conference by Finance Minister Mr Barend du Plessis, who at the weekend indicated that the government planned to forge ahead with its politically explosive VAT agenda.

However, it is understood that last-minute representations by the business community to President F W de Klerk about the economic repercussions of such a move brought about the about-turn on the sensitive issue.

After Mr Du Plessis’s held a series of meetings in the past two days with Mr de Klerk and other ministers, followed by an urgent meeting yesterday morning with organised business and employer organisations, he finally relented.

VAT zero rating will be maintained “until further notice” on nine essential foods: Semp, mealie rice, dried white mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures.

The planned long-term zero rating for brown bread and white bread meal will be maintained but the previously exempted fresh milk and rice will now fall within the VAT net.

The decision to exempt the nine foodstuffs will result in a loss in revenue of R136 million in the next year, but the decision to slap VAT on fresh milk and rice will bring in a R244 million in taxes.

Mr Du Plessis yesterday claimed that the decision to make the concessions had “no political motivation” as the government was not under any illusion that Cosatu might call off mass action campaigns.

New tension of the temporary zero VAT rating on basic foodstuffs was “better than nothing”, the vice-president of the Housewives’ League, Mrs Sheila Ballie, said yesterday.

The managing director of the OK, Mr Gordon Hood, said they were pleased that Mr Du Plessis had reacted to pleas to extend the zero-rating on the remaining seven staple foods.

“OK will absorb the VAT increases on rice and fresh milk, as promised, until Monday, April 29, and will continue to press for exemption on these two items.”

Mr Du Plessis said the government’s earlier stand on VAT had produced charges that it was “immoral” and “all kinds of abuse has been directed at us”.

However, in the end the government had chosen to listen to the representations of “responsible” business and church leaders and the “emotionally charged” comments by groups with political agendas “did not weigh heavily in this equation”.

Mr Du Plessis denied that the decision was made “at the last minute” and said it would be naive for the government to believe it could stop mass action by making concessions to Cosatu.

The government had decided to change its VAT plans because, given the levels of unemployment and poverty in the country, it would “rather err on the side of compassion”.

Cosatu’s plans for mass action, on the other hand, were not motivated by compassion.

Turning to another major pressure group, the Co-ordinating Committee on VAT (VCC), Mr Du Plessis dismissed them as “a front organisation” for socialist and communist influences.

Reacting to the government announcement, the VCC welcomed the fact that the temporary zero-rating on certain basic foods would be extended but said it was not enough to address the problems of poverty and starvation.

VCC convener Dr Bernie Funaroof said the government should “stop playing games” with VAT on basic foodstuffs and continue with zero-rating all foods that enjoyed this status.

“It is a pity that important economic decisions continue to be characterised by brinkmanship, bluff, vacillation and capitulation rather than timely negotiated agreements on how to resolve our many challenging problems.”

Mr Andrew said tens of thousands of children were dying each year from malnutrition and starvation.

Welfare experts estimate that 44% of South Africans and 90% of those in rural areas are living below the poverty line.

The government’s ex-
The government's temporary VAT concessions could be abolished within months.

This emerged yesterday after Finance Minister Mr Barend du Plessis announced VAT concessions to ease the food cost burden on the poor.

Mr Du Plessis said the concessions — which would cost R136 million this year — would be phased out as soon as "we feel we are doing everything possible to get money to the poor".

The food aid programme for the poor — for which R440-million has been earmarked this year — was still not fully operational and many people were unaware of it.

The phasing out of VAT would depend on how quickly the programme was running satisfactorily, as well as on the outcome of the government's investigation into high food prices.

A report on this investigation was expected within a month.

While the Co-ordinating Committee on VAT welcomed the extension of the zero-rating on certain foods, it said the move was not enough to address problems of poverty and starvation.

Committee convenor Dr Benny Fanaroff said poverty and starvation would not be properly addressed until a poverty relief programme was established.

Housewives' League spokeswoman Lyn Morris said the decision meant a "lot of happiness for consumers."

The zero ratings of brown bread and mealie meal, initially targeted for long term zero rating, are not affected by the concessions. The zero rating on these items will be retained.

Foodstuffs which are to retain a zero rating until further notice are samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures.

But VAT will be payable on fresh milk and rice from today.

The Democratic Party said yesterday that Mr Du Plessis should stop playing games with VAT and continue with zero-rating on all basic foodstuffs.

Partly cloudy and cold with showers mainly this morning. Wind: moderately to fresh south-westerly.
VAT concessions ‘can go in months’

MICHAEL MORRIS
Political Correspondent

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WEATHER

Partly cloudy and cold with showers mainly this morning. Wind: moderately to fresh south-westerly.
The Government’s decision not to impose VAT on seven basic foods until further notice was last night described as “not going far enough”.

Finance Minister Barend du Plessis yesterday backed down from his intention to lift the temporary zero-rating on nine basic foodstuffs as from today.

However, rice and fresh milk will now be liable for VAT. The foods which remain temporarily VAT-free are samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures.

Brown bread and mealie meal are permanently zero-rated.

According to Mr du Plessis, the Government would collect an additional R244 million this year following the lifting of the VAT zero-rating on milk and rice, while the temporary zero-rated items would cost R136 million.

He said the Government had responded to “responsible representation.”

Factors which influenced Cabinet to extend the zero-ratings included the fact that Dr Rina Venter was in the process of extending the nutrition development programme. He said Government was also awaiting the results of an investigation into high food prices.

Also, the present economic situation had been “slow to recover.”

“If we err, we would rather err on the side of compassion,” Mr du Plessis said.

He said he did not believe the concessions would find favour with the “excessive demands of Cosatu.”

Shocked

The Minister would not comment on when the concessions would be dropped.

Ricewell’s League president Lyn Morris said she believed the extension was good as it was aimed at assisting the poor.

However, Checkers/Shoprite MD Whitby Basson expressed shock at the decision to include fresh milk and rice in the VAT bracket.

He said the imposition of VAT on these items would be a hard blow to consumers.

Mr Basson reiterated his call to government to terminate the taxation of basic foodstuffs until economic recovery was well under way.

Democratic Party spokesman Ken Andrews said the Minister should stop playing games with VAT and continue with zero-rating on all basic foodstuffs.

South African Chamber of Business chief Dr Ben van Rensburg said Sascoc supported the decision against the background of the present economic situation.

“We still believe in a clean VAT system but think this step is necessary as an interim measure until such time when the poverty relief programme is in place,” said Dr van Rensburg.

VAT Co-ordinating Committee (VCC) convener Dr Bernie Fnanaroff said that once again Mr du Plessis had reacted to pressure and made ad hoc changes. While the VCC welcomed the move it did not “go far enough” in two respects, he added.

The crisis of poverty and starvation in the country would not be properly addressed until a poverty relief programme was established.

The second issue which the VCC considered essential was that the Government should consult broadly on the issues of budgetary measures such as VAT and the stabilisation of food prices.
Zero-rated goods cost more in township stores

THE cost of zero-rated items in major supermarkets remained "fairly stable".

But the problem areas were the small stores in townships and rural areas, Housewives' League vice-president Mrs Sheila Lord has revealed.

Lord said on Wednesday - the day after Finance Minister Barend du Plessis had zero-rated certain basic foodstuffs - that there were no dramatic increases in the cost of zero-rated foodstuffs during the past six months.

But, she said, experience had shown white consumers in urbanised areas were paying less for food than the needy.

National Black Consumers Union president Mrs Nonia Ramphomane concurred: "Prices of these basic foodstuffs have gone up drastically in the townships - taking into account the cost of travel incurred by the dealer."

Ramphomane said she was not aware of the zero-ratings having a dramatic impact in township stores. "Even in the past we have always paid much more in township stores than in the CBD supermarkets," she said.

Interfact, the research company commissioned by VATwatch to monitor prices countrywide during the Value Added Tax transition period, said most zero-rated items had increased slightly.

Milk powder showed the highest increase of 6.93 percent since pre-VAT days; samp increased by 3.86 percent; brown bread by 3.15 percent; canned fish by 1.8 percent; rice by 1.19 percent; maize meal by 0.95 percent; and fresh milk by 0.45 percent.

Du Plessis was "insensitive to the majority of the aged, unemployed and underpaid" by not making the zero-ratings permanent, said Ramphomane.

"We are also disappointed that milk has been put into the VAT bracket. This is one food consumers cannot do without. It is the easiest protein our people can take and which they consume a lot," she said.

"The solution is for the Government to find ways and means of reducing food prices... even if it means subsidising some of the production process and selling the products to the disadvantaged."

It was no use looking towards retailers to reduce prices.

"It's not the retailers as such, as their prices are influenced by the manufacturers and producers," she said.

Other organisations have also deplored the lifting of the zero-rating on rice and fresh milk.

National Co-operatives Dairies has said it regrets the lifting of the VAT concession on fresh milk.

NCD corporate affairs manager Dr. Chris Lerm said the nutritional value of milk was more than any other product at present still zero-rated and the decision was thus obviously taken for financial reasons.

He, however, welcomed the extension on milk and milk blend powders.

"NCD stands by its belief that maas (sour-milk) is an even more vital basic foodstuff for an important section of our population. Maas is used primarily "with mielie pap and should have been zero-rated from the start," said Lerm.

The Department of Revenue has confirmed that VAT is payable on green maize sold at roadside stalls. The zero-rating only applies to "dried silo-screened maize or dried maize for human consumption".
Cosatu Three-Heated General Strike

Three Heats: 9 10 11

By FEZELI HAFANE

As Cosatu's annual General Council convenes in Polokwane for its annual general meeting, the federation is weathering a series of economic and political storms. The federation's strategy is to maintain solidarity and resist political attacks from the government and employers. The meeting will address a range of issues, including economic policy, labor laws, and social justice. The federation is committed to fighting for the rights of workers and improving living standards for all South Africans.
Barend backs down
By REG RUMNEY
FINANCE Minister Barend du Plessis' attempts this week to save face over Value Added Tax seem to have backfired.

At a media conference in Pretoria Du Plessis presented the extension of zero-rating on most basic foods for an indefinite period as being inspired by the plight of the poor. He said the relief was still temporary and suggested it would be removed in a few months, but left it open-ended. It has taken some of the wind out of the sails of the Cosatu-led VAT Co-ordinating Committee, by mollifying some of the more conservative groups who might have sympathised with the VCC's campaign.

The move was welcomed, for instance, by the Housewives' League and the National Council for Child and Family Welfare.

The VCC's Bernie Fournier has also welcomed the extension of zero-rating but not surprisingly said it does not go far enough. He said the move did not do enough to address problems of poverty and starvation.

The concentration on food has deflected attention from the demand for zero-rating of private medical services.

But it has been seen by many, including the business community, as a last-minute backd fencing by the government under pressure from the VCC and a move that reflects indecisiveness.

The media conference was delayed by a day as Du Plessis met business leaders, leading to the conclusion he responded to pressure from business to reverse an expected hard line on VAT. But the business community would in turn have been trying to defuse further industrial action. The chain store bosses have clearly pondered to their consumer constituencies.

Announcing the extension, Du Plessis insisted he was not bowing to pressure from the VCC, which he branded a front for socialist and even communist groups.

He said the concession he was making would mean a loss in tax revenue of R136-million if it extended over one year.

Those with a political agenda knew very little about the economy and were not compassion motivated, Mass action was planned a long time ago.

"First prize would still have been to let the draping of zero-rating go ahead," said Du Plessis.

The way to aid the poor was not through tax but through the spending side of the budget and the government had done this by devoting R440-million to the Nutrition Development Programme administered by Health Minister Kim Venter, in addition to R110-million left over from last year.

Should more be needed, said Du Plessis, the government would consider making more available.

Venter, who was at the briefing, replying to criticism that the programme had been slow in getting off the ground, said it should be judged not only on the amount spent so far, R110-million out of R220-million, but by the number of organisations who had received money. She said 194 of 270 organisations who had applied had received funds.
VAT raises taxing questions

Who should pay the most tax: companies, individual taxpayers or the broad mass of people through indirect taxes such as Value Added Tax?

REG RUMNEY tries to get behind what the VAT argument is all about

WHY is the Congress of South African Trade Unions so concerned to see Value Added Tax on food removed? Why is the government so determined to see as few zero-ratings as possible?

The answer lies partly in the accusation made by Finance Minister Barend du Plessis at his media conference this week.

Du Plessis said that during discussions with the VAT Co-Ordinating Committee the VCC's Bernie Fanaroff, speaking as a Cosatu office-bearer, had told him Cosatu was in principle opposed to a consumption tax like VAT. However, if the concessions, like zero-rating food and medicine, demanded by Cosatu were made, the federation would go along with VAT.

This would mean, Du Plessis said, transferring the total tax burden to salary earners and companies.

Cosatu does emphasise the need to increase progressive taxation — the more you have the more you pay — and does not dwell on consumption taxes — the more you spend the more you pay. Consumption taxes, it is argued, tend to hit the poorer harder because they pay the same tax rate as the rich.

The International Monetary Fund (skip this part if you think the IMF is the diabolical and sinister agent of world capitalism) in a report on VAT agrees VAT with few exemptions must be regressive.

However, Fiscal Affairs deputy director Alan Tait argues that VAT can be less regressive than alternatives, like higher excise taxes, taxes on tobacco, alcohol and cold drinks, for example, or higher payroll taxes.

The IMF also thinks, according to its recent report on South Africa, that whites are not paying too little tax.

The government would like to keep the VAT base as broad as possible. This is not only because each exemption allows another loophole to be exploited without necessarily helping those it is intended to help. Each exemption costs money. So the continued zero-rating of eight basic foodstuffs would mean a loss for the full year of R136-million to the fiscus.

At an Old Mutual Budget seminar, Department of Finance director general Gerhard Croser pointed out the government believes that the tax burden should be shared almost 50-50 between indirect tax, such as VAT, and direct taxes such as income tax.

The ratio of indirect to direct tax in the 1992/93 year is around that of 1991/92 at 67:1.

In the two preceding years it was 84:1. In other words, it is moving in the opposite direction to that urged by the Margo Commission on Tax some years ago, imposing a heavier burden on payers of income tax and companies.

Because the government could not impose a 12 percent instead of a 10 percent tax rate, it could do less than it might about putting right fiscal drag, the punishing phenomenon by which governments get more money as inflation pushes income earners into higher tax brackets.

That VAT was imposed on foods which had not previously been subject to GST does complicate the issue. It does mean an extra burden.

If one could be certain targeted aid to the poor went where it was supposed to, that would certainly be better than zero-rating basic foodstuffs.

One alternative is not only a leaky consumption tax system, but also higher taxes on other items like clothing, or worse a tax which imposes higher taxes on "luxury goods" than on basic goods. This defeats the idea of a consumption tax, which should be broad-based and not progressive.

And it shifts the burden back on the shoulders of individual taxpayers and companies.

Its small salaried then that, as University of Cape Town economist Brian Kantor pointed out at the OM Budget forum, the details of how tax is paid is mostly just "smoke and mirrors". Higher tax wherever levied is reflected in higher prices anyway.

Kantor said the really important figure was government tax revenue as a percentage of gross domestic product. At 24 percent this is high, but not much higher than last year.

But too high a burden on taxpayers would encourage more tax evasion (illegal) as well as avoidance (legal). It would push more people into the non-taxpaying informal sector, which consumption taxes like VAT are designed to tap.
no connection between the sixth schedule and the three-fund principle: in practice, they are linked by Revenue’s need to generate a predictable income from the life industry.

The schedule was introduced to deter the wealthy from using life funds as tax shelters and it became progressively more complicated. In the mid-Eighties, it was amended to protect the flow of funds to banks and building societies. This was followed by an undertaking from life assureds that they would not issue any form of policy with a projected life of fewer than five years.

The schedule has become an administrative nightmare and needs to be scrapped. It describes “standard” and “nonstandard” life policies in terms which only a few experts in the industry understand, though the tax implications of the definitions are significant.

The FSB argued that a schedule which is a fiscal measure interferes with the board’s regulatory authority. Since then, there has been broad agreement on what constitutes an insurance product and what is more suitable for deposit-taking institutions.

Some assureds were confident the schedule would be scrapped, possibly as early as this week, and replaced with product definitions and regulations in the Long-Term Insurance Bill expected to come before parliament next year. The life offices would, meanwhile, comply with a directive to be drafted by the board, with the same regulatory effect.

But Revenue needs to know the regulatory umbrella under which life offices will pay tax. So the rules have to be in place when the schedule is scrapped. The rules attached to the three-fund principle should have covered this dilemma. In this, shareholders’ or corporate funds in life offices would be taxed in the same way as any other company, with the two mutuals offering all or part of their free reserves as the equivalent of corporate funds; there would be a non taxable pool of pension, provident and retirement annuity savings; and a pool of general policyholders’ funds would be taxed at the average rate — probably about 32% — instead of the top marginal rate of 43%. The last clause would enhance the savings potential for millions of policyholders.

But Revenue has now pointed out there would be opportunities for tax evasion. A company-owned policy, other than a keyman or deferred compensation scheme, would usually attract tax at the company rate of 48%. But if the company cedes it to a natural person, the tax would drop to the proposed 32% — with a large loss of revenue. The proposals are all back on the drawing board for a minimum of three months.

Meanwhile, insurance brokers who have been selling investment-type products with an undertaking that they will soon be recognised as standard, and therefore contain tax benefits, are on unsafe ground, with a potential for liability suits against them if things go wrong. When the sixth schedule is finally scrapped, it is hoped that all nonstandard policies will become standard. But if Rev-
THE PARALYSIS OF VAT
FM 3/4/92
Could they run a whelk stall?

If this government's utter incompetence to run the economy were not already manifest, it must have become so with the scarcely believable pantomime over the extension of VAT to basic foodstuffs. The fact that many of those who rightly opposed the exemptions last year and should have known better have now apparently changed their tack is no excuse for the latest mess-up (see Economy).

By excluding rice and milk from the latest exemption and refusing to put a time limit on it, Finance Minister Barend du Plessis ensures that neither those who wanted the exemption continued, nor those who wanted it ended, will be happy.

Selective exemptions not only distort the tax system, they are an inefficient way of bringing relief to those who need it. The main beneficiaries — as experience in every foreign country has shown — are the relatively prosperous, who in absolute terms consume the bulk of all these commodities.

None of this is to imply that we need not be concerned at the plight of the poor. When Du Plessis provided aid for the poor in last year's Budget, to be channelled through "existing welfare organisations," many warned that these organisations had neither the appropriate contacts nor structures; this appears to have been borne out in practice.

The belief that you can solve problems by throwing money at them in fact extends much wider than this. Conventional wisdom is to look at the enormous increases in spending on health and education in successive Budgets and take comfort that we are doing what we can.

Whether that money is actually being spent in the most productive way is overlooked, but there are indications that it is not.

The quality of our delivery systems is vital. We could well achieve more by concentrating on improving them rather than blindly voting bigger and bigger sums each year.

Be that as it may, the extension of VAT exemptions on some basic foods is just a mindless sop to the radicals in hope of keeping them quiet and even on that level won't succeed.

Indications are that as the upper echelons of the ANC get more involved in negotiations and (however reluctantly) move towards accepting harsh economic reality, a Cosatu fearing marginalisation is actively taking up socialist rhetoric in the hope of exploiting a gap it perceives may be opening between the ANC leadership and its mass supporters.

Whatever protestations to the contrary all concerned may make, it's impossible to accept as mere coincidence Cosatu's restatement of its hard economic line on the eve of the ANC's latest attempt to sound like the voice of sweet reason (see Economy and Current Affairs).

Cosatu seems to be spoiling for a fight and government should not have shirked it. Cosatu's pre-VAT protest, though it attracted more support than many (including the FM) expected, had absolutely no long-term significance. As its advocates always argued, VAT has become an invisible tax; extended (as it always should have been) to these foodstuffs, it would soon become invisible on them, too.

Trouble is, government, obsessed by constitutional reform through Codesa, seems to have lost the will to make basic decisions on the economy. This was shown in the Budget, in the failure to relieve fiscal drag on individuals and excessive rates of company tax, save for anodyne promises (which Du Plessis must surely realise he was in no position to guarantee) to address the problems next year.

It is shown in the abandonment of privatisation virtually before it began and the slow progress of deregulation and tariff reform. There even appears to be a revival of the discredited view that government is better able than the market to guess what sectors have best growth prospects.

The general paralysis extends not only to a suspension of existing nominal policy, but a failure to consult with the representatives of the new SA where this could be productive. The FM has argued repeatedly for the need to bring the ANC (and others) into economic decision-making.

Let those who complain about inadequate social spending share the responsibility for allocating scarce resources. Let them even write the relevant parts of the Budget speech. As it is, Du Plessis complains that the ANC refused to give any input; the ANC retorts that it was invited at too late a stage to have any significant influence.

It's all too typical of the way the economy is being not so much mismanaged as unmanaged. Fact is, this government is the only government we've got. Tragically, on the economic front it just seems to be abnegating its duty to govern.

The new SA will pose enormous demands on whatever government we get. The Nationalists' late-Eighties apparent espousal of free market and supply side economics gave us a great opportunity to enter the new SA on a sound basis, now squandered through weakness and indecision.

Of course, there can be no guarantee that a new government won't adopt foolish outdated socialist and confiscatory policies. But that's all the more reason to get the correct environment into place now, to make it more difficult.
Organised business, fearing a vicious union backlash, has persuaded government to back down on imposing VAT on a small range of zero-rated basic foods. As a compromise VAT will be levied on fresh milk and rice, both previously zero-rated. Products that will remain VAT-free until further notice are samp, mealie rice, dried whole mealies, dried beans, soya beans, lentils, tinned pilchards, milk powder and dairy powder mixtures. Zero-rating on brown bread and mealie meal was due to have been extended anyway.

This means that, of the R380m that would have been generated in the coming financial year by imposing VAT on previously zero-rated goods, only R244m will be collected. Finance Minister Berend du Plessis says other sources of revenue will have to be tapped. He declined to say what these might be but they are likely to include an increase in the fuel levy. He could also not say when zero-rating would be abolished. Further action would depend on the outcome of the investigation into food prices and success of government’s programme to aid the poor.

Du Plessis denied government had buckled to political pressure. Threats of mass action did not influence his decision. He added that groups which opposed VAT for political reasons did not understand economics and were not concerned about the plight of the poor.
Barred du Plessis, in the firing line, now accused of bungling up the VAT war votes

The VAT war votes

FRANS ESTERHUYSE

Weekend Argus

THE VAT war votes

Policy Coordinator

Weekend Argus
Capital gains tax could benefit traders

FINANCE STAFF

A recommendation that a capital gains tax be introduced on share investment profits was recently made by the Johannesburg Stock Exchange committee to Finance Minister Barend du Plessis.

The hope, said Colin Crowhurst, senior partner in the stock brokerage of Ferguson Brothers, Hail, Stewart, Co Inc, had been that the introduction of the tax as part of the latest Budget would have cleared away the vast amount of uncertainty currently surrounding the taxation of share deals.

Arbitrary

Addressing a monthly meeting of The Investors Club he said the stock exchange had taken the view that it would have been better to levy a flat rate capital gains tax at a low level or perhaps 15 percent than to continue with the present arbitrary system in which revenue officers in the different centres all pursued their own individuals approaches to the taxation of share profits.

One of the most serious problems facing the Johannesburg Stock Exchange was, he said, its relative lack of liquidity. The fear of individuals that they might be taxed at their marginal rates if they take capital gains on their share investments was responsible for the extremely low turnover of the JSE.

PROPOSAL: Minister Barend du Plessis

In the event, the Minister had compromised on the issue by lowering the time limit to five years, after which the holder of shares could be assured that he would not be taxed on his investment.

Mr Crowhurst told investors that they need not necessarily be taxed as "traders" if they sold their shares after holding them for a shorter period of time. Provided investors sold shares in order to reinvest in securities that resulted in a higher dividend, the Receiver of Revenue had shown no inclination to tax them on their capital gains.

Retraction

In a wide-ranging 90-minute question and answer session, Mr Crowhurst also:

- Expressed the view that a short-term share market retracement was likely but envisaged steady rising share prices in the year ahead.
- Said that inflation was here to stay and doubted whether levels of less than 10 percent could be reached in the foreseeable future.
- Said that South Africa would attract substantial foreign investment capital in future provided a clear capitalist-oriented political policy was adopted in the future. "We are currently shooting the political rapids but a very calm pool lies ahead," he predicted.
It's a whole new ball game

TAXATION: There is a gap in the law regarding married couples

Your Money

Reprint of April 1992
Taxpayers fork out R2 000 for a single reply

BY CLARICE ROBERTSON

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HE was also warned not to "toss the ball" into the Department's court to dodge the question of the assessment.

The Department of Education and Youth Development would now refer to the Komati Local Municipality and theRatepayers Forum for a 'single reply'.

"It was an answer to a standard question," the Ratepayers Forum's secretary said.

"We have been warning the Department for years," the secretary added.

"It was a matter of principle," the Ratepayers Forum's president said.

"It was a clear case of dodging the question," the president added.

"We have been warning the Department for years," the president said.

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SA could be tax haven for UK’s top earners

By Neil Behrman

LONDON — If the Labour Party gains power this week, South Africa’s immigration offices may soon be overwhelmed by disenchanted British professionals, managers and skilled artisans.

Under the proposals of Labour Shadow Chancellor John Smith, South Africa’s tax structure would become more attractive for British taxpayers who earn more than £25,000.

Thus, for the first time in several years, the net disposable income of South Africans would be higher than for middle and upper-ranking UK taxpayers.

Even though South Africa’s inflation is running 12 percentage points higher than the UK, its cost of living is still much lower.

So British immigrants would be able to buy more for their money as well.

Meanwhile, Mr. Smith is a devout believer in the European Exchange Rate Mechanism and repeatedly says Labour will not devalue sterling.

Interest rates

To maintain the pound at its present overvalued parity, interest rates, which have already jumped to 11 percent on fears of a Labour victory, are likely to remain high.

After deducting inflation, real interest rates are a punitive seven percent. So even though Labour intends spending more, the shackles of the currency and interest rates are likely to prolong the recession.

Government borrowings are expected to surge. Unemployment is likely to rise further and job prospects will be poor for some time to come.

For the purposes of tax rate comparisons, a national “purchasing power parity” of R2.50 to the pound has been used instead of the market rate of around R5 to the pound.

Also, national insurance contributions (NIC) — of nine percent — are added to UK tax payments. These pay for a free health service, unemployment benefits and pensions. Thus the tax rate, particularly on lower incomes, is not strictly comparable.

A large proportion of UK upper income earners pay for their own private insurance because of the National Health Service’s long waiting lists and time-consuming delays. But the benefits are available for all, regardless of income.

Under the present government, the scale of the NIC take is limited to a maximum of nine percent up to incomes of £21,000 (R32,500).

A married person with a taxable income of £40,000 (R100,000) would be paying 4.5 percent on national insurance contributions.

Labour intends scrapping the limit, so national insurance contributions would remain at nine percent, regardless of income.

Labour intends raising the top marginal rate from 40 percent to 50 percent for incomes over £40,000 (R100,000).

Including NIC, the tax take above that level would be a whopping 59 percent.

Many a middle manager is praying for a Labour defeat and City pupilies are bailing out of the share market, which has slid by 11 percent from its peak in September.

Middle managers, general practitioners, average accountants and senior journalists earn between £35,000 and £50,000 (R57,500 and R125,000) in the UK.

Undoubtedly, Labour’s proposed taxation would reduce incentives. A managing director earning £70,000, would take home £30,000, while a middle manager earning £50,000 would receive £21,000.

The £2,000 difference, or only £153 a week, matches socialist egalitarianism that has become unfashionable in Eastern Europe.

Despite these disincentives and the appalling record of Labour administrations since World War Two, polls are pointing to a new Labour government.

By mismanaging the economy, education, health service, transport and infrastructure, the Conservative Government has alienated the British electorate.

However, it would not take long before there was considerable disenchantment with Labour. Hence the possibility of more immigrants for South Africa.
The graph shows the percentage of GDP contributed to healthcare by different countries. In 2019, Country A contributed 5% of GDP to healthcare, while Country B contributed 10%. The trend indicates that while Country A's contribution has remained relatively stable, Country B has increased its contribution by 2% each year. If this trend continues, Country B is expected to contribute 20% of its GDP to healthcare by 2025.
Call on govt to change VAT

JOHANNESBURG — A major overhaul of the VAT system is prescribed in a report by the Co-ordinating Committee on VAT, which comprises more than 100 consumer and community organisations.

The report, released yesterday, claimed VAT had not only failed to produce most benefits the government expected, but in some instances had the opposite effect.

Prices had risen in expectation of VAT's introduction contrary to expectations that the new tax would decrease prices.

Committee spokesman Mr Bernie Fanaroff said: "VAT revenue is lower than calculated, businesses failed to co-operate in passing along the VAT savings, and the nutrition programme which was designed to offset the effects of VAT on the poor has fallen hopelessly short."

One option that the committee was keen to explore was differential VAT rates, which would enable the government to limit the impact of VAT on essential goods, while taxing luxury goods at higher rates up to 20%."
A MAJOR overhaul of the VAT system is prescribed in a report by the Co-ordinating Committee on VAT, which comprises over 100 consumer and community organisations.

The report, released yesterday, claimed VAT had not only failed to produce most benefits government expected, but in some instances had the opposite effect. Price inflation had, for example, risen in expectation of VAT's introduction and during its first few months, contrary to expectations that the new tax would decrease price inflation.

Committee spokesman Bernie Faaroff said government had been wrong on almost every issue. "VAT revenue is lower than calculated, businesses failed to co-operate in passing along the VAT savings, and the nutrition programme which was designed to offset the effects of VAT on the poor has fallen hopelessly short of the scale of the problem."

Faaroff said expanded capital investment, which government had hoped would be the main advantage to flow from the conversion to VAT, had not materialised. The incentive had instead drained the fiscus of potential revenue, he said.

A recent survey by Stellenbosch University's Bureau for Economic Research showed that business leaders did not expect to increase capital purchases in the near future.

One option that the committee was keen to explore was differential VAT rates, which would enable government to limit the impact of VAT on essential goods, while taxing luxury goods at higher rates up to 20%.

The report provided evidence that while government had targeted only 2,3-million people for relief funding, there were over 16-million existing below the minimum living level.

The report quoted an opinion poll amongst small business agencies who claimed VAT had resulted in lost business and higher overheads.
VCC calls for radical overhaul of VAT

By Mike Siluma

The VAT Co-ordinating Committee (VCC) yesterday called on the Government to radically overhaul the value-added tax system.

The VCC made the call at a press conference in Johannesburg, where it released a report on the effect of VAT on the public, commissioned after the imposition of VAT in October.

The 42-page report, titled "Value Added Tax: Time for an overhaul", is based on research findings and evidence submitted to the VCC's public hearings in February, and will be submitted to the Government.

Changes in the system suggested by the report include:

- **Differential VAT rates**, which would allow for the zero-rating of food while raising the rate for luxury goods as high as 20 percent. The VCC report gave examples of other VAT countries where the system was used.

- That, as a starting point, basic foodstuffs, water, electricity, medicines and medical services be permanently exempted from VAT. Exempted foods would include fresh meat, poultry, fresh vegetables, fresh fruit, cooking oil and all milk and grain products.

- The relaunching of the current poverty relief programme, which had been made more urgent by the drought. Such a scheme to focus not only on farmers but also on the rural poor.

- The revision of VAT provisions which affect small businesses, to include compensation for compliance costs.

The report said VAT had failed to produce most of the benefits which the Government had expected. For instance, the price inflation rate had gone up in the run-up to the introduction of VAT and in the months following.

Speaking on behalf of the VCC, the ANC's Tito Mboweni said: "Government has been wrong on almost every issue. VAT revenue is lower than calculated, businesses failed to co-operate in passing along the VAT savings; and the nutrition programme which was designed to offset the effects of VAT on the poor has fallen hopelessly short of the scale of the problem.

"The research findings in this report show conclusively that VAT has some severe shortcomings, and we hope that this time the Minister of Finance will be open to discussion."

Rejecting Government assertions that differential rates would be complex and expensive to administer, Mr Mboweni said it was "wrong to preserve simplicity at the expense of social justice".
Live-in and you could lose out

BY NELL RUMNEY

You have been living with a woman for a solid 18 years, sharing everything, including the burden of owning a home and at times working together.

You regard yourselves as more "married" than some of your friends.

Then for some reason or other, you are separated.

What are your rights to any of the property you helped your partner acquire over the years? Or her to yours?

The answer is, legally, none.

As Libby Hussemeyer writes in an important book, Living Together — Your Emotions, Your Finance and the Law: "One of the greatest causes of hardship for people involved in live-in relationships in this country is their belief that they are married in common law and therefore have quasi-marital rights ... it just ain't so. It is time we put the myth of the common-law marriage to rest before it does any more harm.

"It doesn't matter how many years you live together or how much you love each other; the law regards you and your partner as two single people who happen to have the same address. That is the reality, and you are courting disaster if you fail to take it into account."

For a range of reasons, more and more couples are opting to avoid the legalities of marriage.

This timely book spells out in simple language the legal and financial pitfalls of "living together" rather than marriage. It is essential reading for those who have chosen this course.

Living Together — Your Emotions, Your Finance and the Law

by Libby Hussemeyer, Southern
Separate tax, joint problem

Review: Your money

The Weekly Mail April 10, 1998
A tighter tax is in the offing

16/4 - 17/4/91

R20 000 a year, and donations between spouses are free of tax.

Estate duty is not that onerous, but it does affect the reasonably wealthy. Estates become taxable at R1-million, when they are taxed at 15 percent.

Trusts, which unlike people do not die, are a nifty way of avoiding estate duty.

New assets can be transferred into a trust, where their fast-appreciating taxable value is "frozen", and where they escape estate duty.

Institute of Life and Pensions Advisers (Ilpa) fellow Willem Boonzaier notes there is great uncertainty about the route a new government will follow and the total tax structure. He thinks some form of wealth tax is a certainty.

However, he believes it will be only wise now to take estate planning steps which will have substantial costs and risk not achieving one's objectives.

Boonzaier comments that the law of trusts is, contrary to most other Western countries, not codified in South Africa, so it is flexible.

The trust offers the ideal instrument to skip generations to avoid estate duty.

"Despite the Marlig Commission's recommendations that the so-called "generation-skipping devices" such as trusts will be deemed to terminate every 15 years, when a capital transfer tax will be payable, it seems improbable that existing trusts (let's say those created before the introduction of such legislation) will be affected."

However, he adds that in the light of uncertainty over what exactly is to happen those contemplating this should create the trust now, but wait until there is clarity before transferring any assets into such a trust.
ties on property and shares and local government rates. In certain circumstances, Revenue will also treat gains on shares and property as income — with the onus on the taxpayer to disprove Revenue's appraisal of the status of the gain.

The merits of all forms of tax on wealth were exhaustively considered in the Margo report. A majority of the commissioners advised against a capital gains tax, but the report did recommend that estate duty and donations tax should be replaced by a unified capital transfer tax (CTT).

Margo also recommended the substitution of objective criteria for the present unclear subjective basis of determining whether a gain on shares or property is income or capital. Brutally simplified, the current test is whether the taxpayer bought to have a source of income or whether he set out to achieve a gain in capital value.

The introduction of the 10-year "safe haven" rule, treating as tax-free any gain from shares held for 10 years or more (reduced to five in the latest Budget), was a tacit acknowledgement of the problems associated with deciding whether a gain is capital or income.

This concession, of course, primarily acknowledged the need for mining houses in particular to regenerate their liquid capital to finance new ventures through selling quoted shares without incurring heavy tax obligations. To a great extent, the rise in capital values in quoted share portfolios reflected merely the effects of inflation, not a gain in terms of constant money.

The safe-haven rule aside, more should be done to establish objective criteria in general for determining whether a gain represents income or capital. There are useful overseas models from which to work. The latest Budget proposals recorded that the Tax Advisory Committee is still examining the tax disposition for capital gains — confirmed by committee chairman Michael Katz. However, Ernst & Young tax partner Sally de Boor notes that Barend du Plessis — in a telephone interview after the Budget — said explicitly that the capital gains tax was not even put on the table, that he regarded it as an inefficient tax from the collection viewpoint, and that it was difficult to contemplate in inflationary circumstances.

Trever van Heerden, chief director: Tax Policy Development at the office of the Commissioner for Inland Revenue, has been reported as saying that the CTT was under study.

As things stand, the current flat rate basis — 15%, with certain concessions — for both estate duty and donations tax is tantamount to a CTT. So the formal imposition of a capital transfer tax in their place would largely be cosmetic, unless coupled with a sharp reduction of the present R1m level at which estate duty cuts in.

Donations between husband and wife are exempt from donations tax, while most other donations in excess of R20 000 a year are subject to the tax. Deloitte Pim Goldby tax partner Willem Cronje would consider undesirable, however, the introduction of a UK-type CTT, which aggregates lifetime disposions (with death as the final disposition) and taxes these at a progressive rate.

De Boor says earlier discussions with several officials at the commissioner's office led her to believe that capital gains tax is indeed the next impost on the agenda. This gives the impression of a war of nerves to soften up the financial community — hardly a sensible way to prepare the ground for imposing a form of taxation novel to SA.

The political Left is enthusiastically in favour of a capital gains tax — for reasons that have more to do with the politics of envy than with hopes of tapping any major new source of revenue or establishing incentives to stimulate growth.

But wealthy nations can afford egalitarian gestures without too much harm to their economies. They do not support the argument that a capital gains tax or a wealth tax would be objectively rational measures in SA at this stage of its economic development. Kessel Feinstein tax partner Ernest Mazansky says a number of the industrial countries would dearly love to ditch the capital gains tax — it is expensive and difficult to administer and brings in little gross revenue. At times collection costs even exceed the gross tax. But they find it politically impossible to do so.

Anglo American group tax consultant Marius van Bleck questions whether SA's already overstretched Revenue administration could take on another major burden. 

Sacob chief economist Ben van Rensburg agrees that introducing a capital gains tax would be complicated, requiring consultation at all levels.

Though Cronje concurs that it does not collect much tax and is expensive to administer, he now feels such a tax does combat avoidance through diminishing the attractions of structuring transactions to produce a capital gain instead of income. He, therefore, no longer regards a capital gains tax as undesirable on balance, provided it is indexed for inflation and stays at modest rates.

The Economist (some years ago) expressed cautious sympathy for a wealth tax at a modest rate. The argument was that it would not deter entrepreneurial activity, while attacking the purchasing power of those living off the fruits of past generations' efforts. On the other hand, a capital gains tax is targeted largely at entrepreneurs who have built up their own capital. If SA is to be cursed with either, a modest wealth tax might be less irrational — though neither is desirable.

In local conditions, however, a wealth tax falls by the "thin end of the wedge" argument. This is the fear that black resentment of white wealth might result in a wealth tax — even at modest rates — setting in motion a process of delegitimising all white property rights.

Mozansky notes that Kenya had a capital gains tax and suspended it in 1983. Margo also raised the important argument that the major burden would fall on the middle class, not on the wealthy. This would be a most undesirable outcome, with important ill-effects for sustainable economic growth and social stability.

Van Bleck notes that IMF and OECD statistics show the current income tax structure places SA in the highest international category for direct taxes on individuals as a percentage of GDP. If a capital gains tax were to be introduced, it would have to be coupled to a reduction in the individual income tax burden.

KPMG Aitken & Peat tax partner Henric Coetzee and Cronje support Margo's stand that capital gains should be adjusted to allow for inflation. This requirement brings in difficult problems of indexing. In the absence of indexing and with high inflation, a capital gains tax would in effect be a tax on wealth, as it would subtract from the inflation-adjusted capital base with which the taxpayer started.

Cronje says, if capital gains tax is introduced, government should be careful not to tax personal residences, which are the main store of wealth of the middle class. Various sound overseas precedents are available for exempting the proceeds of the sale of personal dwellings.

Cronje says, despite years of opposition — how he swung round to the view that perhaps the time has come to accept the tax as the least damaging form of wealth tax. However, the majority of specialist opinion still remains set against a capital gains tax, applying the criteria of ease of collection, potential revenue gains, and impact on entrepreneurship.

In the last resort, the issue becomes a facot of the more general debate about whether SA should solve the problem of poverty through redistribution or through wealth creation. The economic history of the world over the past two generations gives a clear answer — wealth-creation works, while redistribution of wealth tends to become redistribution of poverty.

Capital gains and wealth taxes should, therefore, be opposed strenuously by all who support free-market economics. We cannot really afford gestures to appease resentments — gestures which will harm wealth formation while doing little to redress poverty. Alas, whether SA will sooner or later be saddled with additional taxes on capital will rest not with economic logic, but with the balance of political forces.
A case of fiscal envy

The underlying philosophies of wealth creation vs redistribution will decide policy.

The debate around the issue of introducing taxes on capital gains or wealth is almost entirely political. But in addressing it, objective fiscal and free-market economic criteria should be used.

Historically, contemporary tax systems addressed the taxation of income rather than accrued wealth, though the approach was not consistent — either in SA or abroad. It has long been accepted in the industrial world that a tax on capital may be levied at the time of the taxpayer's death, either through a tax on the value of his estate (estate duty) or on bequests (inheritance duty).

When taxpayers in jurisdictions with penal rates of estate duty responded by donating the bulk of their assets to their heirs during their lifetime, revenue departments often responded by imposing donations tax.

In the post-War world, populist pressures — even in countries such as the US, which remained wedded to the free market — extended the principle of taxing wealth as well as income through imposing capital gains taxes. Today, countries such as Germany also impose a wealth tax, if at modest rates.

These extensions resulted in a legally more complex tax system and much work for revenue, but not much additional revenue. The donkey work of revenue-raising in the advanced countries is done through taxing middle-class incomes via a broadly based income tax and consumption via a broadly based VAT or other form of sales tax.

In SA, because of painful disparities of income levels and wealth, the issue of taxes on capital has become emotive and highly politicised. Egalitarian gestures aside, the current approach to taxes on wealth remains incoherent, Margo notwithstanding, and cries out for rationalisation.

SA has long imposed estate duty, but reforms have greatly reduced its burden. Not only is there a donations tax; there is also a variety of other levies including transfer du-
Like all special concessions to promote exports or industrial expansion, the recent extension of tax benefits to projects adding value to imported raw materials has been selectively welcomed.

But it does go against general economic and fiscal principles. And its application requires careful monitoring — especially in the light of recent uneconomic ventures launched with fiscal incentives or State funds. One Mosgas or even one Atlantis is enough!

The concessions were introduced last year, under 37E of the Income Tax Act, to provide important tax concessions to companies beneficiating locally produced raw materials. They were intended to promote projects such as the conversion of abundant local deposits of chrome ore into stainless steel for export.

Section 37E entitles the taxpayer involved in the beneficiation project to deduct preproduction expenses in the year in which they are incurred. This is an important concession because massive ventures of this sort can take years to reach production.

There is a further important concession: if the taxpayer claiming the deduction does not have a tax base from other activities against which to offset the deduction, it may trade the loss with another taxpayer for a cash payment. This trafficking in a tax base is normally strictly prohibited by the Act.

The amendment to section 37E, introduced in the last Budget, says two requirements must be fulfilled for the venture to qualify. First, 60% of the beneficiated product must be exported. Second, that the beneficiation process must add value to the extent of 35%, measured against the combined cost of the raw material plus the electricity consumed.

Deloitte Pim Goldby tax partner Willem Cronje points out that a press statement some months ago indicated the allowances would be restricted to 100% of cost, whereas the original legislation provided for a discretionary increase beyond 100%. Cronje considers this as a move in the right direction, as incentives should be as objectively calculated as possible. It is also a healthy move that the required added value — for local as well as imported raw materials — is now a minimum of 35%, instead of being a discretionary figure.

UCT professor of economics Brian Kantor says the provision of incentives of this nature flies in the face of free market principles — and has a heavy cost, a portion of which is hidden. It is market forces which should entice private-sector capital into export ventures. If they don't, either the project is uneconomic or the exchange rate is wrong.

Government subsidies to export ventures have adverse consequences, even if the subsidy takes the seemingly innocuous form of a deferral of tax. This obliges government to raise more revenue from other sources, so pushing up tax rates. This in turn distorts the cost structure across the economy — which feeds back adversely to the cost structure of the export venture itself.

What has made matters worse has been the distorting effect of various forms of protection directed at imports.

Kantor says the distortion in the depreciation system caused by inflation should be addressed to achieve a rational set of incentives.

The inflation-adjusted tax deduction for depreciation should be sufficient to enable a manufacturer or mining company to replace its capital invested — in real terms — at the end of its economic life. Not only does this requirement imply inflation-adjusted depreciation; it also means replacing a mechanistic straight-line write-off over five years (the current general depreciation procedure) with an individually determined period reflecting the economic life of the plant.

Kantor says the extension of section 37E has been the result of aggressive lobbying by companies that wish to promote exports, using the argument that they are penalised by SA's high corporate tax rate relative to many industrial countries.

Anglo American group tax consultant Marius van Blerk argues that extreme doctrinaire positions should be avoided. He approves of beneficiation incentives to export industries if they take the form of a deferral rather than a waiver of tax. The incentive should also be restricted to temporary help to get the project started.

It also counts in favour of the amendment to section 37E that it is directed at exports rather than at import replacement, says Van Blerk. Permission to trade in the tax base is necessary as an accessory measure, because a beneficiation venture will probably not have access to a broad tax base of its own. If the ventures created through the new incentive can compete in world markets, the approach will be vindicated, says Van Blerk. He argues that the need for official approval on a case-by-case basis (a requirement of 37E) is essential. But the proceedings should not be secret. And an active financial press is a further safeguard against abuse.

It seems the extension of section 37E to projects based on imported raw materials is primarily intended to assist Alusaf in its expansion plans. The production of aluminium frequently uses imported bauxite at a site where cheap power is available, as the cost of power is the most important input. Clearly, Eskom's aggressive drive to cut the cost of power to absorb its current large surplus of generating capacity has influenced the proposed amendment.

Free-market exponents are entitled to remain sceptical about section 37E in its original form, still more about its extension. They need to be vigilant lest the amendment makes possible the establishment of industries of dubious profitability, such as the proposed naphtha cracker based on imported raw material (FM November 16 1990). The cracker still appears to have backing from a powerful lobby.

As Kantor points out, SA is still short of capital — yet another reason for mistrust of still more industrial megaprojects of marginal viability which could yet waste scarce capital on a grand scale.
month on 40,000 km (without records the Receiver puts a ceiling on business usage of 20,000 km a year, which increases assumed private usage).

‘Fair’

Prime’s comparative tables are based on what it calculates to be a “fair allowance” — a sum which the company takes to cover the cost of vehicle depreciation, interest charges, maintenance costs, fuel, insurance and licensing costs. This sum has been rising at an average rate of 17.9 percent a year by Prime’s calculations.

Even if the employer does pay a “fair” allowance, Prime takes the view that there remain tax disadvantages for the employee.

Prime notes: “Twenty-five percent of the monthly allowance attracts PAYE and is taxed at the employee’s marginal rate. This places the employee at a disadvantage in that the portion of the allowance which is taken as monthly PAYE reduces the available allowance. The shortfall on operating costs is met from the employee’s after-tax income.”

An example of the tax disadvantage in rands and cents is given for a vehicle use of 40,000 km and an allowance method (no records kept) in the hands of an employee with an effective tax rate of 30 percent (See Table 1).

The control of maintenance costs is critical in managing an allowance. This can only be done through experience in vehicle management and skill in monitoring maintenance bills, a task which can best be done by a specialist fleet-management team.

Residual

Table 2 illustrates Prime Car Leasing’s analysis of running costs of a vehicle according to kilometre kilometres travelled.

The costs are derived by using a lease where the residual value equates to the expected resale value at the change-over time. With this method, depreciation costs are minimised.

Maintenance costs are the expected average cost throughout the full period and have been adjusted to accommodate future inflationary expectation.

### Table 1: Fair Allowance Comparisons

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<td>22,512</td>
<td>25,764</td>
<td>28,992</td>
<td>31,836</td>
</tr>
</tbody>
</table>

This represents a significant cash outlay for the company which aims to cover the operating costs of the car to the employee.

A FAIR ALLOWANCE MUST COVER TRUE OPERATING COSTS.
REVENUE collected for the Exchequer in the first 11 months of last year increased by 6.5% over 1990.
This amounts to 68.4% of the budgeted increase of 10.7%, says Central Statistical Services.

Tax collections rose by 9.1% in the 11 months. Income tax, excluding gold mining, increased by 15%.  

**Tax take**

Consolidated fuel levies were 28.9% up and surcharges fell by 22.5%.
Revenue from GST and VAT increased by 2.7%.
Income tax from gold mines fell 46.5% to R334.6-million and other taxes on net income and profits increased by 15% to R37.34 billion.
How to cope with the tax hassle

Income Tax Made Simple by Matshehu Matshehu (Butterworths) — R39.55 inclusive.

IT is said the only sure things in life are death and taxes. Matshehu has risen to the occasion and gives us a splendid and important book on one of those facts of life, tax.

The book becomes more important if you consider that quite a number of black South Africans are now on a common tax-rate with their white compatriots.

Filling-in-income tax returns is a daunting task. What Matshehu, a well-known tax consultant, has done in this easy-to-read-and-understand book is to provide the man-in-the-street with financial information that is easily accessible.

The cherries on top are the illustrations by Elizabeth Warder and the tight editing by Lauren Legg which helped make the subject clearer.

Overall the book gives a neat round-up of SA's tax system. Understanding this system is vital today, says well-known businessman Phil Khumalo in the foreword.

For its price, the book is a good investment for tax purposes and for general financial education.
Increase tobacco tax, says researcher

INCREASED tobacco taxes could generate revenue for health promotion projects and could fund an extended exemption from VAT on essential foodstuffs.

This was said by the group executive for community health research at the Medical Research Council, Dr Derek Yach.

Dr Yach said it was surprising that increased taxes on tobacco products had not been part of a comprehensive approach to controlling tobacco use, and preventing children from starting to smoke.

"Tobacco consumption is related to affordability, and an increase in tax on cigarettes would reduce their affordability, particularly for children," Dr Yach said. — Sapa
Tax rates ‘hinder investment’

SA WOULD have to bring its corporate tax rate in line with those of its main trading partners in order to attract foreign investment, Rand Merchant Bank chief economist Rudolf Gouws said yesterday.

He said a decline in the income tax rate on individuals in the past decade masked a significant amount of bracket creep, the average amount of tax payable by households had increased substantially. A higher direct tax burden on individuals had led to a decline in spending growth and a drop in net personal savings.

Lower levels of savings and investment had put pressure on the overall level of economic growth in SA.

"SA’s fiscal competitiveness has diminished in the past decade and, since 1980, our main trading partners have lowered both their corporate tax rate and their rate of inflation while SA has done just the opposite.”

Government had become a net absorber of savings and, as a dis-saver, was borrowing more in order to finance the cost of employing a growing number of civil servants. Spending requirements for the current fiscal year would continue to worsen the budget deficit.

Gouws said the inequalities which were the result of apartheid needed to be addressed urgently.

“If we address the redistribution issue too rapidly, this will be too punitive and there will be a re-acceleration of capital flight. On the other hand, if we do it too slowly, there will be demands made for more radical solutions to the problem,” he said.

He expressed concern over the popular view that public works programmes should be introduced by a future government. Such programmes would not significantly address the unemployment problem but would have severe implications for tax rates.
Shows tax break R11m

The government has handed out almost R11 million in tax concessions to promoters who brought Indian entertainers to South Africa.

But Finance Minister Barend du Plessis will not say who benefited from the public coffers. A secrecy clause in the Income Tax Act allows him to refuse to reveal their names.

Democratic Party MP Mamoo Rajab says he received complaints from promoters who did not get the tax perk and from fans who paid up to R500 for tickets. And he claimed: "The concessions were given in an effort to break the cultural ban."

He added that, apart from concerts by top singers Lata Mangeshkar and Pankaj Udhas, the proceeds of which went to charity and cultural organisations, the Indian shows were "money-making projects."

"I was not aware that the promoters were getting these concessions. I began asking questions when the promoters were charging high ticket prices and then filing for tax concessions," said Mr Rajab.

"The taxpayers have lost out. The show prices were ridiculously high and overseas artists cashed in on the cultural boycott."

In his reply to Mr Rajab, Mr Du Plessis said 18 promoters had applied for concessions and R10 822 708 had been paid to 15 of them last year.

The biggest and most successful Indian show that came to South Africa was that of screen superstar Amitabh Bachchan, who drew crowds of up to 80 000.
EEE’s minimum 15% VAT a pointer for SA

By CIARAN RYAN

EUROPEAN Economic Community states have agreed to a minimum standard VAT rate of 15% from January 1993.

This move could prompt SA to follow the international trend of raising indirect taxes and lowering direct ones.

The EEC minimum standard VAT rate of 15% may be indicative of a future SA rate. The present 10% VAT is comparatively low by world standards, says international tax consultant David Lerner, of Coopers Theron Du Toit.

"However, because of the strong political opposition to the tax, an increase in the rate in the immediate future looks unlikely," says Mr Lerner.

"SA also has one of the highest company tax rates in the world. There is little scope to increase VAT without lowering direct taxes."

Finance Minister Barnard du Plessis was expected to announce an increase in VAT in the March Budget together with a reduction in individual and company tax rates of 43% and 46% respectively. There was no change in either tax rate.

Mr Lerner says: "The international trend is to reduce direct taxation, such as for individuals and companies, while increasing indirect forms such as VAT."

"The philosophy behind this is that taxpayers prefer to have more disposable income and to decide how and when they will be taxed."

Stifled

For example, company tax rates were dropped from 33% in the UK last year and VAT was increased from 15% to 17.5%. Denmark dropped its company tax rate from 50% to 25% while increasing VAT from 22% to 25%. Belgium lowered company tax from 45% in 1982 to 35%, maintaining VAT at 19%.

Mr Lerner says: "The SA Government has stated its wish to reduce direct taxation in the medium term. It appears to be accepted that high taxation stifles initiative for growth and profit generation."

Most European nations operate a split-rate VAT system, charging zero or reduced rates for food, educational material and children’s wear. A higher rate applies to some luxury goods.

Although the system is complex and open to abuse, Mr Lerner says it is an option for SA, given the political controversy aroused by the reduction in the number of zero-rated items.

The harmonisation of indirect taxes in the EEC eliminates fiscal barriers to trade across borders. EEC customs duties are harmonised and a common tariff applies to goods entering the community. Transactions in the EEC are not subject to duties.

Attempts to harmonise excise duties have been less successful, however, because this is a national rather than a community source of revenue. Minimum excise rates on mineral oils, alcoholic beverages and manufactured tobacco have been agreed on by the European Council.

VAT and customs duties are a major source of finance for the EEC. Only Germany and Spain have standard VAT rates below the 15% minimum required by January 1993.

Highest

Denmark’s standard VAT rate of 25% applies to all goods and is the highest in the EEC, although Italy charges 38% on luxury goods and Greece 36%. France charges 34%, Spain and the Netherlands 25% and Portugal 36%.

VAT will be charged at the rate applicable in the country of destination until 1997 when a definitive tax regime will be implemented. It will charge VAT on a source basis, similar to SA’s VAT legislation for deals with Transkei, Bophuthatswana, Venda and Ciskei.
Revenue collection slightly off target

REVENUE collected during the 1991/92 financial year was just less than target, with 99.4% of the voted amount collected.

According to the Central Statistical Service, total collections in the year to March disclosed that 9.8% more revenue was collected than in the previous financial year, when the Exchequer raised in 104.4% of the amount voted. $10.1bn was collected.

Inland Revenue receipts increased by 10.6% while customs and excise duties yielded 4.5% more than the previous year. During the past financial year the Exchequer's deficit before borrowing and debt repayment amounted to 99.7% of the deficit voted for the year compared with 01.7% for the previous financial year.

State spending during the 1991/92 financial year rose 12.5%. Expenditure was 99.5% of the budgeted amount for the year as against 103% year before. Spending exceeded revenue by 13.6% compared with an overshoot of 10.8% in 1990/91.

Old Mutual chief economist Dave Mohr said the figures looked "reasonably encouraging and contained no nasty surprises." The final figures for the last month of the fiscal year seemed to be better than Finance Minister Barend du Plessis had expected when he gave his Budget address.
Codessa faces taxing problems.

There is lost of trouble for discovering taxes. The challenge is to get the process moving. Professor Donald Bums talks about Anne College.

Codessa faces taxing problems.
Make taxpayers help foot election bills, says report

At a Press briefing on the report, the chairman of the committee, Mr Johan Heyns, said that the ban on racism would mean that the Conservative Party would be unable to register as a political party unless it opened its ranks to all racial groups. However, the code of conduct was not aimed at stopping the propagation of specific cultural values.

The most contentious issue for already hard-pressed taxpayers was that they be compelled to pay for the election campaigns of their political masters. The report said that recruitment and membership fees were still essential for parties, but "it has been universally experienced that financial contributions by members are gradually forming a smaller percentage of party income".

"South Africa is no exception and this increases the desirability of State aid," the report said.

The need for greater State aid to political parties to ensure their effective functioning was ever increasing, and "in view of the current political developments the funding of political parties is recommended by the committee".

Elections could not be successful unless political parties had the financial ability to reach and influence voters.

Funds were required for the establishment and maintenance of a democratic party system.

"The importance of a first election to lay the foundation for a multi-party democracy cannot be sufficiently emphasised."
Inspectors net R1,99bn in unpaid taxes

A BLITZ by inland revenue inspectors on tax dodgers netted R1,99bn during the 1991/92 financial year, Inland Revenue chief director Chris Dempers said yesterday. (GEO-23/4/92)

This was R400m more than the unpaid taxes inspectors found in 1990/91.

Dempers said tax due on untaxed income discovered amounted to R1,56bn and unpaid PAYE to R50,5m.

GST dodging accounted for R342,9m, unpaid stamp duties R62,3m and non-payment of transfer duties another R22,4m.

Dempers said VAT irregularities were not closely investigated during December to mid-April, mainly because inspectors and corporative staff were engaged in processing VAT refund claims resulting from input credits.

He said many incorrect claims were based on ignorance of the VAT system while others were littered with errors and had to be rejected.

"Since the beginning of December until now we have concentrated on getting the system into gear. Our inspectors visited many businesses to ensure a better understanding of the system and we believe we have achieved this to a great extent."

Dempers said the department would now concentrate on exposing VAT offenders.

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Sit-in protest at Transnet

ANC, SACP, Cosatu and church representatives are holding a sit-in protest at Transnet’s Braamfontein offices until demands have been met to end violence on trains and stop the re-enforcement of rail workers.

Their protest, which includes a call for a boycott of trains by commuters, follows a protest march by 2,500 members of the SA Railways and Harbours Workers Union (Sarhwh) through the centre of Johannesburg yesterday.

The march – an annual event to mark the deaths of seven workers shot by police during the railway strike of 1987 – took up current railway worker and commuter demands.

Those sitting in at Transnet include Cosatu leaders Amos Maseko, Kgabisile Mosukutu and Elliot Sinengini, the ANC’s Jessie Duarte, the SACP’s Jabu Meketi and Smangaliso Mkhize from the SA Council of Churches.

Further demands by the sit-in protesters include an immediate meeting with the Ministers of Transport and Law and Order, provision of adequate security on trains by the SAP and Transnet, and the release of Sarhwh members in jail.

A Sarhwh spokesman said up to 60,000 Transnet jobs were at stake, but a Transnet spokesman denied large-scale retrenchments were on the cards.

The sit-in is one of a series of actions planned by the ANC alliance over coming weeks to highlight violence on the trains.

A memorandum issued by the protesters said 155 people had been killed and 414 injured in train attacks in the first three months of this year.

The Human Rights Commission said yesterday 61 people died and 45 were injured in political violence over the past week, with most of the incidents occurring over the weekend.

Sapa reports that four people died on Tuesday and at least nine – including a policeman – were injured in incidents of politically inspired violence around the country. The policeman was wounded in an attack on a car in Katlehong by an unidentified gunman.

At Amaoti, in the Inanda area, police said, a Kwazulu policeman was shot and wounded by the SAP on Tuesday after he refused to comply with their orders.

He said the police had been patrolling the Amaoti area when they heard the sound of a gunshot. They went to investigate and saw a man with a firearm.

When they asked him to hand over his weapon, he allegedly refused and started shooting at them. The man was shot and wounded.

His firearm was confiscated. He was later identified as a member of the KwaZulu Police.
Taxpayers may have to fund parties

CAPE TOWN — Taxpayers could be forced to pay for election campaigns of political parties because politicians might not raise sufficient funds themselves.

This is one of the recommendations in the report of the President's Council's Committee for Constitutional Affairs on political parties which was released yesterday.

It also suggested that an electoral commission to ensure free, regular and democratic elections be set up, and that political parties sign a code of conduct that sought to stop any party from advocating racism or violence between groups or individuals.

At a press briefing on the report, committee chairman Johan Heyns said that the ban on racism would mean that the Conservative Party would not be able to register as a political party unless it opened its ranks to all race groups.

The most contentious issue for already hard-pressed taxpayers was that they be compelled to pay for election campaigns of their political masters. The report said that recruitment and membership fees were still essential for parties, but financial contributions by members are gradually forming a smaller percentage of party income.

Elections could not be successful unless political parties had the financial ability to reach and influence voters. Funds were required for the establishment and maintenance of a democratic party system.

"The importance of a first election to lay the foundation for a multi-party democracy cannot be sufficiently emphasised."

Mobilise

The committee said it was important to try to level the political playing field. All political parties should have an equal opportunity to influence voters and mobilise support, so State help should be given to parties which did not receive foreign aid.

Strict statutory requirements for audited reports of expenditure would apply.

In the first election, the State should pay for the dissemination of political information on the role, rights and duties of voters, the report said.

"It is recommended that annual financial aid in accordance with an agreed formula be considered for registered political parties."

Funding would be made on the basis, but "financial contributions by members are gradually forming a smaller percentage of party income."

Elections could not be successful unless political parties had the financial ability to reach and influence voters. Funds were required for the establishment and maintenance of a democratic party system.

"The importance of a first election to lay the foundation for a multi-party democracy cannot be sufficiently emphasised."

The committee said a permanent, statutory electoral commission should be established, comprising experts, jurists and representatives of all political parties. It would monitor and be in overall control of elections to ensure they were fair and democratic. It should be separated from the legislative authority so that government and party influence could be limited as far as possible.

The commission could be part of a constitutional court.

It would be responsible for registering political parties, and arbitrate in disputes between political parties.

The commission would monitor party funding, including foreign funding, to ensure the money was spent in accordance with statutory provisions.

The commission would function in terms of a Party Act and an Electoral Act.
It is the notional rate which causes trouble. Revenue correctly believes that company-owned savings policies would be ceded to natural persons to attract the 32% rate instead of the company rate — an attractive tax shelter. So the fiscus has proposed a complicated set of rules. These retained the key provisions of the sixth schedule for certain company-owned policies only, with the added provision that a taxable accrual will take place every 10 years. This would have increased the administrative burden in the life offices.

At a recent discussion between Revenue and the LOA standing committee on taxation of policyholders, it was suggested that the policyholders' taxable fund should be divided into one for natural persons and the other for company-owned investments.

Old Mutual's Abri Meiring, who chairs the committee, says this would allow the sixth schedule, to be eliminated, with great cost and systems benefits. There would no longer be a need to distinguish between "standard", "non-standard" and "deemed standard" policies. There would be no need to track events, such as premium history or loans on policies, for tax. Compliance with tax liability would be handled more efficiently by the life offices. Meiring believes this approach would also entrench the trustee principle.

There are complications. There is resistance to creating four funds, instead of three. It would also affect the tax paid by a life office on company-owned policies such as deferred compensation and keyman, though Revenue seems ready to accept changes to the Act which would offset the increased tax.

The proposals now go to another LOA standing committee — on taxation of life offices. Its chairman, Theo Hartwig, points out a number of difficulties with the new suggestions. He says that if a policy is ceded between a company and a natural person, or if there is an agreement between two such parties, there is no obligation for the cession or agreement to be registered with the life assurer. So the problem of allocating the policy to the correct tax bracket is not solved.

Both Meiring and Hartwig believe, however, that a solution is only weeks away. The negotiations are propelled by the need to eliminate a tax schedule which, by common consent, has outlived its purpose, collects little revenue, makes new product design cumbersome, is understood by only a few specialists and is ignored for practical purposes by some life offices.
to counter an avoidance strategy which employed CCs, but the new requirements have not yet been implemented.

John Hanssen, of the office of the Commissioner for Inland Revenue, told the FM (February 14) that Revenue planned to have application forms for exemption available from May 1. Those CCs affected by the legislation, but which failed to obtain exemption, would have fee income subjected to Paye from July 1.

Now it seems several problems could derail the schedule.

The first is the familiar one of insufficient numbers of administrative staff to handle the likely flood of applications from CCs wishing to obtain exemption from the labour broker requirements. The second is difficulty in refining the criteria for exemption so that bona fide independent practitioners of professions are not also caught in the net. As there can be a fine line between a genuine independent contractor, working for fees, and someone who is effectively an employee, devising the guidelines could be difficult.

But this is not the end of Revenue’s difficulties. If Paye is deducted from fees payable to a CC which, in turn, pays a salary to its member or members, the issue of double tax on the same income will arise. Another apparently unresolved problem is the rate at which Paye is to be deducted for a fee-earning CC — which is, after all, a legal personality, not a natural person.

The commissioner’s office is to issue a statement next week.
State expenditure could exceed budget by R2-bn

By Marc Hasenclever

CAPE TOWN — Additional state expenditure, in excess of that set aside in the 1992 Budget, could top R2 billion this year, Department of Finance Director-General Gerhard Kroeser said at a University of Stellenbosch's seminar on "Economic Prospects 1992/93."

He said this represented about two percent of the R100.6 billion Budget and meant that government expenditure would increase four percent in real terms.

He noted that the R1 billion set aside for drought relief was not adequate for farmers' needs this year and that the government would have to accrue additional expenditure to fund aid to the agricultural sector.

"Although there will be some additional expenditures, government is still committed to curbing fiscal spending."

He pointed out that the state had already withstood fierce pressure from civil servants as regards wage increases this year.

He said government's capitulation into dropping the VAT rate to 10 percent government coffers resulted in a loss of an additional R4 billion that would have been realised under the initial 12 percent rate.

"The additional revenue could have resulted in a significant reduction in borrowing and government could have also met individual's tax demands or even reduced the company tax rate from 48 to 40 percent."
A think tank of pension specialists is expected to come up with ideas on how best to restructure government's tax take from the pensions industry. A meeting, called by the Financial Services Board and chaired by State actuary Piet Robbertze, will be held this Friday.

It is a sequel to a passage in Finance Minister Barend du Plessis' March Budget speech: "The Mouton Committee, whose investigation into and report on a retirement provision system for SA will be completed later this year, has as yet not formally studied the question of alternative means of financing full social pensions parity. Government has asked the committee to investigate the viability of various financing options that have surfaced in the course of the committee's activities and to report on them as quickly as possible."

"The pension fund industry is one of our country's greatest assets. If an acceptable method can be proposed whereby additional revenue can be found without harming this industry or causing uncertainty on the part of individuals over the value of their retirement provision, it may be possible to take parity still further in the course of this financial year."

Taken literally, Du Plessis seems to have added two and two and made three. There is no reason why parity in social pensions should be funded by the formal retirement industry, that is maintained by people who have consciously made some effort to provide for their old age. To tax those savings to attain so-called parity must be the essence of demotivation.

If that piece of obfuscation is removed, it may well be time to review how the pensions industry is taxed and, most participants agree, it is unlikely this week's meeting will achieve more than that. In practice, pensions are hardly taxed at all.

Within limits, employer and employee contributions to funds are tax-deductible. While the retirement fund accumulates there is no tax on the gains. When, on retirement, the fund is paid out, up to one-third (again, within limits) becomes available free of tax. The two-thirds buy an annuity which is taxable in theory, though the threshold for tax by pensioners over age 65 is fairly high.

An industry estimate suggests that the system, intended to defer tax, has deferred it out of sight. Only about 25 000 pensioners actually pay any tax and that at an average rate of 5%. Of lump sum payments, these provide the Exchequer with an average of 6%. For practical purposes, the retirement industry goes almost tax-free.

But there is another side. Largely because of job-hopping and the non-preservation of pension rights, only 6% - 8% of South Africans retire with sufficient means to maintain their former lifestyles. Inducing more to save has been the reasoning behind the apparent generosity of the fiscus.

Since Du Plessis' Budget remark, the Retirement Institute and the Life Offices Association (LOA) have been studying how the pension industry is taxed elsewhere. In most countries, the tax burden is kept as light as possible. Among models studied are those in New Zealand (described by the LOA as "a disaster which almost killed the industry") and Australia. The Australian model is taken seriously both by the LOA and by the board.

Broadly, it provides for a tax at the accrual level in a fund, so that accumulated gains are taxed on a regular valuation. It has the effect of providing government with a predictable cash flow and, when the fund pays out, the proceeds have already been taxed.

Some Old Mutual sources believe that, if the tax rate applied to the accrual were sufficiently low, a useful tax could be generated without doing major damage to the pension industry. Also, some specialists invited to this week's meeting considered whether a tax could be offset, perhaps by government providing permission for pension funds to invest some of their assets offshore. With the prospect of government's own pension funds being introduced to the Johannesburg Stock Exchange, they fear the indices will be forced to unrealistic levels; offshoring some pension moneys would take off the pressure on share prices.

The meeting is exploratory only. A board source says the Australian model is of interest but emphasises a tax on pension accruals "is not on the table." The two statements cancel each other.

Also underlying the tentative nature of the meeting, it includes representatives of the Actuarial Society, the LOA, the Retirement Institute and Mouton. Conspicuously absent are representatives of organised labour. The short-term outcome could be a chapter for Du Plessis' special adviser Janjie Jacobs to include in his report on the taxation of financial institutions. A long-term proposal, all invitees agree, will not be practical without reference to an Economic Consensus. Even after that, politically, the issue is likely to be divisive.

**INSOLVENCY LAW**

Unsettling judgment

A long-standing commercial practice has been overturned by a recent judgment in the Witwatersrand Local Division of the Supreme Court. The judgment, delivered by Judge Michael Stegmann, has created an untenable state of affairs in the Transvaal for many companies that are technically insolvent but potentially viable with backing from shareholders.

In the past, says Oshy Tugendhaft, a senior partner in Moss-Morris Mendelow Bromwe, "subordination agreements" between a company and its shareholders gave concurrent creditors preference over shareholders. This was generally considered as a restoration of solvency provided the company's assets exceeded liabilities minus shareholders' claims. This interpretation had the strong support of accountants.

The judgment holds that subordination agreements are invalid in terms of insolvency law. This brings the Transvaal courts, yet again, into conflict with the Cape and Natal courts — which continue to accept the validity of subordinations in relation to corporate solvency.

The issue arose in the case of De Villiers and Carbon Developments (Pty). The liquidators of the company applied for leave to convene meetings of creditors to consider a scheme of arrangement. Concurrent creditors were informed that they would receive nothing if the company were wound up as insolvent, while the proposed scheme would give them a small dividend.

It was also argued that creditors could not recover from the directors personally on the ground that the company had been trading
Property tax ‘should go up’

CAPE TOWN — Property taxes in SA could increase by 50% and still remain within international norms, University of Western Cape economics professor and ANC fiscal policy adviser Lieb Loots said at the weekend.

Loots, speaking at the annual Rode conference, said a tax on immovable property was inevitable and necessary to provide revenues for local authorities which would be required to play a greater developmental role in a new SA.

They would have to take responsibility for far more than the infrastructural and municipal services they provided.

Many functions which were the responsibility of central government would be decentralised to local authorities.

Loots said an insignificant proportion of overall general government revenue was obtained from property taxes although they made a significant contribution (about 15%) to the revenues of local authorities. In most developing countries the property tax share of municipal revenues was less than 20%.

“In rough terms, international comparisons suggest that property tax in SA can probably increase by about 50% of its present level (that is another 0.7% of GDP) to reach 2% of GDP in order to move closer to a more balanced overall tax structure.”

Loots said property taxes were revenue efficient and cost effective.

He believed a wealth tax would be neither feasible nor desirable, and while there would be pressure for a capital gains tax this would have to be approached with caution.

Our Cape Town correspondent reports that Loots said another reason for introducing property tax would be to avoid distortion in investment decisions.

He said it should be indexed and updated annually on the basis of a formula instead of a rating revaluation every 10 years.
### Barndish's Legacy

By VAT Morress

**Overview:**
Barndish's legacy may be obscured by VAT's request to examine the initial scheme more rather than reviewing the whole operation. This response will be published in due course.

**Background:**
The first report on the Barndish operation was requested in July 1971. VAT was told to examine the initial scheme's impact. This was part of the first report in June 1971.

**Data:**
The first report was published in April 1972, reviewing 252 accounts with VAT. The second report was published in May 1972, covering 402 accounts.

**Impact:**
A significant impact was noted on the accounts through the VAT operation. This impact was expected to continue for some time.

**Concerns:**
There were concerns raised about the impact on the accounts. VAT will need to review these accounts more closely.

**Conclusion:**
The impact of Barndish's legacy may be obscured by VAT's approach. Further examination is needed to fully understand the implications.
Potential minefield lies in wait for the unwary

TAX legislation is a complex and increasingly sophisticated area of the law both locally and abroad. It is also a field in which SA lawyers are going to have to develop specialised skills to assist clients now that this country is once again becoming a full member of the international community.

Hofmeyr van der Merwe partner Danie Erasmus says although many international corporations have shown an interest in conducting business in SA, in many instances this has been limited to sending investigative teams to this country to assess opportunities.

"The immediate pitfall which faces many of these corporations in commencing business in SA is the absence of a double tax treaty between SA and, for instance, the US and Australia, resulting in significant taxation penalties. "Circumventing this problem requires careful planning from both the Australian or US side and the SA side."

"It is here that SA lawyers will, for instance, have to develop the necessary international tax expertise to assist in ensuring the attractiveness of doing business in SA is not diminished by the fact these corporations may face a double tax bill."

Another area requiring a great deal of specialised legal expertise is competition and anti-trust law. The tendency in both the US and Europe, Erasmus says, has been to make their competition law provisions apply extra-territorially.

This means these laws are enforceable outside the US and the EC in respect of foreign businesses conducting trade there, notwithstanding their origin.

"For example an SA company which enters into a price fixing arrangement with another SA company to sell goods in SA at a particular price might be prosecuted in terms of the relevant legislation in the EC when conducting business there."

"Transgression of the competition and anti-trust laws leads to penalties which can be as much as 10% of the group turnover of a violator."

Criminal

Erasmus says in terms of the US anti-trust laws, principally the Sherman Act of 1890, criminal penalties may be imposed up to $10m per violation for corporate defendants and $350,000 for individual defendants.

Aside from the criminal remedies, the Justice Department is empowered to bring civil actions against a violator for the recovery of damages, including the profits made by an organisation violating the Act.

"These are sophisticated laws with which SA lawyers will have to come to terms in assisting their clients in accessing these markets."

"Some are the days of hiding behind a tax haven company with bearer share warrants. "Foreigners now want to do business directly with SA."

Erasmus says dealings with the Sub-Saharan continent will also place new demands on SA lawyers involved in advising clients on cross-border transactions.

"To this end Hofmeyr van der Merwe is closely involved in setting up a regional conference under the auspices of the SA Fiscal Association (Safa)."

"Fiona Walker, one of the partners in the tax department is chairing the committee appointed by Safa to organise the conference which will take place in 1993. "It is intended that the conference will go some way towards encouraging the establishment of common ground between southern African countries and will further the debate about double tax treaties with developing countries."

Hofmeyr van der Merwe, through Erasmus and another partner, Prof Henry Vorster, also intend involving themselves in a national continuing legal education programme which is under consideration by the Association of Law Societies.

The programme will assist attorneys to equip themselves with the necessary knowledge of export incentives, exchange control regulations, international tax planning and related topics.
The man who could apply it without regard to South African complexities. Andrew secures Du Plessis' overall understanding and utility behind. "There has been an agreed consistency and scope - it is not hard to understand that it was never a good apartheid minister," he says. While Du Plessis himself, for all the country's economy, Africa has suffered from this, for so many years by his party, came home to roost in the boycotts and disinvestment.

Climbing a slippery slope to prosperity

What could a new finance minister do to get us out of the morass?

Managing an economy has been compared to climbing a mountain. Anyone taking the path Brandon du Plessis has left for fallen others should do so with trepidation.

Aside from the usual pitfalls and ravines there is a lot of danger for the uninitiated.

A South African finance minister has to be able to negotiate the political landscape of the new South Africa as well as having a grasp of economics.

To change metaphors, economics in South Africa has become a game of leek.

The African National Congress and the Congress of South African Trade Unions have shifted their sights from Value Added Tax to "unilateral economic restructuring" which has been described as ranging from VAT to consumerism.

Until an interim government is in place, it is likely that the finance minister will find it impossible to introduce any sweeping changes without incurring conflict or negotiating any changes with the ANC and Cosatu.

Let's assume that whoever is appointed has the requisite negotiating skills for the job.

Let's assume he is acceptable to all parties and stays on in an interim government. Let's further assume the government backs him.

And finally, let's assume he will be the major restructuring of the economy along the lines proposed by the ANC to a future democratic government. What could be done to put things right within the economy?

Remember that the economy is now only expected to pick up markedly next year (sound familiar, dear friend?) so the finance minister has little room to manoeuvre that the ANC leaves Brandon du Plessis. The only advantage he will have is that he will be less constrained by the balance of payments, as financial markets were reprofiled and do not need to be repaid immediately and negatively.

Firstly, there has to be an admission of a stable financial policy, in other words to balance income and spending and not increase too much.

Government spending. Clearly both the composition and level of this needs to be looked at. The Reserve Bank is understood to be unhappy with the level of spending unveiled in the Budget this year and the Finance Minister is understood to be inflationary, and prevents the Reserve Bank from imposing its tight monetary policy.

The finance minister will have to reinforce spending discipline. Since the demands for reflationary spending on housing, infrastructure, education, health and social welfare will be great, he will have to carefully balance the demands of the various departments.

Reducing the conditioned trend towards financing current spending through borrowing needs to be reversed.

Here the finance minister needs the strong backing of the rest of the government to streamlining government, particularly by moving to roll South Africa's mountainous council and to introduce a uniform civil service.

Peter South African attitude, to aid efficiency, take more employees off the state payroll and to Garnett income must be ruled out for the moment.

The tax has to be increased, take more employees off the state payroll and to decrease income must be ruled out for the moment.

TAX. The tax would revert to the tax system along the lines suggested by the Margo report, and that opportunity is now lost.

A capital gains tax and the intermediate tax on both, are already on the cards. The ANC would probably introduce land and wealth taxes.

The ANC has suggested a fiscal commission, to examine how reflationary spending can be financed through a broadly based and progressive tax structure. More rather than less tax means the aim. How much tax should come from progressive, direct taxes and how much from indirect tax could be an area of conflict. So the minister would have to leave the VAT rate alone for the moment.

In the meantime the finance minister, if it presents the next Budget, can reduce the tax rates to eliminate fiscal drag next year. Du Plessis only reduced fiscal drag this year.

VAT. The minister could not simply raise the VAT rate. But he could raise more revenue through VAT by simplifying it with differential rates. So basic goods could, for example, be zero rated and all other items be subject to 15 per cent.

SOCIAL PENSIONS. As a gesture to the poor South Africa, the minister would have had to remove all racial disparities in state pensions. This could also increase pensions, partly as a way of delivering aid to rural areas.

A STATE LOTTERY. Introducing this would formalise the various private lottery tickets that have sprung up in aid of charities, but could be an important source of government revenue.

MEDICAL AID RUNWAYS. The Centre for Health Policy Studies has estimated the gov-
In 1982, the government lost R1.4 billion through tax collection and other arrears. This was a significant loss to the economy and it was estimated that the government had to take a R5 million write-off in that year. The government has since taken steps to prevent such losses in the future. In 1983, the government lost R1.7 billion through tax evasion and other arrears, and it was estimated that the government had to take a R5 million write-off in that year as well. The government has taken steps to prevent such losses in the future. In 1984, the government lost R1.9 billion through tax evasion and other arrears, and it was estimated that the government had to take a R5 million write-off in that year as well. The government has taken steps to prevent such losses in the future. In 1985, the government lost R2.4 billion through tax evasion and other arrears, and it was estimated that the government had to take a R5 million write-off in that year as well. The government has taken steps to prevent such losses in the future. In 1986, the government lost R2.9 billion through tax evasion and other arrears, and it was estimated that the government had to take a R5 million write-off in that year as well. The government has taken steps to prevent such losses in the future. In 1987, the government lost R3.4 billion through tax evasion and other arrears, and it was estimated that the government had to take a R5 million write-off in that year as well. The government has taken steps to prevent such losses in the future. In 1988, the government lost R3.9 billion through tax evasion and other arrears, and it was estimated that the government had to take a R5 million write-off in that year as well. The government has taken steps to prevent such losses in the future. In 1989, the government lost R4.5 billion through tax evasion and other arrears, and it was estimated that the government had to take a R5 million write-off in that year as well. The government has taken steps to prevent such losses in the future. In 1990, the government lost R5.1 billion through tax evasion and other arrears, and it was estimated that the government had to take a R5 million write-off in that year as well. The government has taken steps to prevent such losses in the future.
Amendment broadens scope of Income Tax Act incentive

The key amendment to Section 37(e) of the Income Tax Act announced in the Budget broadens the scope of incentives aimed at encouraging investment in the industrial sector.

The amendment allows for the benefit of imported raw materials and immediate products which could be internationally competitive.

The original legislation restricted the incentives to the use of locally sourced materials and intermediate products. Minister of Trade and Industry and for Economic Co-ordination Derek Keys says this will ensure the incentives reach more large-scale capital projects.

Section 37(e) of the Income Tax Act was first approved in September 1991 as a temporary measure aimed at promoting investment in industries geared to the benefit of locally produced minerals and intermediate products.

The latest amendments concern principally:

1. The definition of benefit; that is, to provide for the inclusion of local and imported raw materials and intermediate products.
2. A new method of calculating value added to the value of the raw material or intermediate product.
3. Further amendments to earlier government decisions already implemented.

A benefit policy process is defined as a process approved by a committee whereby any new material or any intermediate product is processed in a yield any intermediate product or final product.

It also provided for the accelerated deduction of the expenditure on qualifying machinery, installations, buildings and pre-production interest on cost.

Negotiable tax credit certificates are issued for deductions that cannot be immediately written-off against income.

Definition

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- Further amendments to earlier government decisions already implemented.

A benefit policy process is defined as a process approved by a committee whereby any new material or any intermediate product is processed in a yield any intermediate product or final product. In the opinion of the committee:

1. Such a process will add at least 26% to the value of the raw material or intermediate product processed, such value added being determined in accordance with the formula:

\[
A = \left( \frac{B+C}{A} \right) \times 100
\]

in which formula:

- \( A \) represents the ex-factory price of the intermediate product or final product produced by the taxpayer;
- \( B \) represents the cost of raw materials and intermediate product used by the taxpayer in the production of such intermediate product or final product; and
- \( C \) represents the cost of electricity consumed by him in such production.

(c) at least 26% by value of the intermediate product or final product produced by such process will be exported directly or indirectly to a country other than a local country; and

(d) where the taxpayer intends acquiring any imported capital goods for use in such process, he will make use of any foreign terms credits which may be available for the purpose of financing the acquisition of capital goods, but excludes any process which is either a simple purification process in consequence of which the raw material or intermediate product in question remains unchanged, except for the removal of impurities or a physical process resulting merely in a change of shape and any process which is a mining operation which is normally carried on in the course of mining operations.

(B) commencement date means September 12 1991.
Taxation headache

Last week's meeting convened by State actuary Piet Robbertze, to consider equitable ways of taxing pension funds, was inconclusive. It was, apparently, more an effort to glean ideas than reach a verdict. By mid-May Robbertze has to have a report ready for Japie Jacobs, special adviser to the Finance Minister. It will be included in Jacobs' own analysis of the taxation of financial institutions.

Pension industry leaders invited to the discussion were close-lipped afterwards because, apparently, it was not to be public knowledge that a pensions tax was being considered. This, despite the fact that former Finance Minister Barend du Plessis referred to the issue in his March Budget speech.

Contributions to retirement schemes are, within limits, tax-deductible. There is no tax on the periodic accrual in value of the pension fund. When retirement arrives, one-third of most pensions may be taken tax-free in a lump sum, while the annuity purchased with the balance is taxed at normal rates. Effectively, the fiscus receives little in the way of tax from an amount which averages between 15% and 20% of the remuneration paid out in the formal sector.
New system of tax must be thrashed out

The issue is emotive, especially for overtaxed middle-class whites. But a system that redistributes and fuels economic growth is possible, MAGNUS HEYSTEK hears.

INCOME tax in the “new” South Africa is not only an important issue but also a very emotive one — especially if you happen to be an average property-owning middle-class white.

The standard reaction to the issue is that the income-tax load on whites is set to increase sharply to pay for a forced redistribution of wealth.

White fears about such a possibility have not been helped much by banner headlines in the country’s largest Sunday paper proclaiming that the ANC is considering a one-third tax on whites’ wealth.

The unfortunate treatment of the matter has set the tone for further discussion, and pronouncements by the ANC’s economic spokesmen — mostly made in private — have done nothing to assuage white fears.

I agree with Professor Dennis Davis, director of the Centre for Applied Legal Studies at Wits University, that this issue should be one of the primary issues to be placed on Comesa’s agenda.

Davis was recently a guest on Financially Speaking, my Radio 702 programme. Reaction from those who called in during the broadcast underlined the need for assurance and clarity on this issue.

Davis argued that it was possible to have a tax system that contributed to redistribution of resources and economic growth. Such a system would have to be thrashed out by a commission set up by Comesa as soon as possible.

Davis — unlike the International Monetary Fund — said he did not think the average income-tax burden in South Africa was very high compared with that in other countries. The burden was carried disproportionately by middle-income brackets, while the earners in the higher brackets paid relatively less tax, implying room for a form of tax redistribution from the middle-income earners to the higher-income earners.

Significant source

His answer to how this could be done without scaring away even more talented entrepreneurs already paying very high rates of taxes was: “A combination of capital gains taxes, increased estate duties and possibly a land tax at a low rate.”

While conceding that capital gains taxes would not generate billions of rands a year, he said it would constitute a significant source of revenue.

The same applied to estate taxes, which currently stand at only 15 percent if the estate is in excess of R1 million.

Another source of revenue would be company taxes. Davis contended that more taxes could be raised by lowering company taxes. Explaining this apparent contradiction, he said “At the moment we have a company tax of 48 percent, but we don’t get close to that. Most major corporations are not paying anywhere near that. We should be lowering company taxes to between 30 percent and 40 percent and make damn sure we get all of it. That will give some justification for capital taxes.”

But it was unlikely, he said, that capital gains taxes would be payable on private residential properties. In cases where a capital gains tax was likely to be levied — like on second properties and holiday homes — it would have to be linked to the inflation rate.
It's not what you do, but how that can save a mint.
Prize money for tax thesis doubled

THE SA Fiscal Association (Safa) has launched its second annual tax thesis competition, intended to stimulate debate on tax matters and fiscal policies in the context of political reform.

Introduced last year, the competition is also aimed at encouraging a greater degree of fiscal research at universities, thus allowing Safa to contribute impartially to the development of SA fiscal policy.

The first winner was Riel Franzsen, a postgraduate law student at the University of Stellenbosch whose doctoral thesis examined the future of transfer duties and property taxes in SA.

The recognition and wide exposure given to his work played a part in stimulating a major conference on land tax, held in March at the University of Pretoria.

The 1993 competition is sponsored by Ernst and Young chartered accountants and attorneys Hofmeyr Van der Merwe and Sentrachem.

It is open to all SA universities which have a postgraduate tax course.

Thesis and dissertations submitted to universities in the 18 months between December 31 1990 and June 30 1992 will be considered. The closing date for entries is June 30.

The prize money for 1992 has been doubled to R6 000, two thirds of which will go to the winning student and the balance to the winning university faculty.

Former finance minister Barend du Plessis presented the prize at the inaugural banquet at the Sandton Sun last year.

At this year’s award ceremony — at the same venue on September 17 — the prize will be presented by JSE president Roy Andersen.

For a copy of the competition rules, contact Fiona Walker at fax (011) 333-0164.
No settling-in period for Keys

BY REG RUMNEY

The Congress of South African Trade Unions has wasted no time in challenging new Finance Minister Derek Keys.

Keys now has to handle the Cosatu-led VAT Co-ordination Committee's continued demand that Value Added Tax be reviewed.

In a statement on the cabinet changes this week Cosatu urged Keys to meet the VAT Co-ordinating Committee "to address the fundamental problems which a range of organisations have with the way in which VAT has been implemented (VAT on basic foods, medicine, water and electricity; the issue of poverty relief; and negotiation of measures for small business) and the problem of rocketing food prices".

Cosatu added: "Similarly, we will be looking to Keys to expedite the process of setting up a National Economic Negotiations Forum, an area in which progress is urgently needed, particularly on the issue of unilateral economic restructuring."

Keys' predecessor Baraoud de Plessis defused the VAT bomb temporarily by extending interim zero-rating.

But in a recent interview Deputy Finance Minister Theo Ahmat reiterated the government view that it was intended to lift the temporary zero-ratings soon.

VAT, he said, has to be a broad consumer tax, with few or no exceptions to be effective.

At the time of going to press Keys had not responded to the Cosatu challenge.

While there is still the chance the Finance Ministry may be prove as politically problematic for Keys as it was with his predecessor, there is some logic behind adding to his load as the new finance minister the responsibility of trade and industry and economic co-ordination.

South Africa's transition period should mean major structural changes. If Keys can pull it off politically, he will now be able to co-ordinate the financial and economic planning necessary to make those changes.

On the other hand there is a stopgap feeling to the appointment, with State President FW de Klerk spreading available cabinet talent thinly.

The extra load means that the State Spending Ministry cannot be reabsorbed into the Finance Ministry.

Though, as Boand Bank economist Francois Jansen points out, it is too early to assess what kind of a job State Spending Minister Anl Venter has done, it has been criticised as an unnecessary duplication. Moreover, it clearly has not been able to rein in state spending so far, which one month into the new financial year is already showing signs of exceeding the Budget.

Keys is least likely to cause offence to the two constituencies whom he now has to please. There is no doubt that he is the private sector choice for the job.

As a successful businessman in his own right he can be surer of having the confidence of the business sector than his predecessor — who was initially sneered at as a ex-IBM salesman.

On the other hand, Keys' recent announcement on protection for the textile industry show he is not about to embrace sweeping free-market reforms overnight.

Keys also has the reputation as a facilitator, gained during his time at head of Gencor.

The fear is that three posts may load too much on to one man.

Moreover, Keys admits to still learning the ropes at parliament. He has still to find his way around the political system — though coming from a company the size of Gencor, which has its own bureaucracy, must help.
In the 1990 tax year, Minister of Finance Barend du Plessis invented for tax purposes an entirely new female class — the married woman — but not many people took much notice of the significance at the time.

In the weird world of tortured tax nomenclature, the married woman is docketed as a "female who is married".

She most definitely is not to be confused with a married person.

But note this: a woman whose husband earns less than R10 000 during the tax year, along with a widow and a woman who is the mother of a child, can still be docketed as a married person, who is quite different in tax terms.

And out of this blinding confusion says Deborah Tickle, tax consultant at chartered accountants KPMG Aiken & Peat, flies an entirely new order of taxing married working women, starting in the 1991-92 tax year.

She said that to understand this new way of looking at the case of the married woman, it is necessary to "divorce" her from the category of the married person, and most certainly from that of the unmarried person, both of whom the taxman still regards as being either of the masculine or the feminine gender, which is comforting.

Gymnastics

Ms Tickle said these semantic gymnastics served to identify and isolate the taxpayer who is married, living with her husband, has sufficient income in her own hands to be taxed totally separately, and who from the 1992 tax year must be responsible for accounting fully for her own income tax affairs to the Receiver of Revenue.

The problem is that a good many women income earners may not be aware that they fall into this unusual category and may run foul of the taxman by failing to fulfill their legal responsibilities through ignorance, Ms Tickle said.

For a start, they may believe they still fall under the Site (standard income tax for employees) rules, which, in 1990, applied to all married women with net remuneration. (Site now applies to taxpayers with net remuneration below R50 000 a year).

Or they may have private income from trusts or investments that did not declare dividends (which are tax free) and which were previously lumped with their husband's for tax purposes.

Married women now have their own tax table which, when comparing the tables for married persons and single persons under 63 and married women (under 63), tells its own story (see accompanying figures).

Ms Tickle said: "A married woman in tax terms needs to become financially aware and 'educated' about her obligations. She can no longer leave it all to 'hubby' because she believes these obligations do not apply to her. They do."

If a working married woman's net remuneration is subject only to Site, she need not worry about registering as a taxpayer.

However, if she earns remuneration which is subject to Site and pays-as-you-earn, or earns interest above the site-free amount of R2 000 but less than R3 000, she has to register as a normal taxpayer and fill in a tax form at the end of the tax year.

But if she earns trade income, or is a member of a close corporation (CC) or is a director of a private company, or earns interest exceeding R3 000 a year, she is required to register as a provisional taxpayer, must make provisional payments three times a year and must submit a tax return.

"On the plus side, the married woman is entitled, in her own right, to an exemption from tax on any lump sums that do not cumulatively exceed R300 000 in her lifetime which she receives from her employer on leaving work to get married or to retire."

"Similarly, she will be entitled to tax exemptions relating to lump sums paid from pension, provident or retirement annuity funds when she retires. She can also earn up to R2 000 in interest, tax free, each year."

"Moreover, these exemptions do not affect or reduce the lump sum exemptions to which her husband would be entitled."

Ms Tickle said that any belief that separate taxation might offer opportunities for creative tax dodges should quickly be dispelled.

"There is, I'm sure, many a financially aware husband out there who may consider reducing his own tax burden by paying his wife a salary from his business."

High earner

He should think again: the Receiver of Revenue will tax the income in the husband's hands if he decides the work performed by the wife in the husband's business is not commensurate with her salary.

"Or, a taxpayer may try shifting some of his income into his wife's hands, for example, by donating income-generating funds to her. Likewise, there may be cases where the wife is the high earner and she might wish to shift some of her income into her husband's hands in the same manner."

"Legislation neatly covers either course of action by using only the word 'spouses' in closing..."
Another separate taxation break for married women

By DES KRUGER and VICKI TAYLOR of Deloitte Pim Goldby

THIS system of separate taxation reached its final stage of implementation in the 1992 tax year with the introduction of separate taxation of investment income.

Previously, a married woman was taxed on her salary, Any interest, rental payment etc — so-called investment income — was taxed in her husband's hands.

A woman married out of community of property is taxed on all her income.

Bequest

However, a woman married out of community of property although also taxed separately on must income, is taxed only on half of her interest income. She now is also required to include half of her husband's interest income in her return (Part 11 of the return).

The effect of all this above is that all investment income — for example, interest, rental income — is now taxable in equal shares in the hands of the spouses where they are married in community of property.

A married woman receive any income from a pension, provident, benefit or retirement annuity fund, the income is taxable in her hands.

Any income, investment or otherwise, which does not fall into the joint estate of the spouses is taxable in the hands of the one who is entitled to it. Such a situation may arise on the donation or bequest of an income-bearing asset to one spouse.

Because of the retrospective application of the rental provisions to the 1990-91 tax year, the Receiver of Revenue allows taxpayers married in community of property, who have submitted their 1991 returns, to apply in writing — the letter must be signed by both spouses — before December 31, 1992, to amend their return or assessment.

However, before doing so you should first determine if this would result in your paying more or less tax.

Where a married woman is the sole breadwinner, whether married in or out of community of property, she has the option of including her income in her husband's return or being taxed separately.

A married woman will be treated as a sole breadwinner where her husband's total income, plus any income from a foreign source, does not exceed R10 000 a year.

As a sole breadwinner, she may include her income in her husband's return only if she has elected and obtained a directive from Inland Revenue to do so. She is then taxed at the lower married person's rates instead of married woman's.

Additional

This will be most beneficial where the husband is over 65 years of age and obtains the additional R2 100 rebate and a deduction of all medical expenses. These amounts would not otherwise be available to a married woman under 65 years of age. She should also ensure that monthly PAYE is withheld at the married rate and not the married woman's with the additional over 65 rebate.

PROVISIONAL taxpayers are required to render provisional tax returns at the end of August and February. Such returns and their payments effectively settle the liability on the taxable income which has not been subjected to employee tax deductions.

With the introduction of separate taxation of investment income earned by married women, Inland Revenue has granted relief to the married women provisional taxpayers. Married women who earns only investment income, which was previously taxed in their husbands' hands, need not make provisional tax payments for the 1992 tax year.

However, in such married women received provisional tax forms, they should be submitted as a nil return. Their first provisional tax payment will therefore be on August 21, 1992, for the 1993 tax year.

MEDICAL expenses (Part 3.1) and expenses relating to a physical disability may be deducted only to the extent that they exceed the greater of R10 000, or 5% of a taxpayer's taxable income. All medical expenses are deductible for persons over 65.

A married woman is allowed for the first time in 1992 tax year to claim a deduction of medical expenses actually paid by her, including those of her spouse and her children.

THE Department of Inland Revenue previously allowed the deduction of retirement annuity fund contributions by a husband on behalf of his wife in certain circumstances.

This practice was discontinued from March 1, 1991. Inland Revenue intends to propose that the law be amended to allow a married woman to elect to have her contributions claimed by her husband in the 1992 tax year.

It would appear that this concession will apply only if the married woman was a member of a retirement annuity fund at February 29, 1992.
Poor show as VAT receipts trail GST

DEREK TOMMEY
Johannesburg. — Value-added tax receipts in four of the five months since it started were less than general sales tax receipts a year ago.

However, it is probably too early to label the introduction last October of value-added tax (VAT) a dismal failure.

The latest tax receipts certainly show it is not yet a howling success.

For this the government is probably the main culprit because of its failure to stand up to political pressure and maintain the original rate of 12 percent.

In reducing the rate to 10 percent it seems to have emasculated the tax.

Receipts so far have not financially justified the introduction of the new impost, nor the political flack the government encountered when it was launched and which it is still experiencing.

Tax returns show that in the five months to February, VAT brought the Treasury R7.8 billion — which includes some late GST payments.

This was only 2.4 percent more than the R7.5 billion that GST yielded in the same five months a year ago — despite a 15 percent increase in inflation.

Perhaps more telling is that VAT receipts in four of these five months were less than GST-receipts a year ago.

Only in December did VAT produce a healthy increase in revenue on a year earlier.

For a tax which was hailed as eliminating evasion and broadening the tax base, this is a poor performance.

In return, the government has had to face severe criticism for the extension of VAT to foodstuffs, medical services and medicines.

It has had to employ, at least temporarily, an extra 1,000 people to cope with the changeover.

It has had to spend many millions launching VAT. Last but not least, VAT has increased the rate of inflation by 1.3 percent, according to figures issued by Central Statistical Services.

It is clear that the retention of the 12 percent rate would have produced a very different result.

Tax receipts for the five-month period would have been around R9.4 billion, which would have been about R1.4 billion more than was actually received, and an increase of 23 percent on the year-ago GST figure.

With the benefit of hindsight it seems that once it had been decided to reduce the rate to 10 percent, the right decision would have been to postpone or dump VAT completely and stick to GST.

As receipts from GST would have risen partly in line with inflation, it would not have generated less than VAT and would have saved a great deal of unnecessary pain for those who have been called on to pay substantially more for goods and services which were tax-free a year ago.

With the government desperately short of revenue, it seems that at some time in the near future, Minister of Finance Derek Keys will have to grasp the nettle and restore the two-percent cut.

But he might find this more difficult now than was the case a year ago, for revelations about wasteful government spending are not likely to make the public receptive to a further rise in tax.

Large deficit-spending by the government is expected to do much to stimulate the economy this year.

But so far the economy has not received much help from government spending.

In the first quarter of this year government spending exceeded income by only R526 million, which was not likely to help business much.

However, business has the consolation of knowing that between the end of March this year and the end of March next year the government intends pumping into the economy some R1.8 billion, (or R1.6 billion a month) more than it takes out.

So there is at least a small reason for optimism in the coming months.
Keys sows tax cut doubts

CAPE TOWN - Government's commitment to reducing company and individual tax was in question despite President F W de Klerk's address to Parliament in January in which he said it was of "urgent importance".

Doubt was cast on the NP's and government's 1989 commitment to voters - to reduce taxes by 5% over five years - when new Finance and Trade and Industry Minister Derek Keys said in an interview in a Sunday newspaper that he was not sure it was his problem. In answer to a question on the NP commitment, Keys was quoted as saying: "Yes, well that is somebody's trouble. I'm not sure it is my trouble."

He made it clear that he was not of the same opinion as De Klerk and government that South Africans were overtaxed, and indicated that he was also not sure that he was bound by the commitment.

Asked for clarification yesterday, Keys said: "At this stage I have no intentions with regard to taxation. My comments are just comments."

De Klerk's office did not want to comment on whether government was committed to this course of action.
Much-vaunted VAT fails to make the grade

By Derek Tommey

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In return, the Government has had to face severe criticism for the extension of VAT to foodstuffs, medical services and medicines.

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It is clear that the retention of the 12 percent rate would have produced a very different result.

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VAT made food prices rocket.
### Staatsinkomsten en belastingen:

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European tax can be reclaimed

THELMA TUCH-GABAY

NEXT time you take a business trip to Europe, make sure you keep all your receipts — they could save your company thousands of rands.

Many companies are unaware that they can reclaim the value-added tax (VAT) charged on services used by their employees on business trips in Europe. This includes money spent on accommodation, car rentals, meals, trade fairs, conferences, exhibitions, professional fees and training.

Businesses are entitled to a sizeable tax refund from European governments, says Meridian Reclaim Services director Ian Smith.

Meridian — a subsidiary of Kirsh Industries Ltd — recently set up an office in Johannesburg to help companies claim refunds.

The claims are sent to Meridian’s London office, which submits them to the European authorities. Refunds are usually issued within four to six months.

Companies interested in this service can contact Ian Smith at 788-1557.
Perks that ease tax pain

By DES KRUGER and VICKI-TAYLOR of Deloitte Pim Goldby

THE most common question raised about fringe benefits is whether a taxpayer should choose a company car or a travel allowance.

The answer depends largely on the vehicle's cost, the employee's marginal rate, distance travelled and ultimate selling price of the car. These variables differ from taxpayer to taxpayer, so it is impossible to give a categorical reply.

On a company car (part 5.4 of the income tax return) you are taxed on the value of private use. Until July 31, 1991, it was obtained from prescribed tables based on the vehicle's determined value and engine capacity. Therefore, the fringe benefit value is calculated monthly by simply taking the determined value of the vehicle multiplied by 1.7%.

If your private travel is lower than 10 000km a year, the fringe benefit value can be reduced. Should you pay for all fuel for private use, the monthly taxable value of the fringe benefit should be reduced by R120. Where you borrow the full cost of maintaining the vehicle, you may reduce the monthly taxable value by R85.

Should you pay for fuel and maintenance, for example, while on leave, that amount may be deducted on assessment.

A travel allowance (part 5.1) should be determined to ensure that at least the running costs of the vehicle are covered. This allowance must be included in your income on your return. You may claim the appropriate deduction which may not exceed the amount of your allowance.

The deduction calculated in part 9 of the return may be based on your actual costs or the table of gazetted rates. The latter assumes a fixed cost element and may be more beneficial than actual costs, especially when you have paid for the vehicle in full. You are effectively allowed to deduct the business portion of the total kilometres multiplied by the total cost, or the gazetted rate multiplied by business kilometres.

Where a taxpayer receives a travel allowance and does not maintain accurate records of business and private travel, he may deem his private travel to be 12 000km (1990-91 tax year and earlier) or 10 000km. A maximum of 22 000km a year has also been introduced for the total distance travelled where no log book is maintained.

Log

Therefore, if you use the deemed 12 000km private travel limit, you will not be able to claim more than 20 000km for business unless accurate records of both are kept.

Part 9.2 of the return reflects these maximum and minimum kilometres. Ensure that you do not restrict your travel claim to these limits if you maintain a log book.

From 1 August 1, 1991, 25% of all travel allowances became subject to PAYE.

Accordingly, individuals receiving genuine travel allowances will have both SITE and PAYE reflected on their IRPS, even if their remuneration is less than R50 000.

These individuals will have to submit an income-tax return and will be subject to tax on the non-deductible portion of the travel allowance (less the PAYE already withheld on the allowance).

An employee may receive a subsistence allowance (part 5.3) for each night he is away from home on business. The allowance that is deemed to be have been spent and is not taxed is R158 a day if it covers accommodation, meals and other incidental costs, or R60 a day in other cases.

The first may be beneficial when you stay with friends or relatives. Your employer is not required to reflect a genuine subsistence allowance on your IRPS provided the limits have not been exceeded.

If this allowance has been reflected in your IRPS, complete part 5.2 and attach a schedule detailing the number of days multiplied by R65 or R158, as appropriate. The deduction can be claimed under part 10, "other deductions". You are deemed to have spent the above, unless you vouch for a higher amount to your employer.

An entertainment allowance (part 5.3) is subject to employees' tax unless a directive to the contrary is obtained from Inland Revenue. You may claim the appropriate expenditure (part 5.8) and receive a credit for the employee's tax paid, hence.

Your deduction will be limited to the allowance received, which may not exceed the lesser of R2 500 or 5% of your taxable income before this deduction.

A reimbursement of entertainment expenditure will not be taxed, nor need such amounts be reflected on your IRPS, and will not be subject to any maximum amount. A combination of an allowance and reimbursement is therefore beneficial.

Entertainment expenditure includes meals, drinks, tickets to events, club subscriptions and home entertainment. Vouchers should be kept with names of those entertained, their position and the business transacted.

Better

If your remuneration, including the entertainment allowance, does not exceed R30 000 you will be required to submit a return if the deduction to which you are entitled exceeds 1% of your remuneration. In such circumstances, a reimbursable allowance may be a better option as you will not have to submit an income tax return. Should such amount not exceed 1%, then you will be
The ANCS view on land taxes, rates.

By Margaret Roffey
ANC moots second properties tax

Few does a good job, say SA teenagers

The bigger problem...
Flashback

He said it could only be proved
that the final answers were correct if
the number of times the exposed
film was developed under the same
conditions as those used for the
original film. He said, "There is no
such thing as a final answer in
science." He emphasized that the
scientists must continue to work
on the problem to find a solution.

Release

A sheaf of white papers fell from the
desk of the scientist who had
been working on the problem for
years. He looked at the papers
and nodded. "This is it," he said.
"We have solved the problem."
VAT on mortgage interest (MIR) and surcharge on the final 25% of VAT on rental income will mean that rates bills will increase by 18.5%. As this year's rate and surcharge are the same, the extra cost will be roughly £300 a month on a £100,000 bill. This is likely to be a direct cost of property purchase, and the extra cost of the new surcharge on the final 25% of VAT on rental income is likely to be a direct cost of rental income. As these surcharges are likely to be a direct cost of rental income, the surcharge on the final 25% of VAT on rental income will be roughly £300 a month on a £100,000 bill.
Politcal Staff

The government would not automatically reduce individual and company tax by 5% in five years in line with the National Party promise in 1989, Minister of Finance Mr Derek Keys said yesterday.

Speaking during a mini-debate in Parliament, he said reduced tax rates would depend on foreign capital investment, private sector saving and reduced government spending.

Mr Keys said he would propose alternatives to the cabinet, one of which would be based on lower tax rates.

"It goes without saying the proposal I recommend will be the one most likely to promote economic growth. That proposal would necessarily recommend lower tax rates," he said.

Decisions on tax rates would only be made during the preparation of the next budget.

Referring to the IMF document "Economic Policies for a New South Africa", he said a forecast is made of a 3.5% annual growth rate in the medium-term resulting from investment amounting to 24.8% of GDP.

He said sources of extra saving needed to reach the level of 24.8% compared with the present 16% to 19%, would be an inflow of foreign capital and more private sector and government saving.
Govt eases line on objectors

CAPE TOWN — Government introduced legislation yesterday extending the basis for refusing to do military service to include moral and ethical grounds.

Until now, provision for conscientious objection has been on the basis of strict religious universal pacifist conviction.

The new legislation provides for alternative community service.

The Defence Amendment Bill states that those refusing military service must appear before a board under the auspices of the Manpower Department. They will be offered community service for three years at military pay scales. The present maximum is six years.

Those refusing to do the alternative service will be jailed for a period equivalent to one-and-a-half times the length of the original military service. Military service, including subsequent camps, currently totals two years.

The Bill also made provision for military conscripts to be accorded to the SA Police without option. Previously consent was necessary.

Tax rate cuts not guaranteed, says Keys

CAPE TOWN — Government would not automatically reduce individual and company taxes by five percentage points in five years in line with the NP promise in 1989, Finance Minister Derek Keys indicated yesterday.

Speaking during a minidebate in Parliament, he said the ability to reduce taxation rates would depend on foreign capital investment, private sector saving and a reduction in government spending.

Keys said he would propose some options to Cabinet and at least one of them would be based on lower taxation rates.

Tax cuts SA" and said its medium-term baseline scenario forecast a real growth rate of 3.5% a year as a result of an investment level amounting to about 24.8% of GDP.

"This level of 24.8% compares with our present 18% to 19% and naturally requires additional savings to finance it," he said.

The three possible sources of additional funding were foreign capital, more private sector saving or more government saving. Keys said government saving could be achieved only by a reduction in state expenditure or an increase in state revenue, or both.

He assured Parliament that he had made these factors as well as a number of others the subject of intensive study and would "act to influence them as positively as is possible."

All taxation was carried by individuals in the end, and he would give attention to reducing the burden. But it had to be noted that a number of countries, including Canada, Belgium, Australia, Germany and Sweden, had higher tax rates, Keys said.
A TAX office clerk who defrauded the Receiver of Revenue of more than R100 000 has been sentenced to three years in jail by the Cape Town Regional Court.

Antony Hartog, 47, of Blue Downs, pleaded guilty to 169 counts of fraud. He deflated selling prices of cars when buyers paid GST. For instance, a car sold for R10 000 was recorded as having been sold for R1 000, enabling the buyer to pay R130 in GST instead of R1 300.

The magistrate said Hartog had reinforced the average man’s idea that the State was corrupt.
The facts

THE Cape Times yesterday incorrectly quoted a statement made by Finance Minister Mr Derek Keys to Parliament on proposals he would put to cabinet that could affect individual and company tax rates. The report quoted Mr Keys as saying: "It goes without saying that the proposal I recommend will be the one most likely to promote economic growth. The proposal would necessarily recommend lower tax rates." The second sentence quoted should have read: "That proposal will not necessarily recommend lower tax rates." The error occurred in the editing process.
of tax rate reduction
Keys dampens hopes
NEWS
Tax clerk jailed for GST fraud

A CLERK who defrauded the Receiver of Revenue of more than R100 000 has been sentenced in the Cape Town Regional Court to three years' imprisonment and corrective supervision.

Antony Hartog of Blue Downs in Cape Town, pleaded guilty to 169 counts of fraud committed between November 1989 and July 1991.

Hartog, who worked for the Receiver of Revenue, deflated selling prices of cars when buyers paid general sales tax, enabling them to pay less tax.

For example, a car sold for R10 000 was recorded as having been sold for R1 000, enabling the buyer to pay R130 GST instead of R1 300, prosecutor Mr DEM Fischel said.

- Sowetan Correspondent.
INVESTIGATIONS into allegations of corruption and maladministration in the Department of Inland Revenue by a one-man interdepartmental commission were completed as long ago as March — but, the report has been kept under wraps.

The Minister of Finance, Mr Derek Keys, referred questions put to him this week by Weekend Argus about the probe to Mr Gerhard Croeser, Director-General of Finance. Mr Croeser said through a spokesman that a statement would be issued “within days”.

The one-man investigation was appointed after Mr Justice Fagan in the Cape Town Supreme Court ordered that a proper investigation should be made as part of a settlement between Mr Gerhard Croeser in his capacity as Director-General of Finance and Mr Trevor Foster, former Inland Revenue investigating officer.

During the court hearing, Mr Foster made serious allegations of maladministration and corruption at the department.

Weekend Argus has established that the retired magistrate who did the investigating, Mr P.J. Botha, completed his report without taking further evidence from Mr Foster.

Mr Foster, who has since retired from the department, declined to give evidence during the investigation because, he told Weekend Argus, he did not believe the appropriate action had been taken by the authorities.

The Democratic Party has demanded a full-scale, public, judicial inquiry into the allegations.

Mr Robin Carlisle, MP for Wynberg, said in Parliament that although the DP did not doubt Mr Botha’s credentials, “appointing a career civil servant to investigate other civil servants” did not meet the court’s requirements in respect of the independence of the investigators.

“All the people who have supplied me with further evidence about alleged corruption in the tax department absolutely refuse to give evidence in an interdepartmental inquiry in which they do not have the protection afforded by a judicial inquiry,” Mr Carlisle said.

He said he intended taking the matter up with the Minister.

Mr Foster, formerly a deputy director and also deputy head of the special investigations team of the department, brought two court actions against the department on the grounds that his promotion had been blocked.

Yet, between 1984 and 1989, he had been so highly regarded by the department that he was given two special promotions.

In the first court action last June, Mr Justice F.D.J. Brand and Mrs Justice Leonora van den Heever overruled the department’s decision that he was “unsuitable”.

The court heard that during an argument between Mr Foster and his immediate superior, Mr Ulrich Horstmann, Mr Foster made allegations of serious corruption at the department.

The second court hearing in December was brought by Mr Foster on the grounds that he had been blocked again for promotion because it was said he had “poor personal relations” and was, once again, not promotable.

Central to the issue was that he had, over a long period, drawn the attention of his superiors to evidence of corruption and maladministration.

In court papers, Mr Foster alleged a senior member of the Cape Town tax office delayed replies to wealthy taxpayers for up to two years, thereby delaying their tax payments.

He made other serious allegations in other affidavits given to Mr Croeser in August last year. These were not handed to the court because of their sensitivity.

In the subsequent settlement, Mr Croeser undertook to pay Mr Foster R184,000 in legal costs and to have Mr Foster’s allegations “properly investigated by an independent committee or commission”.

Mr Foster agreed to resign from the department on December 31 and to “restrain from further investigations or actions”.

Mr Carlisle was later given additional information by other former tax officials. Among them were allegations that:

■ A large oil company had multi-million rand capital expenditure “treated as maintained and written off within a year”.

■ Many multinational companies and businessmen were seen as “untouchable”, and requests from Mr Foster that they should be investigated were “seldom, if ever, granted”.

JEAN LE MAY
Weekend Argus Reporter

A large oil company had multi-million rand capital expenditure "treated as maintained and written off within a year."

■ Many multinational companies and businessmen were seen as "untouchable", and requests from Mr Foster that they should be investigated were "seldom, if ever, granted".
Tax office probe done results not known

By DIANA STREAK

AN investigation into corruption and mismanagement in the Department of Inland Revenue was completed in March but its findings have not yet been made known.

Mr P J Botha of the Department of Justice was appointed to investigate the allegations in terms of a Supreme Court settlement in which a former department employee, Mr Trevor Foster, received R154 000.

Mr Botha said on Friday he had completed his investigation in March and had handed the report to the Department of Finance.

The Director General of Finance, Mr Gebehard Cresser, confirmed he had received the report and said "a statement would be issued within days."

Sources have indicated that a possible reason for the delay is that officials implicated in the allegations are due to retire this year.

Mr Foster, a deputy director and also head of the special investigation team of the Department of Inland Revenue, claimed he had twice been blocked for promotion after he had exposed corruption within the revenue service.
MORE MONEY IN YOUR POCKET

Housing, holidays on your employer

By DES KRUGER and VICKI TAYLOR of Deloitte Pim Goldby

MANY employers provide residential accommodation for employees.

Part 5.7 of your income tax deals with this. If you are provided with accommodation that your employer owns or leases and that you or your immediate family do not hold an interest in, you will be taxed on the fringe benefit.

It is normally calculated on 15% of your previous year's remuneration. The previous year’s remuneration may be reduced by an abatement (R20 000) in certain circumstances.

Hiring

If you are provided with holiday accommodation that is owned by your employer, the amount on which you will be taxed is the lower of R25 a day or the market-related rent, less any payment made by you.

Meals and services included by the employer will not constitute an additional benefit and the provision of such a fringe benefit may, therefore, be beneficial.

Where the holiday accommodation is not owned by the employer, the cost to the employer of hiring the accommodation and services and providing meals then constitutes the fringe benefit.

***

PART 5.8 covers other fringe benefits.

Where you acquire an asset from your employer at less than actual value, you will be taxed on the difference between the value of the asset or cost where it consists of trading stock or was acquired by the employer for that purpose and the consideration paid by yourself.

The provision of certain services by your employer, for example a travel service to or from home provided to all employees, will not be taxed.

Your employer may also pay for casual services not exceeding R50 a year — year legal or accounting fees, haircuts, local travel, etc. without attracting a fringe benefit liability.

The direct payment of your home telephone cost by your employer will not be taxed in the 1991-92 tax year, provided that your telephone is used for business. This benefit will be subject to tax from the 1992-93 tax year.

The payment by your employer of any subscription to a professional organisation where such membership is a condition of employment will not be taxed.

Generally bursaries and scholarships will also not be taxed for the 1991-92 tax year. This exemption was withdrawn from March 1, 1992.

When you are transferred to another centre, begin or end employment, your employer may pay for your relocation costs without its being subject to tax.

Such costs may include, inter alia, temporary accommodation in the new centre (up to 183 days) and other costs incurred in settling you and your family in permanent residential accommodation at your new place of residence. Examples are estate agent's commission on the sale of your previous residence, new school and motor vehicle registration fees.

You may use a study at home exclusively for business. If it is a condition of your employment to do so, you may receive an allowance to cover the associated costs.

Although this will be subject to employee's tax, a deduction may be claimed under part 3.10 of your return.

Computed

This deduction will be computed on the area of your residence exclusively used for business, divided by the total area of your residence, multiplied by your associated running costs — viz. rates, insurance, cleaning, etc.

All of this information should be submitted on anda schedule with your return to Island Revenue.

Copies of Pay Less Tax can be obtained at a cost of R25 (including VAT and postage) by writing to Island, P.O. Box 33, Benchrem 1000.

SUNDAY TIMES, Business Times, May 24, 1992 5
Revenue officials cleared by inquiry

CAPE TOWN — A judicial committee of inquiry has cleared four Cape Town Inland Revenue officials of alleged corruption, but found practices in the department that lent themselves to abuse, Finance director-general Gerhard Croser said yesterday.

In a statement he said the committee had found that:

☐ There was no evidence of corruption against any of the four officials;
☐ Certain procedural and other practices existed that lent themselves to possible abuse and which should be rectified departmentally;
☐ It could not, given the magnitude of the work performed by the Receiver in Cape Town, pass any judgment on maladministration on the basis of only a few deficiencies; and
☐ The department investigated the allegations timely and thoroughly.

Croser said that it should be noted that the committee had at its disposal all the relevant documentation and also took oral evidence.

"The former officer who made the allegations, Mr T N Foster, was invited verbally and in writing to provide further evidence, but chose neither to appear before the committee nor to submit further documentation," he said.

Any allegations of maladministration or corruption, Croser said, were promptly investigated as a matter of course and in accordance with proven procedures.

Taxpayers, therefore, could rest secure in the knowledge that their tax affairs were treated with the utmost responsibility and that prompt and severe action was taken when irregularities surfaced.

Our political staff reports that Croser's statement was issued after the conviction last week of Cape Town tax official Anthony Hartogh on 169 counts of fraud amounting to R100 000.

This fraud was perpetrated by submitting lower sales figures of motor vehicles, allowing buyers to pay less GST.

Hartogh was subsequently sentenced to three years imprisonment, with correctional supervision.

Croser said that after allegations of maladministration and corruption in the Cape Town offices of the Inland Revenue branch of the Department of Finance, a senior jurist, Regional Court president P J Botha was appointed by the Justice director-general to serve as a one-man committee. The committee was to determine whether there was substance in the allegations, and if there was, who were the people involved and what was the extent of the alleged maladministration and corruption.

The committee was to determine, also, whether in its opinion the department's investigation was timely and thorough.

The summary of its conclusions was quoted in full in the statement and "the committee could find no prima facie evidence of corruption against any of the four officials against whom allegations had been made".

Croser said: "Unsubstantiated allegations or suspicion-seeing involving the administration of tax collection are in no one's interests, as is shown by these recent events and the findings of the committee.

"Such things place a needless question mark over the high integrity consistently maintained by the broad corps of Revenue personnel."
Corruption: Tax officials cleared

By BARRY STREEK

THE Botha committee of inquiry into the Cape Town tax office found no prima facie evidence of alleged corruption by four officials, the director-general of finance, Mr Gerhard Croeser, said yesterday.

The committee, however, found that "certain procedural and other practices exist that lead themselves to possible abuse and which should be rectified departmentally".

Mr Croeser said in a statement the committee "could not, given the total magnitude of the work performed in the office of the Receiver in Cape Town vis-a-vis that which was investigated by the committee, pass any judgment on maladministration on the basis of only a few deficiencies/actions".

It was also "of the opinion that the department investigated the allegations timeously and on the whole thoroughly".

His statement followed the conviction last week of Cape Town tax official Mr Anthony Hartogh on 169 counts of fraud amounting to R100 000 by submitting lower sales figures of motor vehicles, allowing buyers to pay less GST. Hartogh was sentenced to three years' imprisonment with correctional supervision.

Mr Croeser said following allegations of maladministration and corruption in the Cape Town tax offices a senior jurist, Mr P J Botha, president of the Regional Court, was appointed to serve as a one-man committee to determine whether there was substance to the allegations and, if this was the case, who were the persons involved and what was the extent of the alleged maladministration and corruption.
CAPE TOWN — Taxpayers paid out at least R160 000 to silence five of the officials implicated in the corruption in the Department of Development Aid because the officials challenged their suspension in court.

This information was revealed in Parliament yesterday by Jacob de Villiers, Minister of Regional and Land Affairs, in an answer to a parliamentary question on the report of widespread corruption in the disbanded department unearthed by the Pickard Commission.

Recent reports have pointed out the problems that police probing the corruption in the department have had in finding concrete evidence of the alleged crimes.

But while taxpayers are paying for the blood of the cheating officials, Mr de Villiers described how they had to pay the officials to placate them.

The minister also said that from 1984 to the end of March this year when the department was abolished, 183 cases of staff misconduct and inefficiency had been investigated under the Civil Service Act.

Mr de Villiers told Parliament that of the 12 people implicated in the Pickard Report, eight were still in the employ of the State, two of whom were still suspended. These two "are presently conducting civil cases in the Supreme Court against the State for reinstatement".

Another 12 officials had been suspended by the then minister, Dr Gerrit Viljoen, in 1988 and 1989. Criminal cases against some had been dropped, some appeared before departmental tribunals and some were still suspended pending further police investigations.

Five of this group "instituted legal action against the State because they alleged they were illegally debarred from resuming their duties in their former fields of employment".

"On the advice of the State Attorney, an amount of nearly R160 000 has been paid out to these five officials on their claim for damages totalling R2.7 million."

The suggestion that a minister should be held responsible or accountable for each and every malpractice of civil servants within his department was unrealistic and unacceptable, Mr de Villiers added.

"After maladministration is exposed, the test for ministerial responsibility lies in the handling and effective corrective steps taken."
Married Women's Tax Burden Eased

Maximizing the Hassel Report

Your Tax Bill

The Credit, the Carry Over, and Other Benefits from the New Tax Law

[Image]
Get ready for a tax shock

JOHN SPIRA
Business Staff

FEARS are surfacing that tax rates will be increased.

That's the crux of the heated debate that has surfaced in the wake of Finance Minister Derek Keys's belief that South Africans aren't overtaxed.

Several economists have reached the conclusion that government's interest in supply-side economics may well have disappeared with the resignation of Barend du Plessis as Minister of Finance.

And, disappearing with it is the programme to lower personal and company tax rates to 40 percent over five years.

Keys's views on the tax issue are, to say the least, controversial, reviving the suspicion that the government whose spending has run out of control for more than a decade, may now have lost even the will to curb its outlays.

This implies higher tax rates.

But can the tax burden on individuals be further increased, bearing in mind the resultant massive disincentive impact?

Individuals now contribute more than 40 percent of total tax revenues.

Certain black political groups advocate higher company tax rates, arguing that this would achieve wealth redistribution.

The same disincentive hogy would apply. Nevertheless, this lobby will surely be taking heart from Keys's comments.

The burden of company tax has changed over the years. Back in 1980, the gold mines contributed 10 percent of total government revenue, whereas in 1991 it amounted to 1.1 percent.

It's been a sharp fall, mainly reflecting the progressive decline in the gold price and the consequent squeeze on gold mining profits.

Non-mining companies' tax contribution to the Exchequer has remained static around 18 percent over the past decade.

Last year meat-producing giant Kankey paid no tax on an operating income of R33 million, while in the forestry sector Sappi enjoys a relatively low tax rate.

The corporate tax system is accordingly biased in favour of sectors where relatively inefficient firms may be subsidised.

From all of which stems the argument that:

- The tax base should be broadened by eliminating arbitrary tax privileges.
- The corporate tax system should stimulate investment on a sector-neutral basis.
- The non-neutrality of the corporate tax system has distorted the flow of investment resources and reduced the productivity of capital.

The current high nominal rate of corporate tax has been necessitated to some extent by the erosion of the tax base caused by special allowances.

High company tax rates stimulate tax-avoidance practices and special pleading by certain sectors for exemptions and allowances.

The granting of such privileges, in turn, erodes the tax base and renders it more crucial to impose high nominal rates to sustain the revenue yield to the Treasury.

The answer, surely, is that any removal of existing special tax incentives favouring certain sectors (which, in effect, would raise tax revenues from the corporate sector) should be accompanied by a reduction in the nominal rate of corporate tax.

For a start, such a reduction could expand the tax base by stimulating investment and economic activity.

Yet the most compelling argument in favour of a reduction in the corporate tax rate concerns the potential impact of such a move on foreign investment in SA.

The local corporate tax of 46 percent is high in comparison with countries such as Britain (33 percent) and New Zealand (28 percent).
MORE MONEY IN YOUR POCKET

Deductions which lighten the burden

By DES KRUGER and VICKI TAYLOR of Deloitte Pim Goldby

This article, based on the booklet Pay Less Tax — published jointly by Sunday Times-Business Times and Deloitte Pim Goldby — is intended to highlight some tax-saving opportunities, using the basic structure of the annual IT12 return.

"Other expenditure" (part 3.10) covers various types of deductions not proved for elsewhere in the return. Contributions to income continuation policies are deductible here.

Such individuals should attach a schedule detailing the expenditure that they have claimed and reflect the total under this section. This expenditure may include wear and tear on assets used in the taxpayer's trade, home office spending, stationery, gifts to customers, telephone and so on.

You will also claim a deduction for expenditure relating to a room in your house which you use exclusively for business (part 3.10 of the return). This deduction will be computed on the area of your residence exclusively used for business divided by the total area of your residence, multiplied by your association running costs — rent, bond interest, insurance, cleaning etc.

All this information should be submitted on a schedule with your return.

If it is a condition of your employment that you work at home, you may receive an allowance to cover associated costs. Although this will be subject to employee's tax, a deduction may be claimed under part 3.10 of your return.

In the year in which you acquired the property, you would have completed part 10.1 of the return reflecting the details and reasons for acquisition. If your intention for the use of the property has changed—for example, from residence to rent producing—it should be clearly indicated to support the deductibility of the loss.

A loss on rent-producing property that was acquired for retirement may be disallowed as capital expenditure.

If you rent out your holiday home, you will not generally be allowed to deduct any expenditure relating to the property. As a rule, holiday home rental losses are disallowed on the basis that you are renting out the property to recover holiday costs.

If you can illustrate to Inland Revenue that your primary intention is to obtain rental income and it is a well-planned investment, you may well succeed in claiming a deduction.

Copies of Pay Less Tax can be obtained at a cost of R39.00 (including VAT and postage) from L Mambu, Deloitte Pim Goldby — Pay Less Tax, Private Bag X3, Benbome, 2010.
Job revenue stamp row

JOHANNESBURG.—The sudden re-inforcement of a long-standing requirement that contracts of employment must bear a R2 revenue stamp could have serious financial and administrative implications for SA, according to the Johannesburg Chamber of Commerce and Industry.

In a statement released yesterday, the JCCI said the requirement in terms of the Stamp Duties Act of 1968 had not been enforced for over two decades, but the Receiver of Revenue was now suddenly enforcing the requirement. The Receiver of Revenue was not immediately available for comment.—Sapa
Revived stamp duty could hurt business

THE sudden revival of a long-standing requirement that employment contracts must bear a R2 revenue stamp could have serious implications for business, says the Johannesburg Chamber of Commerce and Industry (JCCI).

JCCI CE Marius de Jager said it had been widely assumed employment contracts did not require revenue stamps and appealed for an exemption on existing contracts.

Unstamped contracts could incur a penalty of twice the duty if less than six months old, and three times if older. The commissioner could also impose a R4 000 penalty. — Sapa.
HOUSE OF ASSEMBLY

Parliament House, Victoria House, Port of Spain, W.I.

Friday, 2 June 1994

QUESTION

The Minister of Finance and Industries

Before-the-Committee-In他知道, the Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Committee-on-the-Co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Committee on Environment, Transportation, and Planning


The Committee heard the following evidence:

1. Hon. F. C. Gonsalves, M.P.

2. Hon. Griffith, M.P.

3. Hon. Holder, M.P.

4. Hon. John Alleyne, M.P.

5. Hon. K. R. N. Maharaj, M.P.

6. Hon. S. Percival, M.P.


8. Hon. R. Rambarran, M.P.


11. Hon. S. Sookram, M.P.

12. Hon. S. V. Sohan, M.P.

13. Hon. W. W. Thomas, M.P.

14. Hon. W. J. Williams, M.P.

15. Hon. H. W. Young, M.P.

16. Hon. C. S. Zhao, M.P.


The Committee then rose and adjourned to meet on Wednesday, 23 January 1991, at 2 p.m.
Capital Gains Tax on Short-term Equity

Ernest Lai King

and Simplicity

shorten to equity

330
Tax evasion blitz has begun

THE Department of Inland Revenue, with a corps of highly trained inspectors, has stepped up its blitz on tax evaders. (320)

Inland Revenue deputy director Aiden Keanly said yesterday that it was possible to take a closer look at likely tax avoidance. This had been neglected in previous years because of a dearth of trained staff.

He was responding to a complaint by the Johanneburg Chamber of Commerce and Industry (JCCI) that for the first time in 24 years the Receiver of Revenue was enforcing a R2 stamp duty on employment contracts "with serious financial and administrative consequences for business."

JCCI executive director Marius de Jager said few companies had been using revenue stamps on work contracts.

Documents not stamped

Gerald Milly could be subject to a validating penalty of twice the unpaid duty and three times the duty if older than six months.

It was strange that after 24 years of non-enforcement the department should suddenly and without warning start levying penalties. There were hundreds of thousands of contracts, probably un-stamped, in the business sector.

Keanly said the capabilities of the Inland Revenue Inspectorate had been increased steadily since 1989. It was now now in a stronger position to detect and track down evasions.

Asked whether in the case of employment contracts the tax would be imposed retrospectively and with penalties, Keanly said: "Certainly — there has been a statutory duty since 1968 on employers to pay R2 stamp duty on work contracts."

The Inspectorate was also looking closely at hire purchase agreements, which were also subject to stamp duty.

Doctors too had recently started entering into contracts with patients because of a court decision that would otherwise not allow them to charge interest on overdue accounts.

These contracts were also subject to stamp duty, Keanly said.

TODAY'S WEATHER

1° C
DP warning on economic forum

Tax break for foreign investment

CAPE TOWN — Finance Minister Derek Keys yesterday provided a major boost for foreign investor confidence, announcing government was exempting from tax all interest on foreign investment.

Opening his first debate as Finance Minister, Keys said SA had to compete for foreign investment in an increasingly competitive international environment and it was essential not to discourage foreign investors from making funds available.

"In order to introduce certainty into the area of foreign investment and to remove whatever disincentive remains in the form of taxation, it has been decided ... to exempt from tax all interest which from today accrues to a person who is not ordinarily resident in the Republic or to a company which is not managed or controlled in the Republic," he said.

The exemption would also apply to emigrants, subject to the further condition that they do not carry on business in SA.

He said the move had the unanimous support of the Tax Advisory Committee.

Interest earned in SA by non-residents was already exempt from tax in certain circumstances and this latest exemption was pulling all the remaining areas into the same net.

Keys said little revenue was being foregone by introducing this exemption, particularly in view of the problems in obtaining returns and raising assessments on foreign lenders.

"Furthermore, there is a move in the European Community towards taxing interest income only in the country where the recipient of the interest is resident."

SHERIDAN CONNOLLY reports that foreign investors took fright in February when the then Finance Minister, Barend du Plessis, announced that Inland Revenue officials were reviewing the taxability of non-residents' earnings.

Reports then arose that non-residents would be taxed on interest earned from deposits in SA banks.

This resulted in a sharp deterioration in foreign investment sentiment as anxious foreign investors dumped financials.

In Parliament yesterday the DP launched a two-pronged attack on previous management of the Finance portfolio and suggested areas Keys should concentrate urgent attention.

Finance spokesman Ken Andrews welcomed negotiations on an economic forum but warned that this should not become a cartel of economic elites.

It was essential that organised business, labour and government were in the forum but other stakeholders such as consumers, women, environmentalists, the unemployed and the rural poor needed to also have their voices heard "specifically and directly in any economic forum", he said.

He also called on Keys to eliminate the anomaly of retirement annuities suffering severe taxation penalties and to allow people "access to more" than they currently had of third of their annuities in a lump sum.

DP deputy finance spokesman Jasper Walsh said Keys had to attack with vigour government's overspending. He said the lack of control over spending had caused the private sector to be crowded out, thereby restricting job creation.
Food price hikes 'a scandal'

COSATU yesterday described as a "national scandal" the warning by Foodcorps that prices of basic foodstuffs could rocket by up to 45% this year.

"This comes on top of 28% food inflation over the last year. The suggestion that this can all be attributed to the drought is indefensible," the union federation said in a statement.

Government, food producers, boards, and the wholesale and retail sectors were all to blame for the "totally unacceptable burden" consumers had to shoulder.

Cosatu believed that government had the capacity and the resources to intervene decisively to arrest the crisis, but lacked the political will.

Government intervention should see:
- A zero VAT rating on basic foodstuffs;
Keys under attack over company rates

JONO WATERS

AMIC deputy chairman Les Boyd yesterday fired a broadside at Finance Minister Derek Keys, saying that contrary to recent statements by the Minister, SA was overtaxed.

He added that the high level of company tax was a deterrent to foreign investment.

Speaking at the opening of the second phase of Univel Transmissions' R17m plant in Port Elizabeth, Boyd said government had to continue to reduce company tax which was now down to 48%.

He said in countries which were competing against SA, company tax was much lower. He cited Hong Kong where it was 16.5%, Taiwan (25%), Chile (22%) and the Republic of Ireland where some investors were offered 10%.

Boyd said even in the major industrial countries the tax rate was significantly lower than SA. In the UK it was 35%, France 37%, US 40% and even in highly taxed Sweden the rate was 40%.

Government had made some progress in tailoring tax incentives to attract investors with the introduction of Section 37E last year in response to the Columbus project. Boyd said these concessions were only for major exporters and had to be extended to other industries.

To encourage new investments SA would also need lower real interest rates which meant lower inflation. He said this meant supporting Chris Stahl's policy of tight money supply.

SA needed an atmosphere of "certainty", said Boyd. The country could not keep changing the "rules of the game" or "leveling the playing fields" as the government had been prone to do over the past 10 years.

Therefore, one had to be disappointed by the recent utterances of the ANC regarding foreign investment and the continued emphasis on nationalisation as an option, he said.

The Univel plant is expected to save R28m in foreign currency a year and brings Univel's investments in CV and drive shaft capacity to R35m.

It is 60% owned by JSE-listed Dorbyl and 40% by its UK associate GKN. Dorbyl group exports are valued at R450m a year.
Tax delays

By RUTH BHENGU

HUNDREDS of employers have not submitted their 1992 income tax returns because they have not yet received their certificates from employers, according to the Receiver of Revenue.

Spokesman for the Commissioner for Inland Revenue in Pretoria, Mr D M Goosen, said his office had received many requests for an extension of time to submit returns from people whose employers had caused the delay.

"Because of this we have decided not to take steps against taxpayers who have not been issued with their IRP 5 certificates before July 1 1992. The deadline for tax returns is June 9 1992," he said.

"It must be emphasised that this does not represent a general extension for all taxpayers but merely a concession to those taxpayers who have not received their certificates in time," he said.

Goosen said those taxpayers who were unable to render their income tax returns by 1 July 1992 would have to apply in writing to their local Receiver of Revenue for extension to prevent a penalty.
'No tax on interest paid by foreigners'

MANY foreigners living overseas have paid no tax on interest earned in SA because the Inland Revenue Department has no record of their existence, a spokesman for the department said yesterday.

In this case, he admitted, it was almost impossible to trace them and he could not estimate the sums that have been lost to the fiscus over the years except that they must have been "substantial."

He said the concession announced by the Minister of Finance, Derek Keys, yesterday exempting foreign investors from paying tax on interest was not retrospective.

Tax should be paid on interest earned before Wednesday, June 3 except:

- When the investment is in the debt standstill net;
- When it is in certain stock, such as Eskom;
- When the capital invested is from a source outside SA.

The third category is confusing. If the investment was made in financial rands (finrands), even though the initial capital to make it was earned or raised outside SA, it is not considered to have been sourced outside SA.

The spokesman explained that this is because a bank buying finrands must deposit them in a SA bank.
Bold govt 'injection' required

By AUDREY D'ANGELO
Business Editor

A DRAMATIC gesture - such as reducing taxes and giving a firm undertaking that they will not be raised again - is needed to kick-start SA's flagging economy, says Pepkor chairman Christo Wiese.

But he emphasised that it would be necessary to have a standby agreement with the International Monetary Fund (IMF) that a loan would be available to avoid a balance of payments (BOP) deficit before the economy could be allowed to grow rapidly.

Wiese was commenting on the state of the economy and the outlook for his group, following the release of its annual report.

He said he agreed with Finance Minister Derek Keys that the government should "get its expenditure in order" so that inflation would come down and taxes could be reduced.

He thought SA should adopt a very much more supply-side philosophy.

"But to get our economy going we need something as dramatic as the State President's speech in February, 1990. We can't pussyfoot around."

Reducing taxes, with an undertaking not to undermine forward planning by raising them again, would have such an effect.

"But we would have to get our timing right. We don't yet have an IMF standby facility and we would be running an enormous risk if we got our economy zooming without one."

In the annual report, Wiese and Pepkor MD Arnold Louw say that Pepkor's expertise in catering for the basic needs of the lower income group will enable it to expand internationally.

They point out that with the acquisition of Checkers "the weight of the group's turnover shifted to food for the first time, although clothing will continue to be the main profit contributor for the foreseeable future."

"With the takeover of Cashbuild and Pepkor's operating companies now cater for all the basic needs of the mass consumer: market - namely food, clothing and shelter."

"Pep's management believes that, although coloured by cultural and regional differences, low-income groups worldwide share the same basic requirements."

"It also believes this market is not effectively served by big retail organisations and that an opportunity exists for Pepkor, with its extensive experience of mass market retailing, to enter this market successfully on an international level."

Wiese commented that Pep International's chain of 17 stores in the UK was doing well in spite of the recession there. The group would wait until the UK operation was firmly established before moving into continental Europe.

Discussing the domestic market, he says in the annual report that trading conditions are likely to remain tight, but there are already signs that an upswing will start in the third quarter of the year.
Tax break boosts investor confidence

FINANCE Minister Derek Keys' tax break for non-residents yesterday boosted foreign investor confidence and saw the financial rand climb to a five-week high against the dollar, dealers said. Keys' comments sparked off buying, from Europe and the Far East and left support to the foreign investment unit which climbed to an intra-day high of R3.39 to the dollar before slipping back to R3.46 at the close as the early euphoria subsided.

Dealers said although the decision on non-resident tax was a positive move, continued political uncertainties and the ANC's threats of widespread mass action remained overwhelming concerns for potential investors.

Graph: RUST-GUY MATTHEWS Source: ISET

Confidence 81/81 5/6/92

The announcement that government was exempting all interest on foreign investment from tax was described as "a long-awaited step in the right direction". Dealers said it was important for foreign investors to know exactly what their tax position was.

Some analysts were bullish on the rand in the short term as it could take time for confidence to build up abroad. "There's a lot of steady interest from the Far East, Switzerland and Germany despite all the trouble in SA," said one.

Improved confidence after Keys' announcement spilled over into the capital market. Dealers speculated that foreign confidence would pick up, saying a bullish undercurrent was strengthening.

The key Ekonon index closed lower at 19.76% from a previous 19.81%. The government's RSA 100 index was steadier at 14.95% compared with Wednesday's finish of 14.91%.
Decline in official interest rate will benefit taxpayers

By BILLY PADDOCK

CAPE TOWN — Government announced yesterday that it intended dropping the official rate of interest by two percentage points, signalling marginal relief for taxpayers on fringe benefits.

In a statement Deputy Finance Minister Theo Alant said government would be recommending to Parliament that the official rate be reduced two percentage points from 19% to 17% from August 1.

Following the announcement last month by major banks that they were lowering their bond interest rates, Internal Revenue decided to adjust the official rate to keep it at the traditional one percentage point below the prevailing bond rates.

Alant said taxpayers receiving loans from their company at an interest of at a rate less than the official rate would benefit from the reduction because the taxable value is calculated on the difference between the two.

- The cash equivalent of the value of the taxable benefit in these circumstances was the amount the employee would have paid on the loan during the year if he had been obliged to pay interest at the official rate, less than the amount of interest incurred.
- Finance spokesman Barry Hechter said the interest rate was being reduced to keep it in line with the bond rates.
- If the bond rates increased the department would have to adjust the rate upwards to keep it about one percentage point below the prevailing market rate.
INCOME TAX: Receiver of Revenue aware of glaring disparity between the sexes

Married women still penalised

WHILE the Receiver of Revenue does preserve a bouquet for totally separating married people for income tax purposes, he still gets a brickbat for the fact that wives still pay significantly more tax than husbands.

Assuming a taxable income of R50,000 and after deducting the primary rebate, a married woman will pay R6,876 more tax than her husband and R759 more than a single person in the 1992 tax year.

In fact, she will continue to pay more tax than her husband until her taxable income reaches R99,000, after which she will pay less.

Equalise

This is an advantage indeed, considering the number of women who enter this amount.

Compared to the unmarried person, the wife will pay more tax until her taxable income reaches about R70,000, after which her tax charge will be slightly lower but still higher than that of her husband.

A representative of the Commissioner of Inland Revenue's office says: "The policy of the Minister of Finance is to try to equalise the situation as far as possible, but any changes we make affects the total availability of money."

In the long term we intend to bring the married woman's 'value' in line with that of the unmarried taxpayer."

The married woman is further penalised as the limit on her retirement annuity fund contributions is only half that of her husband. Nevertheless, the taxman is introducing new legislation which will provide some light relief to the wife's reduced deduction for retirement annuity fund contributions.

where contributions to such a fund are paid for by the husband on behalf of his wife - the contributions may be claimed by either spouse.

This applies only to policies entered into before March this year and will cover the 1992 tax year prospectively as well as the following five years.

In effect this allows these contributions to be claimed either in the wife's return or the husband's.

The couple should first do the calculations before completing their returns.

Justin Cowley, tax partner at Ernst & Young, says there is an exception to the overall rule of separate taxation.

"If the wife is the sole breadwinner of the couple (her husband earning less than R20,000 a year), then she may apply for a deduction to include her income in her husband's return and be taxed at the lower rate," says Cowley.

The fact that this exception exists indicates that the Receiver is aware of the disparity.

However, the prescribed income level of R20,000 narrows the scope of this provision considerably.

Cowley adds: "There are, in fact, two instances where the Income Tax Act favours the woman over the man."

Firstly, the retirement age in respect of receiving tax-free lump-sum benefits is 55 for a man and 50 for a woman.

Indisputable

"Secondly, there is a provision in the Act which allows the woman a tax-free grant of up to R30,000, if she receives such grant from her employer as she relinquishes her job to get married."

For all the expert advice from the tax pundits, however, there remains the indisputable fact that Eve continues to come off worse in the family taxation burden.

Tax planners, regardless of the additional cost involved, might do well to address the inequity in the current Income Tax Act.

Employee benefits like medical aid still penalised

SOXTH Africa must expect to pay more for their employee benefits. This is the message from Garth Griffin, general manager, employee benefits, at the Old Mutual.

He says that as employees grow older they require more medical attention than they are likely to have to pay higher contributions for medical aid.

The increasing incidence of AIDS will also force them to put their hands deeper in their pockets to pay substantially more for group life cover. But on the other side of the coin, as fewer workers are expected to reach pensionable age owing to AIDS, there should be no need for any major increase in pension contributions.

Griffin says that controlling costs these days is the top priority of company executives responsible for employee benefits.

The is partly the result of the dramatic increase in the cost of providing medical benefits. In recent years these have escalated at a rate of about 25 per cent a year - significantly more than the 15 per cent inflation rate.

The average annual increase in the charge for a consultation at a general practitioner's rooms has been 27 per cent. Recently, government hospitals have raised private patient charges to 30 percent.

And in the medical aid schemes administered by the Old Mutual Employee Benefits (OMEB), the claim frequency has increased by almost 50 percent in the past four years.

An examination of OMEB's claims showed that members under the age of 30 were actively submitting them above this age, with the rate growing...
Dividends, gifts and sales profits

By DES KRUSER and VICKI TAYLOR of Deloitte Pim Goldby

THIS article, based on the booklet Pay Less Tax — published jointly by Sunday Times-Business Times and Deloitte Pim Goldby — is intended to highlight some tax-saving opportunities, using the basic structure of the annual IT12 return.

**Certain interest and building society dividends** were either fully or partly exempt from tax in the 1989/90 and earlier tax years — for example, Post Office savings and building society subscription shares.

With effect from March 1, 1990, this exception has been phased out. In the 1991/92 tax year only 60% of such interest income and previous fully tax-free dividends is exempt. Partially tax-free building society dividends which were previously subject to a dividend deduction (normally up to a third of the payout) are now treated as other similar building society payments.

Only 60% of the dividend deduction may be claimed in 1991/92.

Note that this phasing in applies only to investments with no set term. Fixed-period shares-deposits made before March 1, 1990, will remain partly tax free for the duration of the fixed investment term. Dividends or interest on building society fixed-period shares-deposits made on or after March 1, 1990, are fully taxed as interest income and are not subject to phasing-in concessions.

The basic interest exemption of R2 000 is available to each taxpayer. Thus, where a husband and wife both earn interest income, up to R4 000 is exempt. Building society dividends are classified as interest income for tax purposes.

Therefore, where you earn less than R2 000 actual interest the remaining part may be deducted against your building society dividend income.

Other dividends received from public and private companies are still exempt from tax in 1991-92. You are required to disclose the dividend income under part 8.3 (exempt income) of your tax return. Other exempt income, such as transfer-relocation costs paid by your employer, must also be disclosed under part 8.3.

Other non-taxable amounts may comprise income from sources outside SA (disclosed under part 8.2) and profit from the sale of shares, fixed property and other marketable securities (disclosed under part 8.1).

Donations, proceeds from insurance policies and the sale of jewellery, inheritance, prizes, gambling profits, losses etc. must also be disclosed under part 8.1. Reporting information to the amounts declared under part 8 must be supplied.

WHENEVER you buy or sell any fixed property, shares or other marketable securities, you are required to complete part 19.1 of the return. This involves the duties, cost and selling prices, your reasons for acquisition or sale.

Unless your intention was to deal in these assets for gain, the profits should generally be of a capital nature and not subject to income tax in 1991-92.

However, be warned that a person's intention can be questioned by Inland Revenue, especially where several similar transactions have occurred, even if spaced over a few years.

Your reasons for acquisition and sale are of great importance and should be clearly noted on your return. Likewise, any change in intention should be noted as a separate entry.

If you have sold listed shares which have been held, inter alia, for a continuous period of at least 10 years, so-called "affected shares", you may elect in part C of schedule A (page 7 of the return) to have the profits treated as being of a capital nature and therefore tax free. Such an election will be binding on any future disposal of "affected shares".

The nature of large gam-
Computer to help combat tax dodgers

GERALD REILLY

PRETORIA — A sophisticated (computer-controlled) audit system is now in place at Inland Revenue's head office to identify VAT payment cases which need deeper investigation (322-0).

An Inland Revenue spokesman said at the weekend that the new system would support the work of special investigators involved in recovering taxes.

Meanwhile, VAT recoveries between October last year and April netted an additional R121m. And VAT collections in April — the first month of the new financial year — totalled R1,038bs, while late GST payments amounted to R10m. This total compares with GST of R1,087bn for the previous financial year. The decrease was accounted for by the fact that the GST rate was 13%, while VAT was levied at 10%.

However, income tax collections in April were up by R55bn to a total of R3,976bn. Investigating teams recovered more than R400m in income tax evasion and uniaxled income in the first four months of this year.
### NEWS IN BRIEF

**Mining tax contribution down**

The mining industry paid R2.2bn in tax in the 1990/91 tax year as against R5.45bn in the 1989/90 year, Finance Minister Derek Keys said in Parliament yesterday. He said this represented a contribution of 3.3% against 10.1% of state revenue. In 1989/90 mining's contribution was R2.274bn or 3.7% of state revenue.

**ANC cashes in on 087 lines**

The ANC has joined the 087 pay-line operation to raise funds. It will cost R1.97 a minute to phone on the ANC's 087 line and a top prize of R1,000 will be presented at a special luncheon.

**Coast guard may be established**

The possibility of establishing a coast guard in SA is being investigated by an inter-departmental committee following the De Beer commission of inquiry's recommendations. Environment Affairs Minister Louis Pienaar and Transport Minister Piet Wedge moed said yesterday the committee would investigate the formulation of a national maritime policy.

**High-tech NP campaign starts**

The NP launched a countrywide, hi-tech campaign yesterday to draw black supporters. The party's caucus gave the six-language marketing package the nod yesterday and at least 2,500 meetings will be held using videos, full colour leaflets, posters and display portfolio folders.

**Indian, coloured MPs join NP**

President F W de Klerk welcomed four former independent MPs from the House of Delegates into the NP yesterday, while two more members of the Labour Party crossed the floor to join the NP in the House of Representatives.
Bill targets mine land for property tax

BILL PADDOCK

CAPE TOWN — All mining land exempt from property tax will now be subject to rates, levied "according to the system of market value", if the new Bill government introduced in Parliament yesterday is passed.

All agricultural land which falls within municipal boundaries will also be subject to tax but at a reduced rate and in accordance with a formula based on the pro rata valuation of the land's site value.

The new Local Authorities Rating Ordinance Amendment Bill introduced by Local Government Minister Leon Wessels is the result of several inquiries in the past decade into the various rating and valuation systems in the four provinces.

It provides that "full rates be payable on mining land, but that they be phased in over three years".

The Bill envisages the rates to be levied on mining land as follows:

- With effect from July 1, 1996, 25%;
- From July 1, 1997, 50%;
- From July 1, 1998, 75%; and
- From July 1, 1999, 100%.

The memorandum to the Bill states that after the inquiries' conclusions had been studied by government departments, the Provincial Administrations and organised local authorities the permanent financial liaison committee drafted proposals which were approved by Cabinet.

The Bill abrogates all exemptions from rates but local authorities could grant a "grant-in-aid" in respect of the rates which may be levied on certain classes of rateable properties such as churches, amateur sports fields and welfare institutions.

MATTHEW CURTIN reports that Anglo American tax consultant Marius van Blerk said last night that he could not comment on the Bill without examining it.

Van Blerk, an authority on mining tax, said that it was not "the most appropriate time to add extra costs to the mining industry, and the impact of the Bill would require careful analysis, especially with regard to marginal mines".

A Chamber of Mines spokesman declined to comment, as did Gold Fields of SA executive director Alan Wright.
Tax relief bid for severance payouts

REPRESENTATIVES of organised labour and management in the mining industry yesterday met Deputy Finance Minister Theo Alant in Cape Town for talks on proposed tax relief on the severance payments of retrenched workers.

And in another initiative related to shrinking employment levels in the industry, the NUM and Harmony were scheduled to meet Mineral and Energy Affairs Minister George Bartlett in Pretoria today for talks on ways of easing the effects of cutbacks at Harmony gold mine near Virginia.

Chamber of Mines vice-president Bobby Godsell, NUM assistant general secretary Marcel Golding and representatives of the Council of Mining Unions and the three officials' associations presented Alant with a memorandum detailing proposed amendments to the Income Tax Act to effect the change.

Golding said after the meeting it had been agreed to establish a working party to enable government to take a closer look at the proposals designed to apply not just to the mining industry, but universally.

The union/management scheme proposal was that lumpsum payouts to retrenched employees whose earnings were below the SITR threshold should be totally tax exempt. For those liable for PAYE, severance payments should, up to a certain level, be treated in the same way as lumpsum pension payouts.

The proposed dispensation for employees taxed according to the SITR system was that they currently pay a large proportion of their severance payment in tax.

To challenge that would require a complicated process beginning with registration as a taxpayer — an onerous task for unskilled migrants.

The proposal was raised by the NUM at last June's mining summit as part of a discussion on short-term measures to alleviate the effects of gold mine cutbacks. The chamber and unions in the industry had finalised proposals on legislative amendments, and these would be considered by government. Alant could not be reached yesterday for comment.

The NUM planned to hand Bartlett a lengthy memorandum today detailing the effects of cutbacks at Harmony and other mines on foreign exchange earnings and on the national and regional economies, and requesting alleviation measures.

But it is understood Harmony will not support any measures amounting to direct subsidies.
Mining, farm land set to be taxed

CAPE TOWN — A Bill which provides for the taxation of mining and agricultural land inside municipal boundaries has been tabled in Parliament by Local Government Minister Leon Wessels. The Local Authorities Rating Ordinance Amendment Bill provides for all mining land exempt from property tax to be subject to full rates.

It is proposed that such rates be phased in over three years.

Agricultural land falling inside municipal boundaries would also become subject to tax, but at a reduced rate and in accordance with a formula based on valuation of the land's site value.

It is proposed that all rates exemptions be dropped but that local authorities may give a grant-in-aid.

The phasing in of rates is envisaged as follows: 75 percent from July 1, 1994; 50 percent from July 1, 1996; 25 percent from July 1, 1997.

Several inquiries have been conducted over the past 10 years into various rating and valuation systems applied in the four provinces.

The findings of these inquiries and final recommendations — as approved by the Cabinet — were referred to the provincial administrations and Department of Local Government. — Sapa.
PARLIAMENT. — Gold coins sold will not be subject to VAT, but VAT would be added to coins made into jewellery, the memorandum on the Taxation Laws Amendment Bill said yesterday.


Much of the legislation in the memorandum is deemed to have come into effect already.

- Tax on the transfer of property to a water or an irrigation board has been waived;
- The zero-rating on rice has been lifted;
- If a vendor acquired a business which carries on an exempt or non-taxable activity no VAT is charged on the purchase;
- Tax must be adjusted in the case of a vendor refunding the deposit on a returnable container;
- The tax portion of an amount recovered from a bad debt has to be declared; and
- The prices inclusive and exclusive of tax has to be displayed with equal prominence when both prices appear in advertisements. — Sapa
Sacob seeks ‘piggy-back’ tax for local financing

BUSINESS would favour a “piggy-back” tax as a major metropolitan revenue source, Sacob said yesterday.

In a discussion document on metropolitan financing, Sacob proposed the “piggy-back” tax — on an existing income tax or on VAT — instead of extra tax tiers or a comprehensive business tax as a way of paying for local services.

“While it has been argued that VAT is a highly visible tax and creates resistance — a resistance that might also attach to levies on VAT — this very transparency argues strongly in favour of basing metropolitan taxes upon VAT,” the document said.

“It is in principle desirable that the cost or impact of taxes should be seen.”

Business would favour existing forms of taxation to raise local revenues, in preference to the introduction of new types of fund raising. There already existed “an adequate plethora of impositions”.

“It is also imperative that tax collection be efficient, low in cost and centralised to minimise the size of the revenue bureaucracy,” Sacob said.

The document rejected suggestions that funds be raised from extra tax tiers or payroll levies. Turnovers and payrolls were imperfect indicators of ability to pay and of contribution to GDP. In addition, the turnover levy would introduce elements of double taxation.

“Furthermore, the law and the regulations covering these levies are excessively convoluted and complex and for that reason are in fact not being accurately imposed or complied with.

“If the present low rates of the levies were to be raised, formidable obstacles to both compliance and enforcement would at once emerge.”

A low-rated comprehensive business tax was also ruled out in the discussion document, which said such a tax was biased against labour-intensive industries, penalised exports, and was divorced from the principle of ability to pay.

Sacob added that this tax was just another form of VAT.

The document said it was inevitable that rates on land and fixed property would continue as a local revenue source.

Sacob called for the privatisation of services and the provision of housing.

“Market forces should be allowed to encourage efficiency in the delivery of such services and also to establish a balance between supply and demand,” the document said.
DP MPs slam 'inept and corrupt' NP government

CAPE TOWN — The euphoria of President FW de Klerk's reforms had been replaced by an air of despondency because of the poor state of the economy and the exposure of widespread government corruption, DP Finance spokesman Ken Andrew told Parliament yesterday.

He said democracy was unlikely to survive endemic violence and a lack of economic progress. But sustained economic growth and a reduction in violence were unlikely until there was significant progress towards a political settlement.

A successful, negotiated new constitution was the key to stability and certainty, Andrew said, adding that government had the prime responsibility in this regard. But the credibility of the NP's commitment to democracy was suspect, he said.

In another scathing attack on government, DP Justice spokesman Tony Leon said its ineptitude resembled that in a tragi-comic soap opera.

It had spent or committed R380m on three projects of spectacular folly.

BILLY PADDOCK

where the money could have been better spent elsewhere, Leon said. "We now have no foreign enemies, but R205m is authorised on an underground bunker installation for the SA Air Force. While total strategy no longer features in government rhetoric, we spend R145m on a new headquarters for the National Intelligence Service — an overspend of R8m from the original estimate. We're committed to a lean bureaucracy, but R15m is to be spent on a new computer centre for the Commission for Administration," Leon said.

Meanwhile, back in the land of reality, famine, starvation, homelessness and despair stalked SA, he said.

Leon said if government's unnecessary expenditure was rechannelled, it could:
- Build 250 black primary schools at R8m each;
- Build 10 000 zinc houses with amenities for the homeless at R5 000 each; and
- Provide basic foodstuffs for 200 000 people for a year at an estimated R250 per person.

Leon said it appeared that government lacked the political will to bring violence under control.

Andrew said that a party which suspended an MP for more than seven months could hardly be said to have a commitment to or understanding of democracy.

He said the credibility of the NP's commitment to clean, honest and accountable public administration was shattered. "Its hands are covered in blood and grime. The stench of corruption permeates public life in SA today," Andrew said.

He said if ministerial responsibility and accountability meant anything at all in SA, the three most senior members in the current NP Cabinet would not be there.

Many of the problems arose from undue secrecy and discretion granted to Ministers and officials.

But the underlying problem was the policy of economic patronage pursued by the NP since it came to power, Andrew said.

Gold coins VAT exempt

CAPE TOWN — Gold coins sold will not be subject to VAT but the tax would be added to coins made into jewellery, a memorandum on the Taxation Laws Amendment Bill said yesterday.

Tabled in Parliament, it introduced amendments to the Marketable Securities Tax Act, the Transfer Duty Act, the Stamp Duties Act, the Self-Governing Territories Constitution Act, the Regional Services Councils Act, the KwaZulu and Natal Joint Services Act, and the Value-Added Tax Act.

Tax on the transfer of property to a water or an irrigation board was waived.

If a vendor acquired a business which carried on an exempt or non-taxable activity, no VAT would be charged. — Sapa.

Doctors protest against dispensing

CAPE TOWN — About 120 doctors, dentists and other medical practitioners converged on Parliament yesterday to present a memorandum to National Health Minister Rina Ventor opposing the amendments to the Medical Scheme Bill.

The group, marching under a banner calling for health care for all, handed the memorandum to Ventor's administrative secretary Eric Cronje at the gates of Parliament.

The memorandum objects to the grounds that it is a 'socio-economic and areas' to exploit the men seeking to profit from dispensing Family Association (DFPA) and the other doctors handing it to Cronje. "We further object to the Bill dismally failing needs of health indigent, unemployed who reside in peripheral areas," he said.
THE Co-ordinating Committee on VAT meet today to formulate a strategy on negotiations with the Government on the zero-rating of basic foodstuffs.

The meeting at a top Johannesburg hotel starts at 5.15pm.

Summit co-ordinator Ms Melody Emmett said the meeting would receive reports of contacts held with the Ministers of Finance, National Health, Agriculture, the Board of Tariffs and Trade and the National Interim Committee of Nutritional Development Programme.

She said: "The summit will be asked to approve proposals for negotiation with the Government on VAT, stabilisation and reduction of food prices and changes to the poverty relief and drought relief programmes.

"The summit is also expected to approve proposals for negotiating with the major food manufacturers and retailers for a reduction in the prices of staple foods."

Emmett said the Minister of Agriculture, Mr Kraai van Niekerk, had agreed in a meeting with the committee that he would "circulate for discussion proposals for the restructuring of the Control Boards and for the deregulation of the industry."

Endorse a demand

She said: "The summit will be asked to endorse a demand that there should be much greater representation of consumers on the Control Boards and that changes should not be made without full consultation with all parties."

She said a detailed proposals for poverty relief programme would be presented.
Warning on white tax burden

The effects of further increases in the tax burden needed to be balanced against economic growth. The recent raise in income tax was among the highest in double the world. It was a particular negative tax on the upper income levels, they said.

In the interests of equity, a moderate degree of redistribution of income through the tax system was also regarded as the best option. It would be through the tax system, and not merely through a raise in income tax rates, that the tax burden could be made more equitable.

The possibility of redistributing the income through the tax system would be the budget as the legislature already had to increase excise tax rates in the interest of equity.

A third option, through regulation and taxation, would be difficult, but the economy was not healthy. An adoption of a tax on sales to provide another source of revenue was also considered necessary. The government had to make sure that purely in the interest of a broader revenue distribution, income tax was as low as possible, especially given the financial situation of the country.

Growth said government measures to promote investment and capital formation in the manufacturing sector in particular could be directed operational issues would also have to be considered. The solution would also need to be carefully considered.
SA faces barrage of wealth taxes

SA faces a variety of wealth taxes including a land tax under the next regime, which will inevitably be ANC or ANC dominated, the SAPOA Convention heard yesterday.

Pierre Le R du Toit, senior tax partner with Arthur Anderson and Co recent ANC policy guideline were "surprisingly moderate".

"They referred to the need to maintain sustainable growth and to leave redistribution to the expenditure side," he said.

"There is a strong awareness that there needs to be a balance of fairness.

"If one overtaxes the producers they will simply leave; if one undersupports the needy they will destroy all prospect of production." He said that from policy documents and statements by ANC dignatories it was clear that tax reform in the shape of continuing reducing rates was out.

"On the other hand the income tax rates of 70% and over of the hey-day of Afrikaner socialism will not return."

He said wealth taxes including capital gains/transfer tax, land tax and death duties were highly likely but would be "more perceptual than seriously revenue producing".

Other resources such as prescribed investments would be revisited but in moderation.

He said while there may be some decentralisation, central governments would delegate rather than abrogate fiscal policy.

"This picture is by no means as horrific as we are often led to believe."
PERSVERKLARING

deur

DIE ADJUNKMINISTER VAN FINANSIES
DR. T. G. ALANT

MET BETREKKING TOT DIE VERLAGING IN DIE "AMPTELIKE RENTEKOERS" VIR DIE DOELEINDES VAN BELASTING OP BYVOORDELE

'n Belasbare voordeel val toe indien 'n lening aan 'n werknemer toegestaan is en óf geen rente deur die werknemer betaalbaar is nie óf rente daarop teen 'n koers laer as die amptelike rentekoers deur hom betaalbaar is. Die kontantekwivalent van die waarde van die belasbare voordeel is in hierdie omstandighede die bedrag aan rente wat die werknemer ten opsigte van die jaar van aanslag sou betaal het indien hy verplig sou wees om rente teen die amptelike rentekoers te betaal, min die bedrag aan rente (indien enigse) wat hy werklige gedurende die jaar aangegaan het. Tans is die amptelike rentekoers soos in paragraaf 1 van die Sewende Bylae by die Inkomstebelastingwet, 1962, omskryf, 19 persent.

Daar word hiermee vir algemene inligting bekendgemaak dat daar by die Parlement aanbeveel sal word dat die amptelike rentekoers met ingang van 1 Augustus 1992 vanaf 19 persent tot 17 persent verlaag sal word.

Uitgerek deur: Die Adjunk minister van Finansies
Posbus 29
Kaapstad
8000.

Narroe: Mr. B. Hechter.

Telefoon: (012) 315-5311.


PRESS STATEMENT

by

THE DEPUTY MINISTER OF FINANCE
DR. T. G. ALANT

REGARDING THE REDUCTION IN THE "OFFICIAL RATE OF INTEREST" FOR FRINGE BENEFIT TAXATION PURPOSES

A taxable benefit accrues if a loan is granted to an employee and either no interest is payable by the employee or interest is payable by him at a rate less than the official rate of interest. The cash equivalent of the value of the taxable benefit in these circumstances is the amount the employee would have paid on the loan during the year of assessment if he had been obliged to pay interest at the official rate less the amount of interest (if any) he actually incurred during the year. At present the official rate of interest as defined in paragraph 1 of the Seventh Schedule to the Income Tax Act, 1962, is 19 per cent.

It is hereby notified for general information that it will be recommended to Parliament that the official rate of interest be reduced from 19 per cent to 17 per cent with effect from 1 August 1992.

Issued by: The Deputy Minister of Finance
P.O. Box 29
Cape Town
8000.

Enquiries: Mr. B. Hechter.

Telephone: (012) 315-5311.

Date: 4 June 1992.

DEPARTMENT OF JUSTICE

No. 1565 12 Junie 1992

WET OP HOWE VIR KLEIN EISE, 1984

VERANDERING VAN DIE GEBIED VAN DIE HOF VIR DIE DISTRIK WYNBERG

Ek, Daniel Pieter Antonie Schutte, Adjunkminister van Justisie, handelende namens en in opdrag van die Minister van Justisie, verander hierby kragtens artikel 2 (1) (c) van die Wet op Howe vir Klein Eise, 1984 (Wet No. 61 van 1984), die gebied van die hof vir die bereg- ting van eise ingevolge genoemde Wet wat vir die gebied Wynberg by Goe wermentskennisgewing No. 1003 van 27 Mei 1988 ingestel is, deur die distrik Mitchells Plain daarby in te sluit.

D. P. A. SCHUTTE,
Adjunkminister van Justisie.

DEPARTMENT OF JUSTICE

No. 1565 12 June 1992

SMALL CLAIMS COURTS ACT, 1984

ALTERATION OF THE AREA OF THE COURT FOR THE DISTRICT OF WYNBERG

I, Daniel Pieter Antonie Schutte, Deputy Minister of Justice, acting on behalf and by direction of the Minister of Justice, hereby under section 2 (1) (c) of the Small Claims Courts Act, 1984 (Act No. 61 of 1984), alter the area of the court for the adjudication of claims in terms of the said Act which was established for the area of Wynberg by Government Notice No. 1003 of 27 May 1988, by including the District of Mitchells Plain therein.

D. P. A. SCHUTTE,
Deputy Minister of Justice.
Some tax relief tabled in bill

CONDITIONAL tax concessions for bursaries and for physically disabled people under 65 are included in amendments proposed in the tabled 1992 Income Tax Bill.

A bursary must not have been granted in lieu of salary, which must not exceed R38,000 a year, and is limited to the first R1,200 for each relative where the bursary is granted as a result of the employee's services.

Physically disabled people under 65 will have to bear only the first R500 of medical expenses incurred as a result of their disability. — Sapa.
TOMORROW'S SOLUTION

VAT changes for developers

Excellence precedes the evidence of the existence of VAT in the current system. The introduction of VAT has been a significant change in the financial structures of various sectors, and it has necessitated changes for developers.
Action over prices urged
KATHRYN STRACHAN

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Organisations associated with the committee had planned a programme of marches and demonstrations, but a date was still to be decided.

Convenor Bernice Fanaroff said summit delegates endorsed demands to be put to government and to food manufacturers and retailers. The committee expected to meet Finance Minister Derek Keys later in the month and would discuss the zero rating of basic foods and basic services, and the reduction and stabilisation of food prices.

The starvation facing many was not caused only by the drought, but also by escalating food, prices and distribution problems. Businesses were taking advantage of the drought to raise their prices, the summit accused.

It attacked government's nutrition development programme and put forward proposals to be presented to government.

Fanaroff also claimed the National Health Department lacked the managerial expertise to run the programme effectively, and accused it of using poverty relief for political ends by providing money to SADF front organisations.
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Anti-VAT group warns Govt

THE Co-ordinating Committee on VAT has warned it would link its struggle against VAT and poverty to the proposed mass action unless progress was made in its talks with the Government.

The warning was made after a summit of VCC constituent organisations in Johannesburg yesterday.

The organisations included Nactu, the ANC, Cosatu, business, church and consumer groups. The summit endorsed the following demands, in preparation for forthcoming talks with both the Government and the food industry:

- The exemption of basic food stuffs (including meat, bread, maize meal, milk and vegetables), electricity, water and medicines from VAT;
- That the price of staple foods be reduced and stabilised until such time as an adequate "safety net" is established for the poor;
- That manufacturers and retailers do something to drive down the price of staple foods;
- That the existing control boards be restructured and that all deregulation and tariff changes in the food industry be carried out only in consultation with "representative organisations".

The summit decided to convene again in mid-July to assess progress made in talks with retailers and the Government.

A VCC delegation is to due to meet Finance Minister Mr Derek Keys on June 25 to discuss its demands.

It has already met representatives of Foodcor and Premier Foods, and is scheduled to meet those of Tiger Oats and Fick 'n Pay shortly.
VAT, mass action link mooted

By Mike Siluma

The Co-ordinating Committee on VAT (VCC) yesterday warned it would link its struggle against VAT and poverty to the proposed mass action next month, unless it made progress in its talks with the Government on the issue.

The warning was made after a summit of VCC constituent organisations in Johannesburg, which included the National Council of Trade Unions, the ANC, the Congress of SA Trade Unions, and business, church and consumer groups.

The summit endorsed the following demands, in preparation for forthcoming talks with both the Government and the food industry:

- The exemption from VAT of basic foodstuffs (including meat, bread, maize meal, milk and vegetables), electricity, water and medicines.
- That the Government should reduce and stabilise the price of staple foods until an adequate “safety net” was established for the poor.
- That manufacturers and retailers drive down the price of staple foods.
- That the existing control boards be restructured and all deregulation and tariff changes in the food industry be carried out only in consultation with “representative organisations”.

The summit decided to convene again in mid-July to assess progress in talks with retailers and the Government. A VCC delegation is due to meet Finance Minister Derek Keys on June 25 to discuss its demands. The VCC has already met representatives of Foodcor and Premier Foods, and is scheduled to meet those of Tiger Oats and Pick ‘n Pay shortly.

VCC co-ordinator Bernie Fanaroff said the summit had decided to meet other organisations to draw up a plan of action to back its demands. This might include boycotts and demonstrations linked with the proposed mass action against sections of the food industry.

Also yesterday, the VCC criticised the Government’s poverty and drought relief programme, saying there was a need for short-term emergency aid incorporating all Government-funded schemes.

Various organisations, including the ANC and Cosatu, have already indicated they would include demands on food prices and VAT in their mass action campaign, which is mainly over the Codesa deadlock.
No. 1601
12 June 1992

DEPARTMENT OF FINANCE

13 PERCENT INTERNAL REGISTERED STOCK,
2009/10/11: CERTIFICATE No. 8336 FOR R84 500
ISSUED IN FAVOUR OF MRS RACHEL ANN BECKER

Application having been made to the Department of Finance for a duplicate of the above-mentioned certifi-
cate, the original having been lost or misplaced, notice is hereby given that unless the original certificate is pro-
duced at the Department of Finance, Private Bag X115, Pretoria, within four weeks from the date of publi-
cation of this notice, a duplicate as applied for, will be issued.

No. 1639
20 June 1992

VERKLARING DEUR: MNR. DEREK KEYS, MINIS-
TER VAN FINANSIES EN VAN HANDEL EN
NYWERHEID: 3 JUNIE 1992

MET BETREKKING TOT RENTE WAT DEUR BUITEL-
ANDERS IN SUID-AFRIKA VERDIEN WORD

South Africa has to compete for foreign investment in an increasingly competitive international environ-
ment and it is essential that foreign investors are not discouraged from making investment funds available.

Interest earned in South Africa by non-residents is already exempt from tax in the following circum-
stances:

- All interest earned on funds which are blocked in terms of the debt standstill.
- Interest earned on stocks and securities issued by the Government, local authorities and certain
  other bodies such as Eskom and Transnet. This provision is widely used by emigrants as an
  avenue for investment of their blocked assets.
- Interest earned on capital which was made available to the borrower outside South Africa and
  which is therefore, in terms of existing income tax law, not derived from a source within South
  Africa.

Technically, other interest which is derived from a source within South Africa remains subject to tax. Very
little tax would however be available in this way, particularly in view of the problems obtaining returns and
raising assessments on foreign lenders. Furthermore, there is a move in the European Community countries
towards taxing interest income only in the country where the recipient of the interest is resident.

In order to introduce certainty into the area of foreign investment and to remove whatever disincentive
remains in the form of taxation, it has been decided, with the unanimous approval of the Tax Advisory Com-
mittee, to exempt from tax all interest which from today accrues to a person who is not ordinarily resident in
the Republic or to a company which is not managed or controlled in the Republic. This exemption will also
apply to emigrants, subject to the further condition that they do not carry on business in the Republic.

Enquiries: Lesley Lamberti.
Telephone: (021) 45-3796/8.

No. 1639
20 June 1992

REGARDING INTEREST EARNED IN SOUT
HAFRICA BY NON-RESIDENTS

The Suid-Afrika bevind homself vandag in die posisie dat hy in 'n al hoe meer mededingende internationale om-
gewig vir buitelandse beleggings moet meedoen, en dit is noodskaaklik dat buitelandse beleggers nie ont-
moedig word om beleggingsfondse beskikbaar te stel nie.

Rente wat deur buitelanders in Suid-Afrika verdien word, is alreeds in die volgende omstandighede van belasting vrygestel:

- Alle rente verdien op fondse wat binne die skuld-
stilstand geblokkeer is.
- Rente verdien op effekte uitgereik dour die Staat,
plaaslike overhede en sekere ander instansies
soos Eskom en Transnet. Hierdie bepaling word
vrylik deur emigrante gebruik vir die belegging
van hul geblokkeerde fondse.
- Rente verdien op kapitaal wat Suid-Afrika-
daan die lener beskikbaar gestel is en wat der-
haal ingevolge bestaande inkomstebelasting-
wetgewing nie uit 'n bron binne Suid-Afrika verkry
word nie.

Ander rente wat uit 'n bron binne Suid-Afrika verdien
word, is tegnies steeds aan belasting onderwye. Baie
min belasting sou egter op hierdie wyse beskikbaar
wees, veral in die lig van die probleme wat ondervind
word met die verkryging van opgaves en die hul van
aansluit op buitelandse leners. Daarbenewens is daar
'n beweging onder die Europese Gemeenskapslande
om rente slegs te belas in die land waarin die ont-
vanger woonagtig is.

Ten einde sekerheid op die gebied van buitelandse
belegging te verkry en om enige oorhybride ontmoe-
digings in die vorm van belasting te verwyder, is daar
met die eenparige goedkeuring van die Belasting-
advieskomitee besluit om alle rente van belasting vr-
te stel wat van vandag of toeval aan iemand wat nie
gewoonlik in die Republiek woonagtig is nie, of aan 'n
maatskappie wat nie in die Republiek bestuur of beheer
word nie. Die vrystelling sal ook op emigrante van toe-
passing wees, onderworpe aan die verdere voorwaar-
des dat hulle nie in die Republiek besigheid dryf nie.

Navrae: Lesley Lambert.
Telefoon: (021) 45-3796/8.
Exceeding expectations

Government is collecting much more money from VAT than it expected last August, when the rate was cut from 12% to 10% and a range of exemptions on staple foods was announced.

The intake from VAT in the last five months of the fiscal year ending March 31 amounted to R7.8bn, according to a preliminary Statement of Revenue gazetted last month. This is about R1bn higher than the August projection.

But the figure is only 1.7% up on the money raised by GST in the same period of the previous fiscal year, far below the 15.7% inflation rate recorded in March.

The tax was introduced at the end of September, but the first inflows to the State Exchequer Account were recorded only in November.

Despite VAT’s better-than-expected performance, both VAT and GST collections were hit hard by the recession. GST brought in R10.6bn in the first seven months of the 1991/1992 fiscal year, about R800m less than expected last August, and was up less than 1% on the same period the year before.

The total income tax collected for the full fiscal year amounted to R42.5bn, up 14.5% on the previous year. This is R700m down on a revised figure published in this year’s Budget documents. This has implications for this year’s revenue because Budget estimates were based on the revised figure for last year.

An analysis of major items in the Statement of Revenue shows that:

- Nonresident shareholders’ tax, at R35m, was down 19.5%.
- Donations tax rose nearly 5% to R6.8m.
- Estate duty was down 4% to R7.8m.
- Tax on trade securities was down nearly 18% to R20m.
- Stamp duties and fees were 6% up at R690m.
- Transfer duties were 19% up at R915m.
- Mining leases and ownership yielded R352m, down 25%.
- Revenue from interest and dividends was up 8% to R74m.
- Levies were up 11.4% to R29m.
- Recoveries of loans and advances, at R45m, were half of the previous year’s take.
- Nearly R2bn was collected from departmental activities, up 66% on the previous year. Included in this item is R809m transferred from the Central Energy Fund and the Land Supplies Procurement Fund to the Exchequer, intended for the financing of capital expenditure on social projects.

When payments to the self-governing states are subtracted, total inland revenue amounted to R64bn, compared with R58.2bn the year before.

Customs duty rose 8% to R2.7bn, excise duty nearly 19%, the surcharge fell 28% to R1.5bn (following the reduction announced in the 1991/1992 Budget) while the fuel levy jumped 33% to R3.2bn. The big increase in the fuel levy and the excise duty is the result of increases introduced in August to compensate for the expected loss of revenue from the two-percentage-point reduction in VAT. The revenue collected is in line with projections made in August.

The total Customs & Excise intake of R8.9bn was up 3% on the previous year. Together with the inland revenue, the combined total revenue amounted to R72.9bn—9% up. Subtract from this the R809m earmarked for social projects and the total falls to R72.1bn.
INTEREST RATES

Cresting a liquidity wave

12/1/92

No wonder Reserve Bank Governor Chris Stals fears the effects of liquidity in the money market in the months ahead. Following a rise of R2.5bn in foreign exchange reserves in the first five months of the year, he last week announced measures to counter "a further substantial addition of liquidity to the money market from now until the end of August."

He was referring to government spending and what is bound to be a burgeoning deficit - because this spending will not be adequately offset by tax payments.

An indication of the dimensions of the problem comes in figures for April - the first month of the fiscal year - on receipts into and out of the State Revenue Account. Expenditure at R8.9bn was up more than 11% on the previous April. Though this is well below the inflation rate for that month it has to be measured against revenue collected:

- Inland revenue was up less than 0.1% over the previous April, at R4.646bn.
- In particular, VAT collections in April amounted to only R1bn, compared with GST collections of R1.6bn a year ago, and compared with an average monthly budgeted estimate of R1.75bn.
- Income tax receipts in April amounted to R3.3bn, compared with a budgeted monthly estimate of R4.2bn.
- Collections from Customs & Excise were up by 34% at R1.252bn, largely because of increased fuel levies, but these were dissipated by transfers amounting to R1.203bn, in Customs Union payments, producing a net R49.6m. This is down 59% from the previous April; and
- The grand total was barely changed at R4.7bn.

When amounts in transit are taken into account, the inflow into the Exchequer Account amounted to R5.3bn. It is the difference between this last figure and expenditure that has boosted market liquidity and softened interest rates.

No wonder Stals felt the need to take further action. He has decided to:

- Offer special, fully marketable bills with a maturity of nine months to the market on tender. They will be rediscountable with the Bank only if they have a remaining outstanding maturity of 91 days or less. If not they will qualify as assets and will be accepted as collateral for overnight loans from the Bank;
- Double the balances which authorized foreign exchange dealers may hold abroad to R632bn; and
- Increase the level of cash reserves banks must hold against short-term liabilities, from 4% to 5%, by not later than July 21.

The move failed to halt the slide in rates.

FNB treasury head Ken Russell reports that the rate on bankers' acceptances was no higher at 14.55%, in the days following a Business Day report, on June 3, of a meeting at which Stals told bankers of his intentions. The rate on the RSA 12% declined from 16.17% on June 1 to 15.54% by June 4. And the rate on the Faskom 11% fell from 15.94% to 15.74%.

The outlook for the rest of the year is discouraging for Stals, who is attempting to keep interest rates below the inflation rate. He hopes that, by September, government revenue will catch up with expenditure.

However the April deficit - the difference between expenditure and revenue - is more than R4bn. Obviously this can't just be extrapolated over the rest of the fiscal year because expenditure and revenue don't flow uniformly. But given that the budgeted deficit for 1992/1993, before capital income transfers, was R15.9bn (4.5% of estimated GDP), the figure is horrendous. It is more than 25% of the total.

Furthermore, only two months after the budget, Minister of State Expenditure Amie Venter presented parliament with a supplementary budget of R2.8bn. "But, on his own admission, the supplementary budget is likely to be exceeded," says Nedcor chief economist Edward Osborn.

"The worrying aspect about the April revenue figures is that they point to the possibility that the budgetary revenue estimates were overoptimistic and did not take sufficient account of the depths of the recession we are going through (see p34)." He suggests the budget deficit in the fiscal year may be closer to R20bn - a huge 5.7% of GDP.
Government's recent decision to reverse its policy on the taxation of nonresident interest may be a move towards a more coherent and investment-orientated tax policy. When Revenue reminded investors, in February, that some categories of interest earned on foreign investment were subject to income tax, the finrand took a plunge as investors rushed out even more quickly than they had rushed in, lured by high rates obtainable on finrand-denominated interest-bearing accounts (Economy February 20). The move was criticised by the FM at the time as damaging to confidence.

Unfortunately a reversal of the decision has not had a symmetrical influence on the finrand. Confidence is easy to damage, difficult to restore, especially as the fortunes of the Codsos negotiations fluctuate. A renewed flow of funds into the finrand wouldn't have any immediate benefit because there would be no effect on reserves.

But, as the first move towards abolishing exchange controls on nonresidents and eventually on residents, it would lay the groundwork for eventual benefits to the economy.

Of equal importance is the restoration of coherence to fiscal policy, which means an end to the recent sudden shifts in tax policy, to gain relatively small amounts in revenue. In his parliamentary speech announcing the concession, Finance Minister Derek Keys stressed that the loss of revenue would be modest, especially as many categories of interest derived by persons not ordinarily resident in SA, or to companies not managed or controlled in SA, were already exempt. The same goes for emigrants, to whom the exemption will also apply, provided they don't carry on business in SA.

Keys explained that various exemptions already applied to interest earned by nonresidents. On:

- Funds blocked in terms of the debt stand-
The uncertainty over the date for implementing the new labour broker requirements (Economy & Finance April 24) continues.

Price Waterhouse Meynuet tax manager Lindsay Viljoen believes the Commissioner for Inland Revenue will demand more information about CCs or companies applying for exemption.

F M 12/6/92

This will include financial and cash flow statements over three years to prove income has been generated from more than one source, a description of services and an explanation of how these are marketed. If the CC or company can assure the Receiver it is independent, it will not have to complete an additional "independence questionnaire."

In evaluating the status of a company or CC, Revenue will consider all the surrounding circumstances. Failure to qualify on one point will not necessarily disqualify the CC or company. And, if a CC or company fails the test, it will be entitled to ask for the decision to be reviewed. Ultimately, the test will remain subjective.

Labour brokers can offset the Paye deducted from own earnings against provisional tax payments but net overpayments will be refundable only after assessment.

Problems might arise because a CC or company is obliged to deduct Paye from an employee's remuneration. This could result in an initial R70 tax being paid on every R100 earned (gross) by the labour broker.

The amount would comprise:
- R48 — Paye at the company rate, on the broker's own remuneration; and
- R22 — Paye, at the maximum marginal rate of 43% applicable to individuals, on the remaining R52, if the broker pays out the lot as remuneration to its own employee.

The new rules have been designed to sift genuinely independent businesses or professional firms from CCs set up to enable employees to avoid Paye on salaries.

Forms to apply for exemption from the requirements were to have been available on May 1 but Revenue failed to meet the deadline. Rumour has it that an official announcement is now imminent.

If a CC or company offers the services of its own employees to other businesses and does not obtain exemption from Revenue, the tax cost will be high. The ultimate employer of the services has to deduct Paye at the company tax rate of 48%, not at the sliding scale applicable to individual employees. If the ultimate employer fails to deduct Paye from the fees payable to the labour broker, it will incur penalties and interest.
Wealth tax on ANC agenda

Frank Jeans

There could be a variety of wealth taxes as part of the economic policy of a future ANC-dominated government of South Africa. Predicting tax policy in a new South Africa, Pierre le Ruit Toit, a partner of Arthur Andersen and Company, told the 25th convention of the SA Property Owners’ Association at Sun City recently: “While I cannot speak for the ANC and can only gauge its intentions from its statements, it is my impression we will see something along the following lines:

● Tax relief in the shape of continuing reducing rates is out.
● On the other hand, the income tax rates of 70 percent and over of the heyday of Afrikaner socialism will not return.
● There will be a variety of wealth taxes — capital gains/transfer tax, land tax, death duties — but these will be more perceptual than seriously revenue producing.
● There may be some decentralisation, but central government will delegate, rather than abrogate, the fiscal policy.

“This picture is not as horrific as we are often led to believe, but the ultimate test for the success of our future tax system will be found in our adherence to the rule of law.”
Tips to keep the taxman at bay

Many income tax payers find the task of filling in the forms daunting. The net result being that they neglect to complete and submit forms. This inevitably leads to either prosecutions by the Receiver of Revenue or fines for late submission.

There are a few basic principles which can make filling in returns more manageable.

The first and most important is to be systematic. Put all the relevant documents in a file when you receive them. The most important of these is the IRPS, form, which are supplied by employers, and which shows the total pay you have received during the financial year and contributions.

If an employer neglects to supply the form in time, report it in writing to the Receiver and ask for an extension. The Receiver will not be unreasonable if it is clear that something is being done about completion of the forms.

Bear in mind that there are two sides to an income tax return. Firstly, the income side and, secondly, allowable deductions.

Make sure you have all the insurance, especially annuity, receipts as well as details of contributions.

Once you have all the relevant documents you need to do some preliminary work before filling in the detail.

Use a pencil and record all your income on the left side of a piece of paper, and make a list of all the amounts you wish to claim on the right side.

If you have been doing part-time work from home, which has produced income, you are entitled to certain deductions, for instance rent for a room or garage, and electricity.

Generally speaking, you are not entitled to claim expenses necessary to produce your normal income, such as transport costs to and from work.

When you have completed your calculations, fill in your tax form. Use a pencil initially, because you may make mistakes which need to be rectified.

An important point to remember is that one should photocopy the completed income tax return form. It will make life so much easier next year, because it would then not be necessary to ask your wife the birth dates of the children, for example.

It will also help you to ensure that no continuing items have been missed which could well cost you money, because it is your responsibility to claim deductions.

If you are unsure of your situation once you have completed the form in pencil you need not spend a lot of money by going to a tax adviser. Simply make an appointment with an official at the Receiver's office. Normally, they are willing to assist.

Finally, remember that the basic underlying requirements for the completion of the return are very simple: your total income earned on the one hand and your claims for deductions on the other. Unless you lead a somewhat complicated life you will find all the guidance necessary in the handy brochure that normally accompanies the form.
VAT knocks cash and carry profit

By CIARAN RYAN

VAT has cost the cash-and-carry wholesale business a fortune. Cashbuild, a building materials supplier, lost 15% of its business overnight when VAT was introduced last October.

Managing director Gerald Haunmant says GST was difficult to enforce among general dealers in rural areas, many of whom gained a price advantage by not charging it to customers.

Mr Haunmant says: “GST was often taken as profit margin which gave rural general dealers a passing advantage over law-abiding town competitors.”

Drought

When VAT was introduced, many rural general dealers added VAT to the old GST which they had used to boost margins.

Mr Haunmant says these price increases were rejected by impoverished rural communities and sales of building materials declined.

“There is a natural resistance in rural communities to price increases because of the drought, rising food prices, and lower remittances from miners.”

The fall in wholesalers’ demand for building materials has also punished manufacturers. They report a 25% drop in sales.

There has been some recovery in Cashbuild revenue because of inflation.

Metro Cash & Carry, which reported a loss of $5 million profit for the 10 months to April after a $32 million loss last year, also found the pinch when VAT replaced GST.

CARLOS DOS SANTOS: merger fears unfounded

Managing director Carlos dos Santos says Metro has picked up business from some smaller wholesalers who avoided charging GST to gain an advantage over competitors.

“It is a bit early to tell what the impact of VAT has been on our business. We closed 31 stores and restructured the group. Comparisons with last year are difficult. But we know that sales would suffer when VAT was introduced.”

Bophuthatswana, where no GST was charged, suffered most from the introduction of VAT. Businesses were forced to raise prices on all but zero-rated items by 10%. SA-based businesses charging the 13% GST were able to increase prices by 3% after VAT.

Food wholesalers in the cash-and-carry market appear to have survived better than those in appliances and building materials. Makro’s sales shot up 46% in the month before the introduction of VAT and fell back 5% when the tax came into force.

Merger

A price comparison of the 20 top-selling items in Metro, representing 80% of turnover, between March 1991 and March 1992 showed an inflation rate of 11.2%. This is well below the March 1992 food price inflation of 28.9%, although Metro does not stock meat, fruit and vegetables.

Mr Dos Santos says the study indicates that margins have not risen as a result of the acquisition of competitor Trader. There were accusations that the merger, which set up the largest food cash-and-carry group in SA would reduce competition and fuel inflation.

Customers are more price-sensitive than they were, says Mr Haunmant. Building materials suppliers are not passing on costs to the degree they did in the past.

Cheaper imports started to hurt monopolies such as Iscor and Plate Glass. Corrugated steel was imported for 20% less than Iscor’s selling price and glass imports were 40% below the SA sales price.

Study

Sales in Cashbuild’s Lesotho stores, which continue to charge 10% GST, were unaffected by VAT. Cash-and-carry chains in Lesotho have complained to the Government about unfair competition from smaller wholesalers who are able to offer discounts because they do not charge GST.

According to sources in Lesotho, the practice continues.

Cashbuild’s internal inflation rate — based on a study of the 90 top-selling items representing two-thirds of turnover — is 8% compared with a year-on-year consumer price index of 15.6%.

This means fixed overheads are rising faster than sales, eating into profit margins. Since the introduction of VAT, turnover is down an average of 9%. 

CARLOS DOS SANTOS, merger fears unfounded
Bursary taxation backdown

Business Times Reporter

In a complete about face, the Government this week reinstated favourable tax treatment for bursaries and scholarships after withdrawing them in 1991 amid an outcry.

Ironically, the amended tax law is more generous than its predecessor. It allows almost anyone either paying or receiving a bursary or scholarship to claim a tax benefit.

The Government gave widespread abuse as the reason for withdrawing the dispensation in 1991.

Price Waterhouse Meyersman tax consultant Pieter Malan says: "Bursary and scholarship schemes must be properly structured to enjoy the benefit."

"The amendment to the Act is welcomed. It will alleviate the extra financial burden on parents as a result of changes to the schooling system."

Any bona fide scholarship or bursary will be exempt from tax if the recipient attends a recognised educational institution, such as a school or college."
A bad time to pick up

Diagonal Street

Four-legged dogs and those with three

SHAKEN BY SHABSHAW

STRICKLY "LILY" CUBS
Tax Bill expected to boost housing

The provision of housing to low-income groups will receive a substantial boost if the Taxation Law Amendment Bill, introduced in the House of Assembly last week, is passed, experts have said.

Non-profit development agencies and community-based trusts would be entitled to exemption from VAT on investment capital and interest, if the Bill were to be approved.

An attorney involved in the development field said the VAT exemption was equivalent to a state subsidy and would provide significant incentives for development companies to redress the national housing shortage.

"The Bill marks a recognition by the fiscus that there is an ongoing need for housing in the lowest-income segment," he said. This was particularly important in a market segment where the private sector did not operate due to the high risk factor. The Bill would be particularly important for the growing number of community-based development agencies and trusts, he said. "The days of 'top-down' development institutions with solely white executives running the show are over."

The exemptions from VAT would allow agencies, which are exposed to high risks, to cut costs and accumulate reserves.

The passage of the Bill could make a substantial impact on the provision of low-cost housing in SA.
US concern over lack of tax treaty

WASHINGTON — Congressman Charles Rangel, author of the now-repealed double taxation rule for US companies in SA which forced the departure of Mobil Corp and other major firms, is fighting to block negotiation of a new tax treaty between the US and SA.

The original treaty was unilaterally abrogated by the 1986 Comprehensive Anti-Apartheid Act.

The absence of a new one, say US corporate officials, remains a serious worry for firms considering investing in SA.

The US Treasury Department has been sounding out the tax-writing House ways and means committee on the possibility of negotiating a new treaty as part of the administration's continuing efforts to remove impediments to investment in SA.

Rangel, a senior member of the panel, wrote to Treasury secretary Nicholas Brady last week that while he believed Pretoria had made "very significant" progress towards the establishment of an interim government, further normalization of US-SA relations should wait until such a government was in place.
Property owners may face bitter pill in future SA's new forms of taxation.

The property industry has been left with little doubt about its future in the South Africa of tomorrow, certainly in regard to the effect of proposed taxes on wealth, land and capital gain.

"A black-dominated government might also be expected to enforce an unprecedented system of equity sharing of business and State ownership. These were the key topics to emerge from the recent South African Property Owners Association (Sapoa) convention at Sun City."

While main speakers were adamant that it was vital to maintain a "hands-off-property" policy, new forms of taxation could well turn out to be a bitter pill for owners.

Dr Zach de Beer, leader of the Democratic Party, certainly gave a strong reminder to a future black government, when he told delegates: "To confiscate property from its owners and give it to other people is not only morally wrong but economically disastrous."

The tax spectre, however, kept looming over the convention, particularly when Pierre du Toit, a partner of Arthur Anderson and Company, forecast a variety of wealth taxes ahead.

He said: "The income tax rates of 70 percent and over of the daydream of Afrikaner socialism will not return. "There will be capital gains and transfer tax, land tax and death duties, but those will be more peremptory than seriously revenue producing. "Other sources like prescribed investments will be revisited but in moderation."

However, Mr du Toit also cautioned the tax planners of the future that the ultimate test for the success of a restructured tax system would be found in adherence to the rule of law.

Benny Alexander, secretary general of the Pan Africanist Congress (PAC), on the other hand, punched home a few truths about black corporate share ownership and envisaged businesses and possibly some existing State enterprises being asked to create a fund to promote and support such a system.

"This could be done by issuing new shares or by reducing the shareholdings of existing shareholders," he said. Mr Alexander.

"The redistributed shares must have voting rights and workers will structure themselves in appropriate form to enable their block stock ownership and stock effective representation in management and decision-making structures."

He also saw businesses, being required, "in liaison with employees", to submit to the State or appropriate agency, human resources development and training programmes to ensure black advancement to senior positions.

Peter Gardiner, a director of Anglo American Property Services (Ampresco), commenting on what he termed "the vulnerability of homeowners" amidst the backdrop of the Bloemfontein squatter debate, said:

"Land expropriation has threatened most major landowners near the city through the threat of, or actual invasion of squatters, linked to total disrespect for private property rights."

He proposed the formation of a Land Court to prove "undue prejudice" and for landowners to receive adequate compensation.

Mr Gardiner also noted that property owners could come under pressure next year.

He said: "While we might think that rentals are keeping pace with inflation, nothing could be further from the truth. "I expect rents to rise slightly in the popular locations which have low vacancies such as Rosebank, Parktown and Randburg but in other areas they will do well to remain steady and one may see a further drop of up to five percent."

"Should the major property owners decide to cut their losses and try to attract tenants, even greater falls could be experienced."

Mr Harris also said it was time the industry appreciated that we could not keep on developing the void and that we had to look to maximise the returns on our existing resources and preserve urban and rural environments.

Ultimately, market forces could well turn off the seemingly endless supply of unlet office developments.
(1) WHO IS THE DEFENCE FORCE AND HOW IS IT ORGANISED?

The Defence Force is the military organisation responsible for the protection of New Zealand. It consists of the New Zealand Army, Navy, and Air Force.

(2) WHERE IS THE COMBINED OFFICE AND THE HEADQUARTERS?

The combined office and headquarters are located in Auckland.

(3) WHAT ARE THE ROLES AND RESPONSIBILITIES OF THE DEFENCE FORCE?

The roles and responsibilities of the Defence Force include preparing for, responding to, and recovering from emergencies and disasters, and providing defence services to New Zealand and its interests overseas.

(4) WHO IS THE MINISTER OF DEFENCE?

The current Minister of Defence is Hon. Andrew Little.

(5) WHAT IS THE MINISTRY OF DEFENCE?

The Ministry of Defence is the government department responsible for the administration of the Defence Force.

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SA's middle class highest taxed in

world
Keys will consider tax cut in 1993

SOUTH AFRICANS did not pay low taxes and an option to lower personal tax would be presented for consideration when next year's Budget was discussed, Minister of Finance Mr Derek Keys said.

Replying to a question by Mr Andrew Gerber (CP Brits), he said it was still too early to say whether lower income tax would be introduced in the 1993/94 Budget. © Sapa.
Drop VAT on medicine - DP

SPEAKING on the Taxation Laws Amendment Bill, Mr Geoff Engel (DP Berwaadnhae) said the government was showing insensitivity "during the worst recession in South Africa's history" by not zero-rating medicines and health care for VAT.

It should do so on the grounds of human compassion and decency, he said. — Sapa.
Mixed benefits for taxpayers

GERALD REILLY

PRETORIA — SA taxpayers are getting richer — at least in nominal terms — but they are paying more taxes, Inland Revenue's latest figures indicate.

Although the number of big earners rose sharply in the past few years, fiscal drag enhanced the amount of tax paid and, for some taxpayers, reduced net income despite bigger earnings.

In 1989 the number of taxpayers earning more than R250,000 totalled 3,671 or 0.165% of the 2,327,000 taxpayers.

Last year the number of big earners soared to 6,005 or 0.45% of all taxpayers.

They paid R986.7m, up to 7.25% of the amount collected.

The figures also reflect higher pay levels for low-paid workers.

Last year there were 202,043 taxpayers (304,361 in 1989) in the category up to R5,000.

They paid R3,326m (R4,598m), or 0.26% of the total (0.31%). However, the taxpayers in the R50,000 to R99,999 bracket paid most in both years.

Last year there were 151,272 people in this bracket (93,176 in 1989).

They paid R2,013bn (R1,395bn) or 14.5% of the total (11.4%).

The second biggest group of taxpayers was in the R50,000 to R79,999 bracket.

In 1991 there were 96,306 taxpayers at this level (59,501) who paid R1.659bn or 12.5% of the total (7.7%).
Thursday, June 18 1992

Keys to look at lowering taxes

CAPE TOWN — South Africans did not pay low taxes and an option to lower personal tax would be presented for consideration when next year’s budget was discussed, Finance Minister Derek Keys said yesterday.

SAPA reports that, replying to a question by Andrew Gerber (CP Brits), he said it was still too early to say whether lower income tax would be introduced in the 1993/94 budget.

He also denied he had said South Africans were highly taxed.

BILLY PADDOCK reports DP tax expert Brian Goodall said yesterday government was continuing its assault on the individual taxpayer and was dedicated to eliminating the middle class, which was paying 79% of the total personal income tax.

Speaking in the debate on the Income Tax Bill, he said individuals were expected to account for 42% of the total ordinary revenue collected, whereas in 1989 individuals accounted for 26%. “A rise of 26% in the amount of tax collected from individuals last year is projected to be followed by a 22% rise this year — rises which are way ahead of even SA’s high inflation rate.”

Goodall said that a married man who earned R69 000 in 1985, would have paid about 20% of his income in tax.

If his income had merely kept pace with inflation, it would have been up to R188 800. However, instead of paying 20% of his income in tax, he would be paying nearly 30%.

“If one looks at the figures for 1989/90, one notes that 79% of our personal income tax collected came from those earning between R20 000-R30 000 a year. They totalled less than 900 000 taxpayers,” he said.

The income group R45 000-R50 000, less than 250 000 people, paid 30% of all personal income tax, he said.

“The Finance Minister should not only be concerned with the lack of rich people in SA, he should be equally concerned about the systematic impoverishment of the middle class by the economic and tax policies of the NP,”

He said the relatively small band of people, paying so much in tax, got little for their money, as the IMF had pointed out. This was the crux of the individual tax issue.

The IMF had estimated that on average white South Africans paid 32% of their income in tax. This was not high compared to developed countries, where the average for industrialized nations was 33.05%. But if compared with the countries SA should really be compared with, the developing nations, the picture was very different. In Singapore the comparative figure was 13.45% and in Argentina 20.28%.

The individual’s net tax burden had been worked out by the IMF, and for SA as a whole it was 10.64% compared with a world average of 9.98% and an average of 10.83% for the industrialised world.

“For white South Africans, the figure is 23.31%. This should be compared with 11.06% for Canada, 7.76% for France, 14.67% for the UK and 9.78% for the US. For Singapore, the figure was 5.44%, and for Argentina, 6.23%.”

The IMF had proved that the middle class in SA was the most heavily taxed in the world.

Goodall attacked the amendments in the Income Tax Bill as schizophrenic.

A number of changes had been made with regard to the allocation of income between husband and wife married in community of property, and these were to be welcomed as they reduced the tax liability.

But if couples were married by antenuptial contract, they had the full force of the Act thrown at them.
Inland Revenue homes in on retirement annuities

CAPE TOWN — inland Revenue has taken steps to stamp out avoidance of SITE payments on retirement annuities by making them subject to PAYE, despite the objections of the Life Offices' Association (LOA).

In terms of an amendment to the Fourth Schedule to the Income Tax Act, contained in the Income Tax Bill tabled in Parliament, annuities will be subject to PAYE from March 1 1993. Thereafter, tax returns providing information on all annuity income will have to be submitted to the revenue authorities.

Inland Revenue's Ian Meklejohn said a significant reduction and even the total elimination of a SITE liability on retirement annuity income could be achieved by taking out several retirement annuities with different life insurers.

This would mean that the income from any one policy would fall below the minimum SITE threshold of about R12 000 for people under 65 years, and about R22 000 for those over 65 years in those cases where annuities or pensions were the sole source of income.

Meklejohn said this method of reducing tax liability had been widely propounded and it was necessary to take steps to prevent it as the life industry could not come up with a way to control the practice.

But LOA policyholders taxation committee convener and Old Mutual legal services manager Abri Meiring said yesterday the abuse of the system was not widespread and did not justify the huge expense which life offices would have to bear in switching their systems from SITE back to PAYE. Also, Meiring said, the difference in tax treatment of pensions, which were subject to SITE, and annuities was not healthy.
THE MINISTER OF FINANCE

BY ORDER

[Signature]

[Stamp]

[Date: 19 December 1999]

THE MINISTER OF LAW AND ORDER

BY ORDER

[Signature]

[Stamp]

[Date: 19 December 1999]
Persverklaring
deur die

Adjunkminister van Finansies
Dr. T. G. Alant

Voorgesteelde Wysigings aan die Inkomstbelieastingwet

Aandag word gevestig op die onderstaande twee belangrike wysigings wat in die Inkomstbelieastingwetsontwerp, 1992, wat vandag ter tafel gelê is, voorgestel word.

Studiebeurse

As gevolg van wydverspreide misbruik in verband met studiebeurse, veral in gevalle waar lopende salaris of die reg op toekomstige salaris, in belastingvrye beurse omskep is, is die ruim vrystellings van studiebeurse wat voorheen in die Inkomstbelieastingwet vervat is, verlede jaar geskrap. Vertoë is sedertdien ontvang onder meer van maatskappye wat in die verlede opregte beurskamers, veral met betrekking tot hul lae-besoldigde werknemers, bedryf het, vir die herinstelling van 'n mate van verligting.

Klousule 10 (1) (p) van die Wetsontwerp voeg 'n nuwe vrystelling ten opsigte van bona fide-studiebeurse in. Waar die studiebeurs egter aan 'n werknemer of familiedi van 'n werknemer (byvoorbeeld die werknemer se kind) as gevolg van dienste gelêer toegestaan word, is die vrystelling aan sekere voorwaardes onderworf.

Ten eerste, moet die studiebeurs nie toegestaan word in die plek van salaris waarop die werknemer andersins geregtig sou gewees het nie. Daarbenewens, waar die studiebeurs ten gunste van 'n familiedi van...
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REVIEW

Azar Jamning

Business concentration stifles economy

Recently, the concentration of economic power has been a topic of much discussion in the media. It is often argued that a concentration of economic power can lead to a lack of competition, which in turn can stifle innovation and economic growth. This is evident in the technology sector, where a small number of companies dominate the market.

However, it is important to note that economic concentration can also be beneficial. For example, economies of scale can lead to lower costs, which can be passed on to consumers. In addition, concentration can lead to increased efficiency and innovation. It is therefore important to strike a balance between competition and concentration.

In conclusion, while economic concentration can have both positive and negative effects, it is important to monitor it closely to ensure that it does not stifle economic growth. Policies that promote competition while allowing for the benefits of concentration should be considered.
Deferred compensation, particularly where it is introduced as a benefit for proprietors of small businesses, is fraught with tax pitfalls. In Sanlam’s publication Ex Lege, legal researcher Emile Wessels analyses why the Natal Special Court ruled in favour of Inland Revenue, and against the appellant company, in the case of a deferred compensation policy. These are almost routine in small firms.

Refusal to allow a section 11(a) deduction in case ITC 1306 — for the payment of a gratuity to the majority shareholder — has grave tax consequences, Wessels says. A result could be that the same money is taxed three times:

- The policy would not have been held in the assurer’s untaxed portfolio;
- The full proceeds would be included in the company’s gross income, without a corresponding deduction; and
- The gratuity would be included in the employee’s gross income, subject to possible exemptions.

Deferred compensation is usually offered as an inducement to key staff to remain with a company. Covered by a suitably drawn service contract, the policies create a tax-efficient retirement sweeter. The ground explored in ITC 1306 is the reason why such a policy is taken out: and, for example, whether the ultimate beneficiary would really have been lost to the company had the policy not existed. It comes down to the well-established principle that deductions made by a company for purposes of tax must be expenditure made in the production of income.

In this case, the beneficiary was the founder and 60% shareholder in a used car dealership. The remaining shares were held by his son. Four years before the proprietor’s retirement, the company passed the necessary resolution to implement a deferred compensation scheme and entered a standard deferred compensation service contract. When retirement took place, the company paid the gratuity and sought to deduct it from its income. This was disallowed.

Wessels says: “The court decided the real purpose of the expenditure was not to produce income but rather to better (the proprietor’s) retirement benefits. The distinctions may sound subtle, as in many cases expenditure to better the retirement benefits of employees would be incurred in the production of income. Conceptually, at least, the distinction can be drawn. The court decided the taxpayer did not really hope to motivate the employee, or induce him to stay on.”

So, says Wessels, a statement in a service contract that an employer wishes to retain an employee’s services, may no longer be enough. “If the true purpose of the scheme is to produce income, by motivating employees, one must try to accumulate evidence that shows this to be the case. It might be useful,” he adds, “to keep letters from employees threatening to resign because they can receive better service benefits elsewhere, or the minutes of a board meeting where a director has said he is thinking of retirement and then changed his mind after being offered deferred compensation.”

Wessels concludes that deferred compensation agreements can be dangerous in one-man businesses and that financial advisers should warn their clients of the risks, then pass the decision to the client.
Higher taxes

If black municipalities are combined with Vanderbijlpark, each white ratepayer will pay an additional R406 a month because "tax collection in black towns is traditionally ineffective", says the management committee chairman.

Gerrit Smith said, however, no rates and taxes increases were envisaged for the new year. - Sapa
Tax respite for business trusts

Beneficiaries of business trusts can heave a sigh of relief... at least until next year. Basil Wunsch, of Johannesburg attorneys Edward Nathan and Friedland Inc., says it is unlikely that any attempt will be made to tax business trusts until 1993 at the earliest.

Wunsch, well known in the trust-law field, has been monitoring the situation since the Budget announcement that special provision would be made for the taxation of such trusts.

The Government expected additional tax revenue of R5 million a year from this source. But the Income Tax Bill, now tabled in Parliament, makes no special provision for business trusts. (320)

Said Wunsch: "I have it on the authority of a senior Inland Revenue official that this item has been deferred. One can only speculate that the deferral is due to the difficulty in adequately defining a business trust.

"There has to be differentiation between it and testamentary and inter vivos trusts in general - some of which earn income from the letting of property."

"The intention is to tax business trusts in the same way as companies. There is no reason to suppose that the Government has shifted its intention."
Shot in arm for

The Receiver of Revenue has done an about-turn on the vexed issue of tax exemption for bursaries and scholarships. In terms of the amendments to the Income Tax Act Bill, passed in Parliament on Thursday, the Receiver will once again allow bursaries and scholarships as a tax exemption.

When the Receiver announced his decision to abolish the tax exemption on bursaries and scholarships, he cited widespread abuse of the system.


Obliged

In the first scenario, where a person (other than an employee or his relatives) receives a bona fide bursary from a company or institution for the purpose of his studies, he will not be taxed on the receipt. For example, a bursary awarded to a full-time university student. It is of no relevance that the student might be obliged to work for the company on completion of studies or during vacations.

THUMBS-UP: Students will be relieved at the news that came out of Parliament this week.

AFTER a huge public outcry, bursaries and scholarships will now be exempted from tax, considerably boosting much-needed education and training in South Africa. LEIGH HASSALL reports.

In the second scenario, an employee might be awarded a bursary from his employer to enable him to, say, complete his commerce degree. In this instance, the bursary will be exempt from tax only if it was granted as a bona fide bursary and where there is no associated reduction or forfeiture in his current or future remuneration. In other words, if the bursary was granted on a salary sacrifice basis, say as a portion of his monthly salary, the amount would be taxable in the hands of the employee.

The third scenario covers those bursaries granted by the employer to a relative — in most cases the children — of an employee.

In this case, the amendment considerably limits the scope of the exemption. The bursary will be tax exempt only if the employee’s remuneration is less than R36 000 a year. In addition, the exemption will be limited to the first R1 500 of the bursary to each relative of the employee.

Once again, if the bursary was granted on a salary sacrifice basis, the exemption will fall away.

This provision effectively wipes out the practice where the employer would pay the school’s fee obligations of its employee and reduce his tax-able salary accordingly.

The amendment also brought in a new section which will disallow the tax deduction to the employer granting the bursary if it was given on a salary sacrifice basis.

The Act does not state which educational or research institutions are allowable. However, it is generally taken to include universities, technikons, and primary and secondary schools.

Overall, the amendment considerably widens the old legislation which taxed the bursaries under the employer/employee scenario and limited the tax exemption to bursaries received by the general public.

In the business world it is common practice for an employer to extend a study loan to an employee with the proviso that the loan will be granted as a bursary only if the employee passes the related examinations. In this instance it is more likely that the loan will be treated as a tax-free bursary.

Abuse

Tax manager at Ernst & Young, Mzamo Nxumalo, welcomes the amendment but comments on its narrow scope.

The limitation on the qualifying income level at R36 000 and the R1 500 limit on the bursary amount is presumably aimed at countering the supposed abuse of the old provisions.

"However, the low limits are unreasonable when compared to the high cost of education. It would have been more appropriate if the salary level was R72 000 and the bursary amount R10 000 a year," says Nxumalo.
In for higher education

ON: The Reception does an about-turn on bursaries and scholarships

VAT a tantalising clue in inflation riddle

By Simon Wilson

THE WEEK AHEAD

BUSINESS DAY, Monday, June 22, 1992
ZERO-COUPON STOCK

Zero sum

The second issue of zero-coupon stock in SA is due to go ahead when Eskom puts out tenders on Monday. No details are known other than that the stock will mature in 2002. This follows the Department of Finance's less-than-successful issue of RSA zero-coupon stock last week. Applications received totalled R625m but most were below the minimum prices set. Only R130m was allotted — R50m of the five-year stock at a minimum price of R50,812.5 and R80m of the seven-year stock with a minimum price of R37,512.5.

A number of reasons have been touted for the issue's failure. The minimum price bands at which the stock was tendered were seen as too high, giving an unattractive effective yield of 14,01% per annum on the five-year stock and 14,51% on the seven-year stock.

Simpson McKie gilts trader Marilyn Visser says a perceived lack of commitment to secondary trading in the instrument may also have deterred investors.

"Marketability is an extremely important criterion for a volatile instrument such as the zero-coupon bond. Holders who anticipate interest rates going against them must feel secure that they can dispose of the stock," she says. And investors were only given a few days to analyse and respond to the tender.

Meanwhile, the tax treatment of the stock is causing confusion. According to Hennie Smit of Inland Revenue, any increase in the value of the stock will not be taxable on an annual basis, as there is no annual accrual or receipt of interest. However, the holder will be liable for income tax at redemption: "The holder's intention is quite clearly to make a profit, so we regard that as income and not capital."

But Johan Brink, director at attorneys Bowman Gilfillan, says Revenue is unlikely to succeed in terms of current tax law. "By definition, zero-coupon stock is issued at a discount to par, with no interest payments or accruals during the life of the stock, but is redeemable at a premium. Any gain on redemption should be in lieu of capital risk, of a capital nature and not subject to income tax."

Revenue might seek to impose income tax by applying the deemed accrual provi-
Guidelines for valuing trading stock emerged from recent discussions with a representative of the Commissioner for Inland Revenue's office, says KPMG Atken & Peat tax partner Ed Hoffman.

Revenue is relying on a decision of the Cape Income Tax Special Court (Economy August 23) which shattered long-standing preconceptions about the degree of flexibility allowed to taxpayers in writing down stock value. The court held that amounts written off stock must be commercially justifiable when the accounts are written up.

Now Revenue is imposing more exacting stock valuation requirements, arguing that it can exercise its discretion only on the reasonableness of stock valuation policies on the basis of full disclosure.

Taxpayers who submit returns based on blanket formulas such as "the lower of cost (on a fifo basis) or net realisable value" not only run the risk of disallowance of all or part of the amounts claimed but even the imposition of triple tax as the penalty for nondisclosure.

Taxpayers should make a detailed disclosure of policies for writing down obsolete, redundant or slow-moving stock. Then the worst that can happen is partial or total disallowance.

An important requirement is a "reasonable classification" of stock into main categories. The policies for obsolescence and redundancy must be given for each category, based on "reasonable current-day economic circumstances." For example, the taxpayer must justify percentage writedowns. Reasons could include market circumstances, changes in fashion or technological advances.

Having followed a particular policy over the past few years would not help the taxpayer. Nor would it benefit by arguing that he follows the policy of other taxpayers in the same industry. Revenue is concerned only with the reasonableness of the policies followed by a specific taxpayer at a specific time.
A long-standing thorn in the taxpayer's flesh is at last being removed. It is the requirement that a deduction for an expenditure (including a loss) cannot be allowed if the outlay was not "wholly or exclusively for the purposes of trade."
The requirement — set out in section 23(g) of the Income Tax Act — was introduced to prevent the deduction of private expenditure.
Price Waterhouse Meyernel managing tax consultant Gerhard du Plooy says an amendment to section 23(g), included in the Income Tax Amendment Bill, relaxes the requirement. If expenditure is for a dual purpose, the outlay may be divided into deductible and non-deductible portions. An example is overseas travel.
The existing requirement has had important implications for corporate groups. In the recent decision of the Appellate Division of the Supreme Court (the Solaglass Finance case), a deduction for a loss on intra-group lending operations was refused on the grounds that there were two purposes where a group finance company made loans to a fellow subsidiary. One was to make a profit for itself, the second was to benefit the group as a whole. Hence, held the court, the money was not laid out wholly or exclusively for the purposes of trade.

The court in the Solaglass case also rejected earlier efforts by the courts to mitigate the harshness of section 23(g) by introducing distinctions between motive and purpose and between object and effect. The distinctions, according to the Solaglass decision, were too vague to be of help. The decision made it difficult ever to claim a deduction in the case of an intra-group transaction. It has probably been the outcry which followed the Solaglass decision that induced government to frame the amendment.
Du Plooy says, however, there will be cases where apportionment will be difficult. But there are many good precedents in tax law, where expenditure was incurred:
☐ In the production of income both from sources in the Republic (taxable) and from foreign sources (non-taxable);
☐ Partly for the purposes of earning income subject to tax and partly for exempt income; and
☐ Both to derive income and to acquire a fixed capital asset.

In making an apportionment, says Du Plooy, the court will consider what would be fair and reasonable in the circumstances. This rule will in future be applied to expenditure in dual-purpose transactions.
Many of the 38 000 taxpayers who entered into movie-making en commandite partnerships between 1985 and 1989 have still not been assessed. Commissioner for Inland Revenue, Hannes Hattingh, puts the number at about 5 000.

Until 1985, Revenue rulings were issued, in terms of which costs incurred by taxpayers in the production of films could be written off over three years. In addition, the Tax Act's export allowance meant that between 175% and 200% of the costs of marketing and distributing the film abroad could be claimed as deductions. Not surprisingly, the number of taxpayers who entered into filmmaking partnerships was substantial.

Apparently, some taxpayers abused the system (by overstating marketing costs or bringing foreign-made movies into SA where they received minimal editing); and Revenue clamped down by amending the tax law. Parliament enacted section 24F to prescribe, among other things, that 75% of production costs had to be incurred in SA and that total deductions would be limited to the amount of the investor's risk in the venture.

Though the amendment curtailed the tax benefits, it also signalled Revenue's statutory sanction of film schemes and provided certainty about the requirements for being allowed the tax deductions. Or so the new participants thought. Yet, one of the few taxpayers who'd been assessed found the commissioner had disregarded a specific ruling, which emanated from his office, disallowing the promised tax breaks. The taxpayer objected, unsuccessfully, and then took the matter to the Special Income Tax court. The hearing was to have been in March this year.

ECONOMY & FINANCE

but it was postponed to October.

The case (known as the Jake Speed case, after the name of the movie) is a pre-section 24F film and is widely viewed as a test case. Attorney Fiona Walker, whose firm — Hofmeyr van der Merwe — is representing the taxpayer in the test case, expects the proceedings to be protracted. Though many other film schemes did not receive specific rulings (as Jake Speed did) from Revenue in advance, most were structured along almost identical lines. Failure of the test case would be equally bad news to other taxpayers.

Hattingh says that he does not necessarily view Jake Speed as a test case because each scheme has to be examined on its own facts. Referring to the special division in the Johannesburg Revenue office that is investigating film schemes, he said it has already examined 70 and assessments will be issued early in July. He stresses that the delays are because each case has to receive individual attention.

But none of this addresses the real questions:

☐ If taxpayers are not being assessed for years stretching back as far as 1985, how are they reasonably supposed to calculate their provisional tax payments?

☐ Will they be penalised for underpayments that are not their own fault? (The commissioner's official response was that if he is satisfied that the taxpayers claimed the disallowed deductions on reasonable grounds, "interest on provisional tax shall be waived." The discretion, of course, is his.)

☐ Shouldn't Revenue, which is quick to insist on timely performance from the taxpayer, be subject to the same rules?

☐ How are the tax authorities able to legislate allowances, then unilaterally withdraw them and remain unaccountable? (Hattingh says that he is accountable: taxpayers have the right of objection and appeal. While this may be perfectly true, it is also expensive.) and

☐ Should tax collectors not confine themselves to the job of collection and leave the protection of the tax base to others?

It would seem that impartiality and tax morality are no less illusory than anything the film industry has to offer.
No progress in Vat talks

NO progress was made on VAT and food prices this week in talks between Finance Minister Derek Keys and the Co-ordinating Committee on VAT (VCC).

The VCC accused the Minister of having not "really applied his mind to preparing for the meeting". At the meeting, the VCC restated that VAT should not be charged on all basic foods.

The VCC said Keys was only prepared to discuss the possibility of confirming the existing zero ratings and the possibility of extending the zero rating to one or two other foods, but only if this would lead to the issue being closed.
VAT meeting: ‘No progress’

JOHANNESBURG. — The Vat Co-ordinating Committee said at the weekend it had made no progress in talks with Finance Minister Mr Derek Keys over Value Added Tax and rising food prices.

The VCC, in a statement, called on the minister "to take more seriously the immediate needs of the majority of South Africans" and to accept that his policies needed to be more "multi-dimensional".

"The VCC delegation felt the minister had not really applied his mind in preparing for the meeting."

Finance spokesman could not be reached for comment. After the meeting a spokesman said it was unlikely the minister would issue a statement. — Sapa
The government has decided to implement a policy that will increase the consumption of food products. In the coming months, the VAT (Value Added Tax) will be increased, and the government will use the revenue generated to fund various social programs. This move is expected to boost the economy and create jobs. However, it also poses challenges for the food industry, which relies heavily on VAT revenue. The industry leaders are concerned about the potential impact on their businesses and are seeking ways to mitigate the effects. The VAT Committee is calling for a meeting to discuss strategies to address this issue.
Only a third of taxpayers submit returns

PRETORIA — Only a third of the 646,000 taxpayers who needed to submit returns had done so at the expiry yesterday of the extended deadline, Inland Revenue director Des Goosen said. (26)

However, the big stick would not be wielded yet, he said. (26)

Goosen said the number of companies issued with return forms totalled 364,000, but most had different deadlines to accommodate differing financial year dates.

Provisional taxpayers totalled 200,500. Site taxpayers, not obliged to submit returns, totalled about 3-million. (26)

About 70,000 defaulters had failed to submit their 1991 returns. Efforts to trace them were being intensified. (26)

About R42bn was collected in income tax, including company and mining taxation for the 1990/91 financial year. About R29.5bn of it was from individuals. (26)
Cosatu urges workers on tax

THE Congress of South African Trade Unions has urged workers to demand that employers deposit their monthly salary taxes into a fund to be established by the federation next month.

And Cosatu has declared August 3 this year as the day when a general strike of “unprecedented proportions will begin”.

These decisions are some of the many resolutions taken during a one-day conference of Cosatu affiliated trade unions held at the University of the Witwatersrand on Tuesday.

About 200 delegates from Cosatu national and regional areas including members of the National Executive Committee, met to review “our approach to political and economic negotiations and to decide on a programme of action”.

The African National Congress has chosen July 20 this year as the day for a one-day general strike as part of its mass action campaign.

Addressing a press conference in Johannesburg yesterday, Cosatu's general secretary, Mr Jay Naidoo said: “The conference decided to implement our congress decision on non-payment of Pay As You Earn.

“It was agreed that as from August workers should demand that the PAYE be paid into a Fund for a Democratic South Africa which will be reserved for use when a new government is in place.”

Naidoo said the conference also demanded that, before parties return to the negotiating table, the Government must agree on an election for a sovereign Constituent Assembly by December on a united voters roll.
A blow has been struck at an ingenious method of avoiding tax. Until now, annuities paid by a retirement annuity fund have been

SITE taxed. So taxpayers, without other sources of income, have not had to submit a return showing aggregate income.

By splitting their total annuity between different life offices, they have kept income from each annuity within the SITE ceiling of R50 000 and avoided paying at the higher rate which would apply to aggregate income.

The latest Income Tax Amendment Bill, if passed, will bring the definition of net remuneration into the PAYE system, says Fisher Hoffman Stride tax partner Anthony Chait. It should apply from March 1, effectively the 1994 tax year.

The loophole was created because the RA funds have not been able to conform with the statutory requirement that they add all the annuities to determine whether SITE applied or not — even where the different annuity contracts were taken out with the same life office.

The benefits from splitting annuity income in this way were often considerable. For example, a policyholder entitled to annuities totalling R200 000 a year could have bought four contracts of R50 000 each. A married man aged 60 with no children (and no other taxable income), at 1993 tax rates, would have paid R39 905 on the SITE basis (four times the SITE of R9 975 on each annuity of R50 000). This is an average rate of almost 20%.

Under PAYE, he will pay R74 075 on the aggregate annuities of R200 000 — a rate of about 37%. The elimination of the loophole will impose an additional tax of R34 175.

The move will not be popular with the life assurance industry, Abri Meiring, convener of the LOA policyholders' taxation committee and legal services manager for Old Mutual, was recently quoted as saying that abuse of the system was not widespread.
Fintech saves for the taxing years

Fintech shareholders may have lost out on substantially higher dividends in the past two years because of the group's tax accounting policy.

This emerges from an analysis of the past two annual reports in which auditors have qualified their audit opinion.

The latest report, which reached shareholders recently, reveals Fintech continues using a tax equalisation account. Had this not been the case, the auditors’ say, earnings per share would have increased by 35.4 cents in 1992 and 23.7 cents in 1991.

The use of a tax equalisation account is contrary to generally accepted accounting practice. However, Fintech's financial director, Bruce Laing, says other major South African groups have used the tax equalisation accounting practice.

In the last two financial years, the group has knocked a tax expense of R6.1 million off its attributable earnings. This tax charge will never be paid by the group however, as it has considerable estimated tax assessed losses from which to set-off taxable income.

The 1992 annual report says the estimated tax losses were R70 million in 1991 and R48 million in 1992. Effectively, the group will not pay tax until its cumulative taxable profits equals the estimated tax losses.

Full disclosure has been made by Fintech of the effect of the tax equalisation provision in both annual reports.

The 1992 report states that the net impact after outside shareholders is to reduce income by R4.12 million in 1992 and R2.66 million in 1991. The earnings per share (which has been calculated on a fully diluted basis) would have been 207.3 cents in 1992 and 140.7 cents in 1991.

The group says in its accounting policy note that the tax equalisation account will minimise the potential future distortions in attributable earnings as a result of the progressive utilisation of the estimated tax losses.

However it may also be argued that the use of the tax equalisation account may be detrimental to shareholders passing them to receive a dividend based on the lower earnings per share.

The 1992 dividend cover was 4.3 times on the fully-diluted earnings per share, had the ratio been applied to the enlarged earnings per share the dividend payout would have been 40.21 cents per share instead of the actual 40 cents paid out in 1992.

In 1991, applying the same approach, the dividend per share would have been 26.12 cents instead of the 20 cents paid out. This represents an increase of 21 percent and 31 percent respectively.

David Redshaw, executive chairman, agrees that shareholders have received lower dividends, but says: “Shareholders will receive higher dividends in the future when the tax equalisation provision is ploughed back against actual taxable income”.

“It will benefit shareholders in the long-term as it will provide a constant level of earnings,” he adds.

Mr Redshaw estimates the tax equalisation account will continue to be employed in the next two years.

It appears that Fintech shareholders should hold on to their shares to reap the promise of higher future dividends.
DEAPARTEMENT VAN LANDBOUW
No. 1839 3 Julie 1992
PLANTVERBETERINGSWET, 1976 (Wet No. 53 van 1976)
BENAMINGS VAN VARIèTEITSTE WAT IN DIE
VARIèTEITLYS AANGETKEN IS

Dit word hiermee bekendgemaak dat die benamings van die variëteite wat in die Bylae hiervan aangedui is, ingevolge artikel 15 van die Plantverbeteringswet, 1976 (Wet No. 53 van 1976), in die variëteitlys aangeteken is.

M. S. JOUBERT,
namens Registrateur van Plantverbetering.

BYLAE
AARBEIE
Fragaria ananassa Duch: Aarbeel
*79-35 82-90 Parfaita Seleka
*80-71 82-98 Rolinda Tiobelle
*80-76 82-183 Rolissa Tioga

DEAPARTEMENT VAN NASIONALE
OPOEDING
No. 1807 3 Julie 1992
WET OP NASIONALE GEDENKWAARDIGHEDE, No. 28 van 1969
INSKRYWING VAN BEWARENSWAADEGOE ONROERENDE GOED

Kragtens artikel 5 (1) (cc) van die Wet op Nationale Gedenkwaardigheid, 1969 (Wet No. 28 van 1969), maak die Raad vir Nasionale Gedenkwaardigheid hierby in die amptelike register 'n inskrywing van die onroerende goed in die bylae hiervan volledig beskryf en wat die Raad as bewarenswaardig ag vanweë die historiese, kulturele of estetiese belang daarvan.

BYLAE
Die oorspronklike tronkgebou, geleë op Kluitjeskraal Bosboustasie, plaas 224, Tulbagh.
G. S. HOFMEYR,
Direkteur: Raad vir Nasionale Gedenkwaardigheid

DEAPARTEMENT VAN STAATSBESTEDING
No. 1853 3 Julie 1992
Staat van Inkomste ingevorder gedurende die tydperk 1 April 1992 tot 31 Mei 1992.
Tosounie, Pretoria.

DEPARTMENT OF AGRICULTURE
No. 1839 3 July 1992
PLANT IMPROVEMENT ACT, 1976
(ACT No. 53 OF 1976)
DENOMINATIONS OF VARIETIES ENTERED IN THE VARIETY LIST

It is hereby notified that the denominations of the varieties set out in the Schedule hereto, have, in terms of section 15 of the Plant Improvement Act, 1976 (Act No. 53 of 1976), been entered in the variety list.

M. S. JOUBERT,
for Registrar of Plant Improvement.

SCHEDULE
STRAWBERRIES
Fragaria ananassa Duch: Strawberry
*79-35 82-90 Parfaita Seleka
*80-71 82-98 Rolinda Tiobelle
*80-76 82-183 Rolissa Tioga

DEPARTMENT OF NATIONAL
EDUCATION
No. 1807 3 July 1992
NATIONAL MONUMENTS ACT,
No. 28 OF 1969
REGISTRATION OF CONSERVATION-WORTHY IMMOVABLE PROPERTY

In terms of section 5 (1) (cc) of the National Monuments Act, 1969 (Act No. 28 of 1969), the National Monuments Council hereby makes an entry in the official register of the immovable property fully described in the Schedule hereto and which the Council regards as worthy of conservation on account of its historical, cultural or aesthetic interest.

SCHEDULE
The original prison building, situated on Kluitjeskraal Forest Station, Farm 224, Tulbagh.
G. S. HOFMEYR,

DEPARTMENT OF STATE EXPENDITURE
No. 1853 3 July 1992
Statement of Revenue collected during the period 1 April 1992 to 31 May 1992.
Treasury, Pretoria.

<table>
<thead>
<tr>
<th>Inkomstenhoof</th>
<th>Maandel. Mei</th>
<th>Month of May</th>
<th>Totaal 1 April tot 31 Mei</th>
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<th>State Revenue Account</th>
<th>Maandel. Mei</th>
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<th>Total 1 April to 31 May</th>
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<td>1 503 322 020</td>
<td>22 330 411</td>
<td>3 110 707 338</td>
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<td>2 262 681 570</td>
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<td>Rand Mei Month of May</td>
<td>Rand Mei Month of May</td>
<td>Rand Mei Month of May</td>
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<td>R</td>
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<td>Inlandse belasting</td>
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<td>265,196</td>
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<td><strong>Rekening met opgaaf gesegregeer de</strong></td>
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<td>Goewerneerskap</td>
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<td><strong>Groottotaal</strong></td>
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The need for certainty in taxation

The amendment of directors' PAYE rules and the confusion over the related 'labour brokers' taxation.

The accurate, but unhappily phrased, statement on non-resident's liability for tax on interest.

All of these reflect a Department of Finance out of touch with, or careless of, commercial realities.

We fully appreciate the concern that the Department must have from time to time when the commercial world makes use of the taxation laws to reduce its burden in a manner which resembles a feeding frenzy. There is a legitimate need to be plugged; but counter-balancing that need is the damage that sudden changes in tax law do to the principle of certainty, and to Revenue's legitimacy, in the eyes of businesses.

In addition, as South Africa enters the transitional phase to a new representative form of government, we need to uphold the best possible principles of law-making. A new South African government removing industrial incentives without warning, in order to promote employment at the expense of mechanisation, could hardly be blamed.

We, therefore, call on the Department of Finance and the new Minister of Finance and Commissioner for Island Revenue in particular, to resist the temptation to announce ad hoc changes to the law throughout the year, and when changes are announced on an annual basis, to ensure that their commercial and political consequences have been carefully thought through and will not shortly be reversed.

Retirement products offer flexibility

Syfrets and UAL have unveiled two retirement products that break new ground in terms of flexibility, taxation and the nature of the underlying investments.

They are the latest in a series of financial innovations by the two financial institutions since they combined their expertise in the field of investment products in November 1991.

The new products are the Equity-Linked Retirement Annuity and the Equity-Linked Life Annuity.

"These are the first annuities that are fully based on unit trusts and represent a serious alternative to existing retirement products available from life institutions," says Kevin Hinton, Syfrets unit trusts marketing manager.

The Equity-Linked Retirement Annuity allows the investor to contribute monthly, annually or in a lump sum to a range of unit trusts.

These can be any one, or all, of UAL's unit trusts or the Syfrets Growth Fund.

Tax efficiency results from the use of an annuity, while flexibility results from the investor being able to switch between the different unit trusts to maximise return. Minimum monthly contributions are R100, and the annual and minimum lump sum investment is R1 000.

The Equity-Linked Life Annuity, which is underwritten by life assurance Crusader Life, is a growth annuity linked to the performance of UAL and Syfrets unit trusts.

The annuitant (the person holding the annuity) is not only able to decide on the mix of the underlying unit trusts he wishes to invest in, but is also free to control the initial rate of annuity payments.

Furthermore, on the annuitant's death, the balance of the annuity is not lost but continues to be paid out to his dependant(s).
Tax changes to woes investors
Doctors: taxman of little help

TAX laws covering medical expenses are restrictive. But, the physically disabled have recently been granted considerable concessions.

In an amendment to the Income Tax Act, "handicapped" people will be able to deduct medical and related disability expenses if these exceed R500 a year.

A "handicapped" person is defined as a person who is blind or deaf, requires a wheelchair, caliper or crutch, or has an artificial limb.

The concession includes the disabled child, step-child or spouse of a taxpayer.

To the healthy taxpayer under the age of 65, however, the deductibility of his medical expenses (including medical aid contributions) is severely limited.

Limit

He can only deduct medical expenses once they exceed 5 percent of his taxable income or R1,000, whichever is the greater. For example, a person earning R70,000 a year and incurring medical expenses of R5,000 will only be allowed to deduct R1,000, which is the amount exceeding his 5 percent limit of R3,500.

With the advent of separate taxation, both the husband and the wife are eligible for the medical expenses deduction. The claim will be allowed in the return of the spouse.

If you're in good health generally and under 65, then you are responsible for most of your expenses yourself. You can only deduct them once they exceed 5 percent of taxable income or R1,000, writes LEIGH HASSALL.

who pays the bill.

It is advisable, in order to maximise the portion of medical expenses deductible, that the spouse with the lower taxable income should incur all the medical payments so that the 5 percent minimum income limit will be reached at a lower level.

Many companies offer a non-contributory medical aid fund to staff, where the employee has no legal obligation to contribute to the fund. The company may, as part of the employee's structured package, pay the total contribution.

It should be remembered that in this case the employee may not include such contributions in his return.

In some companies, employees are obliged, by the rules of the fund, to pay a portion of the monthly medical aid contribution, with the employer paying the rest. Where, in these circumstances, the company pays the employee's contribution on a salary sacrifice basis, the amount will be regarded as a taxable fringe benefit.

The Income Tax Act allows a broad spectrum of medical expenses to be claimed, including payments to registered homeopaths, naturopaths, osteopaths, herbalists and chiropractors, among others.

Nurse

The expense of a nurse, mid-wife or nursing assistant hired in respect of an illness or confinement may also be claimed.

Many taxpayers are only subject to SITE and do not submit an annual tax return. In this case, Justin Cowley, tax partner at Ernst & Young, suggests, where the taxpayer's actual medical expenses exceed the 5 percent income limit, he may lodge a return to recover the excess tax paid, using a short-form return (IT 11) available at the Revenue office.

A person over 65 is allowed to claim the total amount of his medical expenses. Where the only tax paid by the taxpayer is SITE, it will greatly benefit him to submit an IT 11 and claim back his medical expenses. A person whose only income is a pension of less than R50,000 a year is subject to SITE only.
FINANCE Minister Derek Ryan is considering raising VAT to 16% and said the VAT Co-ordinating Committee chairman Michael Findlay said: "The minister indicated that the present rate was insufficient to deal with the problems of the economy."

"He said he might have to raise VAT to 16%," a spokesman for Mr Ryan said. "The minister was referring to the increase in indirect taxation as the economy moves towards a more indirect tax system."

Mr Panagos, chairman of the VAT Co-ordinating Committee, said: "We are the only country in the world to charge VAT on basic necessities such as food."

Mr Findlay said: "We are in a critical situation and must raise money. We accepted the principle of a VAT rate of 16% but must ensure that it is not used to fund a general increase in government expenditure."

The minister has indicated that VAT rates in most European countries are in the order of 16%.

Mr Findlay added: "Disappearing is not tax evasion, it is government spending."

Mr Panagos said: "At present, 30% of government expenditure is being spent on VAT."
Avis Looks to Wizard World Encourage Expansion

THE PAST INVENTOR is poised to move into the future with a new, larger facility. The original inventor has expanded his operations to accommodate increased demand. The new facility will feature state-of-the-art equipment and additional space for research and development. This expansion is expected to further solidify the inventor's position as a leader in the industry.

Information

Participants:

- Name: Dr. William Smith
  - Position: Chief Engineer

Contact:

- Phone: 555-1234
- Email: william.smith@inventorcorp.com

Address:

123 Innovation Drive
Invention City, CA 90210

Mission:

To create innovative products that transform the way we live and work.

Vision:

To be the industry leader in technological advancement.
A new tax formula for pension savings, mooted in this year's Budget, has been placed on the backburner.

The practical difficulties — not to mention the socio-political sensitivities — are, it seems, too great to be tackled now.

After ex-Finance Minister Barend du Plessis referred to the possibility of raising additional revenue from the pensions industry, State actuary Piet Robbertse called a thinktank of tax and pensions specialists, representatives of the Actuarial Society and the Mouton Committee. Organised labour was not invited. (Economy, April 24).

Between the Budget and the thinktank, the Life Offices Association (LOA) and some of its members had researched how retirement funds are taxed in other countries. Robbertse says their suggestions have been studied but no recommendations will be forwarded yet. He indicated that all parties with a legitimate interest in the subject would need to be consulted. For now, there seems to be no suitable forum to debate the pensions tax issue.

The thrust of Du Plessis' Budget reference was to link the raising of taxes on formal retirement savings to the separate issue of creating parity for the various classes of social pensioners. There were prompt complaints that it would be invidious to tax those who have provided for their retirement to subsidise those who have not.

There is agreement in the life offices that the focus receives little from the pension industry and some accept that a new tax structure could be introduced to improve government cash flow without drastically impairing the pool of savings at the end of the savings chain. But to change the system now, with pension/provident funds such a sensitive labour issue, could cause another big protest to add to government's woes.
Kessel Feinstein tax partner Ernst Mazansky explains the requirement to elect has been inserted to prevent taxpayers who are already regarded as dealers (or who might become so regarded) from manipulating their safe-haven status.

But for the requirement, they could switch status from year to year to claim losses on share dealings in some years while protecting profits in others.

He feels Revenue had its eye mainly on mining houses in formulating this section — as they have frequently been taxed on their share transactions (and so have concurrently been entitled to claim losses).

A corporate tax adviser says it could well be argued the wording of the section imposes an election only on a particular quoted share, and not on a portfolio as a whole. Revenue, he says, takes the contrary view — that an election operates over a taxpayer's entire portfolio. He argues the section should be amended to spell out Revenue's intention that an election should take effect over an entire portfolio, to do away with the uncertainty.

Ernst & Young says the 10-year rule was really only of value to a share dealer who wished to hold some counters for long periods as capital.

The reduction in the period to five years makes the section relevant to many more taxpayers — those who run the risk of being taxed on their transactions because of their "levels of activity and portfolio management style." They should seriously consider electing safe-haven status.

Lastly, Mazansky and Ernst & Young agree that no presumption of any kind about the capital or revenue status of share gains can arise — over shares realised within a five-year period — through either a positive or negative election on safe haven. The normal rules for determining whether such a gain is taxable will continue to apply. In other words, a taxpayer will not prejudice his existing status as an investor through making a safe-haven election.
We're on target, says Revenue

Critics label VAT a failure

THE VAT Co-ordinating Committee says the tax has failed.

It calls for a review of the entire tax system.

But the Department of Finance, Revenue and Development Trevar van Heerden says: "VAT collections are on target and most of the loopholes which made GST evasion relatively simple have been closed."

Critics challenge the arguments used by the Government in favour of VAT.

Henry Vorster, a tax partner with law firm Hofmeyr, Van der Merwe, says: VAT was introduced nine months ago and we have seen none of the economic benefits it was supposed to bring.

Hardship

The committee says VAT vis-a-vis hardship on the poor when SA is in deep recession.

Committee chairman Bernie Fanaroff says: "The personal tax burden has gone from 25% in 1977 to 4% in 1991. SA is one of a handful of countries that charges VAT on food and pharmaceuticals. The Minister of Finance says he cannot afford to zero-rate these products. VAT is not losing millions to corruption."

VAT was promoted on these grounds:

* It is a more efficient system of collecting tax because it is levied at each stage in the production cycle rather than only at the point of sale.

The Government projected that VAT collections at a rate of 10% would be R55.9 billion, or 12% less than GST - had it remained at a rate of 13% for the current fiscal year.

Department of Finance figures for the six months from November 1991 to April 1992 show VAT collections were R84.3 million short of GST receipts for the comparable period in 1990-91.

By CIARAN RYAN

A total of R8.85 billion was collected in the six months to April 1992, well ahead of targets.

The committee fears that Finance Minister Derek Rees will increase the VAT rate in the next budget, possibly to 16%.

Mr Fanaroff says: "The IMF only advocated an undifferentiated VAT system in SA provided the Government made adequate provision for the poor. There is no safety net for the poor in SA."

We cannot accept that the Government places the administration ease of VAT collection above the socio-economic crisis the country is in.

It would close loopholes which made GST evasion relatively easy.

Mr Vorster says: "It is as easy to defraud the Receiver under VAT as it was under GST. VAT allows buyers of goods to claim refunds. There is widespread room for abuse."

False

Mr Van Heerden says the department has investigated a few cases of VAT evasion and fraud is easy to detect.

"Under GST thousands of false certificates were floating around. It was difficult to do an audit without chasing around the country trying to find out if a GST-free purchase was legitimate. Now we can do a cross-check on the spot."

Mr Van Heerden says the number of VAT inspectors is being increased from 600 to 1,000. The increase in departmental salaries will be about R27 million a year. The average salary package is R50,000 an inspector.

The cost is justified when you consider that each inspector brings in about R1 million a year in added revenue.

* It was supposed to contribute to the fight against inflation because it lowered the tax rate.

Critics say inflation increased after VAT was introduced because retailers who had evaded GST lifted their profit margins to compensate for the new tax. When VAT was introduced some retailers raised prices 15% so as not to lose margin.

Mr Van Heerden says inflation rose 11% in October 1991 after VAT was introduced. Thereafter inflation started to decline. It has been running at an annualised rate of about 13% since October 1991.

Credits

But Mr Fanaroff says food inflation is still running at 26%, harming the poor in particular. The basket of goods represented by the consumer price index is not representative of what poor families buy.

Former Finance Minister Barend du Plessis said VAT would provide an economic boost as a result of an estimated R6 billion in input credits which would be refunded to businesses.

Businesses had to pay GST on capital goods, whereas VAT on the capital and intermediate goods is refunded. Many businesses, such as airline FijiAir, delayed the purchase of capital equipment until Oct 1991 to save on tax.

Both Mr Fanaroff and Mr Vorster say there is no evidence of the input credits boosting the economy. The Reserve Bank says the economy will contract by 2% this year.

Mr Van Heerden says: "The input credits will take some time to filter through the system because of the long lead time of capital projects."

Mr Fanaroff says: "The refunds paid to manufacturers under VAT should be passed down to consumers in the form of lower prices, but this is not happening. Many companies are using this refund to boost profits."

* The Government pointed to several other countries which had successfully switched from sales tax to VAT to support its case.

Mr Vorster says VAT has been successfully applied in some developed countries where unemployment is low and per capita income relatively high.

"We have 46% unemployment and about half the people live below the poverty line. You cannot say that because VAT worked in developed countries it will work in SA. These are entirely differ-

Mr Van Heerden replies: "Most developed countries have switched from sales tax to VAT. It is a pure tax and a relatively easy to administer. Once you start exempting certain items you complicate it."

Choice

The Government reduced the number of zero-rated items in the last Budget to eight food items, transport, rental, education and tax health services.

To strengthen the case for VAT, Mr Du Plessis based on the findings of the Margo Commission of inquiry into the tax structure.

Mr Vorster says the Margo Commission and the 1978 commission of inquiry into indirect taxation found VAT wanting in several respects.

"The Margo Commission recommended a comprehensive business tax, which was rejected. VAT was a second choice."

"Add to this the cost of administering the system. Companies and public servants are spending a great deal more time on tax matters because of VAT."

Mr Van Heerden disagrees: "Most companies prefer VAT to GST."
HENRY VORSTER: There's still lots of room to defraud the Receiver
trust to make shares in its quoted companies available to certain employees under an incentive scheme. Employees who qualified acquired shares from the trust at middle market price. If the trust did not have shares on hand it was obliged to buy them in the market at the prevailing price for sale to the employee. The trust was also obliged to buy back shares from employees: □ If the employee were dismissed for fraud or other misconduct; □ If he left the group within five years of being admitted to the scheme; or □ If employees who had paid for their shares wished to realise their holdings.

Engage freely

The judgment held that a dealer doing business in shares can be expected to engage freely in the market; to buy and sell at the most advantageous times and prices. This is not what the trust did. It bought and sold when it was obliged to under the terms of its establishment.

Kessel Feinstein tax partner Ernest Mazansky strongly endorses the judgment. He says it has always been the law that — for the profit on the sale of assets to be taxable — the asset must have been sold as part of "a scheme of profit-making." To establish the intention with which the asset was bought, held and sold must be examined.

There has been a recent and disturbing tendency in the Income Tax Special Court to de-emphasise the test of "a scheme of profit-making" and to scrutinise closely the permanency with which an asset is held. Permanency is certainly one of the criteria from which to draw an inference as to why shares were acquired, held and sold. But it is wrong in principle to elevate permanence to a principle. Perhaps this tendency developed because the court found it easier to draw a conclusion from permanence than from testing the taxpayer's intention.

Mazansky emphasises that it does not necessarily destroy the capital nature of the gain, on sale of assets, if a taxpayer acquired them with the express intention of realising within a relatively short time.

This was held in the well-known Berea West case.

In the Pick 'n Pay case, the sole purpose of acquiring, holding and selling the shares was to place them in the hands of eligible employees, not to trade. If no trade is being conducted, there cannot be floating capital, held the majority of the Appeal Court, so disposing of the argument in the minority judgment that the shares held by the trust fell into that category.

And, held the majority, that while the trustees might have contemplated that the trust's operations might make a profit, it was not the purpose of the group companies in...
Adjunkdirekteur: Administrasie Streekkantoor
Algoa Streekdiensteraad
Heughstraat 42,
HUMANSDORP.

Direkteur-generaal
Provisonale Administrasie van die Kaap die Goeie Hoop
Waalstraat
KAAPSTAD.

Skriftelike besware teen of vertoë in verband met die voorgestelde inlywing kan voor of op 14 Augustus 1992 by die Sekretaris van die Afbakeningsraad vir Plaaslike Overheidsgebiede, Privaatsak X644, Pretoria, 0001, ingediend word.

Die Afbakeningsraad sal op die ondernemelde datum, plek en tyd vergader om enige verdere getuie-
nis en vertoë aan te hoor van diegene wat besware en vertoë na aanleiding van hierdie kennisgewing indien:


Plek: John Lambertsaal, Kabeljous-karavaanpark,
De Gamaweg, Jeffrey'sbaai.

Tyd: 09:30.

Beskrywing van die grense van die regsgebied van die Plaaslike Gebied van Paradysstrand

Begin by die oostelikste baken van Paradyssstrand-dorpsuitbreiding 1 (TP 9598); daarvandaan suidooswaarts met die grens van Paradyssstrand Dorp (TP 7764) langs, sodat dit uit hierdie gebied uitgesit word, tot by die punt waar laasgenoemde grens die hoog-
watermerk van die Indiese Oseaan kruis; daarvan-
daan algemeen suidweswaarts met genoemde hoog-
watermerk langs tot by punt v op die genoemde Algemene Plan TP 9598; daarvandaan noordwes-
waarts met die grens van genoemde Algemene Plan TP 9598 langs, sodat dit uit hierdie gebied uitgesit word, tot by genoemde oostelikste baken daarvan, die beginpunt.

G. M. VAN GINKEL,
Sekretaris: Afbakeningsraad.

(Verwysing: 12/2/9/2/37)

DEPARTEMENT VAN STAATSBESTEDING

No. 2008 17 Julie 1992

G. M. VAN GINKEL,
Secretary: Demarcation Board.

(Reference: 12/2/9/2/37)

DEPARTMENT OF STATE EXPENDITURE

No. 2008 (320) 17 July 1992

Statement of Receipts into and Transfers from the Exchequer Account for the period 1 April 1992 to 30 June 1992.

Treasury, Pretoria.

ONTvangste—Receipts

<table>
<thead>
<tr>
<th>Inkomenshoofd</th>
<th>Hoof van inkomens</th>
<th>Maand/June</th>
<th>Total 1 April to 30 June</th>
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<tr>
<th>Statistiekbalans, 31 Maart 1992</th>
<th>Exchequer Balance, 31 March 1992</th>
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<td>Oosters en Afrikas</td>
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<td>Total 1 April tot 30 June</td>
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<td>South African Development Trust Fund</td>
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<td>Ander Ontvangste</td>
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<td>Leningstelling 1989-94</td>
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<td>Betaalings- &amp; inkomens- en uitgawes</td>
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<td>8 807 006 780</td>
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<td>750 786 958</td>
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* Min Distrikts RSA Effekte

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Note: The table above represents the total revenue collections for the Department of Regional & Land Affairs from 1989 to 2020. The data shows a consistent increase in revenue collections over the years.
Pension problems
plague taxpayers

THE Receivers of Revenue in Johannesburg and other local offices appear to have adopted a new avenue of attack on unsuspecting employees. They are disallowing certain contributions to approved pension funds made by employees, often without comment or explanation.

Contributions by employees to approved pension funds are deductible to the extent that they do not exceed the greater of R1 750 or 7,5 percent of remuneration included in retirement funding income.

For years these limitations posed no problems as the typical private-sector pension fund requires contributions of commonly no more than 7 percent of income, and frequently stipulates lower percentages.

However, after the introduction of the Seventh Schedule imposing strict rules applicable to benefits in kind, many employees now receive a considerable proportion of their income in the form of such benefits. These benefits are included in remuneration at their taxable value, which may be significantly different from their cost to the employer.

Part of the difficulty over pension contributions appears to arise from employers making contributions based on the cost of the benefit, while the Receiver will only grant a deduction taking account of the extent to which the benefit is included in the employees' remuneration as defined.

A classic example of this situation is the travel allowance, where only 25 percent of a travel allowance is, in fact, included in remuneration.

Consideration must also be given to the rules of the pension fund and the amount in terms of which the employees' contributions are based.

However, Revenue's assumption that most commonly an employer contributes only on an employee's basic amount is clearly unfounded. If this were so, it would be unlikely any employee would be contributing more than 7,5 percent of his basic remuneration as reflected on his IRP5.

Notwithstanding, Revenue's actions in enforcing the law would normally be understandable. But the current practice is to assess the remuneration declared on the IRP5 and exclude from it the total amount of all fringe benefits reflected on the IRP5 and allow a deduction to a taxpayer of only 7,5 percent of the net amount.

Subject to the terms of the pension fund rules and the arrangement with the employer, such treatment is often incorrect. I suspect it is frequently accepted by taxpayers who are unaware of the disallowance or feel the costs and/or effort involved in objecting to an assessment would not warrant the benefits of the additional deduction.

Where these circumstances do exist, I counsel taxpayers to make a record of the amounts not allowed as deductions.
THE handling of an inquiry into alleged corruption at the Rural Revenue was left to the man who investigated it, so disturbed he has decided to disclose confidential information which he supplied to the Director-General of the Department of Finance.

Mr Trevor Foster, a top former senior tax investigation officer based at the Receiver of Revenue in Cape Town, said he was doing this because of the "failure" of the investigation into alleged corruption over a long period.

He has twice challenged, and won, in the Cape Town Supreme Court an attempt by the department to reclassify him as unsuitable for promotion because, he says, he had referred information for investigation.

In terms of a court settlement last year, the department paid Mr Foster his legal costs and agreed to look into his claims effectively if he stopped his investigation.

When the inquiry was completed, Mr Foster asked for a copy of its report, but this was released in terms of Section 4 of the Income Tax Act.

A one-man committee, Mr P J Botha, the president of the Regional Court, was set up to investigate the allegations of corruption by four officials, but could find no prima facie evidence. Mr Botha had no power of subpoena.

This week the Director General of Finance, Mr Gerhard Grose, said: "In his report the commissioner pointed out areas where there was a potential for abuse and we have dealt with them. I am satisfied with the report and have nothing further to add."

Soon after the report was completed earlier this year, Mr Grose released a statement giving limited details of its findings.

But Mr Foster says: "The results and details relating to the inquiry which were released by Mr Grose in a press release with his comment — 'it is not to anyone's benefit to make allegations which are unproven' — are inconsistent with the contents of the affidavit given to him."

Among Mr Foster's allegations was that a senior tax official had the use of two credit cards, issued in his name, for which the address was a well-known Cape Town tax consultant, who is a former receiver employee.

This information was obtained from a bank employee. The statements were sent to the tax consultant's address, which suggested, Mr. Foster said, that he paid the official's accounts.

He also alleged that certain tax officials received "loans" from sources in various firms of accountants.

Another claim was that officials delayed replies to certain wealthy taxpayers for several years, thereby allowing a postponement of their tax payments, in circumstances where interest recovery did not apply.

In one investigation a taxpayer was told his liability was about R1 million. The taxpayer offered to settle for R25 000. This offer was increased to R225 000. However, a senior outside legal counsel advised a tax official that a fair settlement would be R275 000. A draft demand was prepared by counsel but never made, despite reminders from the State Attorney and Mr Foster. The matter was settled some two years later by the official for just R217 000, without referral to counsel or staff.

"It seems that Mr Botha completed his investigation in 10 to 12 weeks by himself. From my experience he could not have accessed all the tax files and bank account records and spoken to all the necessary people in that period. I am aware of the people and institutions who had relevant information who were not interviewed by Mr Botha."

"In my view it would have taken at least six months for a properly staffed judicial commission of inquiry," he said.

The committee chairman, Mr Botha, was reluctant to discuss his investigation, but conceded that he had not examined the bank records of any of the officials accused of taking bribes. He said he had interviewed them.

"I have handed it all to the Department of Finance. I am not allowed to issue any public statement. I was a one-man committee of inquiry, not a commission," he said.

Mr Foster, believes the Section 4 secrecy clause is being misused to protect dishonest officials, and to put a lid on large-scale bribery by relatively few senior officials who hold top management posts.

"I am confident I have sufficient legal authority to support releasing the particulars of the allegations. I am doing it because other avenues and authorities have failed or are impractical and it not within my means financially to do it any other way."
Tax rise fears as revenue dries up

Higher taxes are likely next year because shortfalls in State revenues could be R3-billion short of budget.

Louis Geldenhuys, an economist with stockbroker Senekal Mouton Kishoff, estimates that State revenue will undershoot budget by R3-billion in the current fiscal year — 3.5% below target.

This will increase the deficit before borrowing by 3% from R16-billion to R19-billion. A 2% increase in VAT would recover the R3-billion shortfall.

But economists say there is limited scope for raising taxes. Board of Executors' Rob Lee says: "If the economy bounces back next year the problem largely resolves itself. The best solution is to cut back on current spending."

Mr. Lee says lower revenue is the result of a weaker economy and over-optimistic estimates.

Reserve Bank Deputy Governor Jaap Meijer says the bank is concerned about the growing gap between expenditure and revenue.

"The drought will cost the economy an additional R2-billion. This trend is worrying."

The Government is expected to cover any revenue shortfall by borrowing in the money market. Short-term borrowings will have to be replaced with long-term ones, paid for in the end by taxpayers.

Tony Twine of Econometrix says the revenue shortfall places immediate pressure on the money market. "Government borrowing will be inflationary because it adds to credit creation and it increases the State's debt burden. It costs about R17-billion to service the State's total debt."
ANC not set on capital gains tax

Davis explained there was no detailed ANC tax policy but several principles in ANC thinking.

"Little attention has been given to public accountability although government corruption started many years ago," Davis said.

"A capital gains tax doesn't bring in lots of money but it does legitimate a system which seemingly does not tax any form of capital tax accretion," he added.

A land tax also did not bring in lots of money and effectively nationalised land if the rate was higher than 2%. If the rate was below this it would bring in between R350m and R460m a year, which was "hardly worth it," he said.

Although a land tax was not revenue raising, in the short term it could resolve the problem of tenure patterns. However, a national land tax had not been considered by the ANC, he said.
urged for a new SA
Sweeping tax reforms

By David Factor

As companies that understate their tax liabilities face higher penalties, the government is pressing for changes.
A recent amendment to the VAT Act — effective only from date of publication in the Government Gazette — deems the operations of a shareblock company to be an enterprise for VAT purposes if it seeks voluntary registration.

Kessel Feinstein tax partner Ernest Mazansky explains this will entitle the company to claim refunds of input credits. The benefit will be felt in net cost of improvements.

Before the amendment took effect, the wording of the VAT Act did not cover shareblock schemes because such property is owned by the company but the benefit of use, and occupation vests in the shareholders.

Rental accruing from occupation of part of a building represented by a particular shareblock accrues to the shareholder, not the company.

The rental-earning enterprise was, therefore, carried on by the shareholder rather than the company. So, if the company bore the cost of improvements to the building, there would be no input credit available.

IPG joint MD Bradley Tapack says Revenue never charged VAT on the shareblock buyer’s loan obligation as part of the total value of the transaction because the provision of the loan was seen as a financial service.

Now the value of the shareblock and any loan taken by the buyer will be subject to VAT. The same VAT can be charged whether a unit is bought under sectional title or shareblock.

Tapack notes that the shareblock company will be able to claim an input tax credit when the scheme’s developer raises VAT on his sale of shares and the loan account. But, he says, disadvantages are that the full value of a new unit bought through shareblock is subject to VAT and the developer, as a registered vendor, charges net VAT on the value added.
With our political, social and economic worlds constantly changing, one of the greatest challenges faced by business is the task of creating wealth, without which we are doomed.

And one of the many areas of uncertainty businessmen have to contend with relates to the tax implications of the expected re-incorporation of the TBVC States.

When these States entered their abortive flirtation with statehood, they all assumed the SA Income Tax Act as it then stood. But over the years, differences developed and differentials in the tax rates widened.

The Ciskei set off on an imaginative but ultimately stifled (from a SA viewpoint) tax haven adventure. More subtly, but no less important, the systems began to drift apart.

Whether by default or design, the TBVC States failed to pass many of the amendments effected to our tax Act each year. As a result, allowances differ, incentives long since scrapped in SA still survive there and a host of anti-avoidance measures taken by the SA authorities were never adopted by the self-governing territories. About the only thing that remained constant was the world’s denial of their sovereignty — which caused difficulties in applying SA’s tax treaties as they affected TBVC operations.

The exact nature and degree of tax harmonisation which will follow political re-integration will be determined by the degree of federalism finally incorporated in the new constitution. However, the drift towards centralisation at Codesa 2 indicates that it remains highly unlikely that these territories will retain material separate taxing capacity. A multilateral agreement has already introduced uniformity in VAT.

A federal structure allowing separate income tax jurisdiction, if it ever comes about, is not likely to be based on the ethnic, grand apartheid ideal that gave birth to the TBVC States.

The technical problems of tax harmonisation will be legion. Investments made based on incentives that could fall away may suddenly have to survive without any help from government. Plans made based on a law which changes, upon harmonisation, may be adversely affected prospectively. Court decisions in SA may suddenly have a bearing on TBVC operations thought to have been immune from them. Indeed, adverse decisions may even become appeasable. Special deals could be challenged and rulings may be questioned.

From a constitutional viewpoint, tax harmonisation presents one of the most difficult areas of TBVC re-incorporation. To maintain fairness and reduce the retrospective effect, a long period to phase in and out the measures, rulings, decisions and administrative actions will be inevitable.

Nonetheless, from a business perspective, planning should be based on the assumption of TBVC re-incorporation, on the loss of fiscal sovereignty, on tax harmonisation and on a period of phasing out of benefits and burdens. These assumptions should guide business in questions such as the protection of tax losses which may become useful against profits generated in SA, of tax deferrals which may be reversed against like income and of maximising tax concessions in those territories to target benign concession phase-outs.

Businessmen may also want to consider delaying comparatively disadvantageous actions, accelerating or delaying the resolution of disputes, or the claiming or not claiming of relief under SA tax treaties.

As always, the ones who best cope with and even exploit today’s uncertainties will become tomorrow’s giants.
and uncertainties which followed the American discount rate cut to 3% (FM July 10) remain as strong as before.

**WITHHOLDING TAXES**

**Treaty troubles**

The latest Income Tax Amendment Act enables some foreign companies to claim a refund of nonresident shareholder's tax (NRST) deducted from dividends paid by SA companies. An important section of the Act deals effectively with a contradiction between the previous basis of charging NRST to foreign companies and various double tax treaties. These treaties bind SA for tax purposes to — among others — Germany, Switzerland and The Netherlands.

Previously, a company registered in SA had to charge NRST on dividends payable to a company holding its shares and incorporated outside SA. This requirement effectively based the obligation to pay NRST on the nationality of the company in question. However, the double tax treaties in operation prohibit discrimination on this ground.

Notwithstanding, the deduction of NRST in these circumstances remained unchallenged...

**ECONOMY & FINANCE**

The latest a recent unreported Income Tax Special Court decision in the Transvaal. It upheld the argument of a nonresident parent company that the withholding of tax constituted discrimination under a treaty which applied the criterion of nationality. As a consequence, a foreign company subjected to the deduction of NRST, on this ground, may apply to SA Revenue for a refund of NRST imposed over the past three years — the period within which assessments may be reopened.

The amendment now replaces nationality as the test for the deduction of NRST with residence — which is permitted by the double tax treaties. Residence is defined for NRST purposes as the "place of effective management of the company." Though the phrase is novel to SA tax law, it is widely used in double tax treaties. Therefore the new definition should be easily interpreted.

NRST has always been deducted from individuals on the basis of residence, so the question of discrimination under the treaties never arose.
Collector's heirs could get a shock

Your Money

TAXATION: The receiver will want to know if assets were collected for future programming

Collector's heirs could get a shock

Your Money

TAXATION: The receiver will want to know if assets were collected for future programming
Taxman will want slice of Krugerand profits.
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Changes affect tax benefits of plane ownership

ANDREW KRUMM

An August 1 amendment to the Income Tax Act — which removes some tax benefits associated with aircraft sales — would affect the incentive to own an aircraft and hurt tourism in general, industry sources said.

The message is that aircraft owners planning to sell have four to five years to avail themselves of the tax benefits under the current Income Tax Act, he said.

Avian Industrial Finance director Volker von Wildern said the motivation and justification for investing in an aircraft now becomes that much more difficult.

The amendment would not affect the size of the market, but hurt tourism through its impact on the air charter industry.

The infrastructure for tourism must include an airlift, and when you restrict the airlift, you restrict tourism, von Wildern said.

Another aviation finance company spokesman said the amendment would have a "very dramatic, effect on an already depressed market."

"One of the biggest selling tools in this industry is the tax benefits associated with owning an aircraft."

"For an owner this often leads to a situation, where, in order to enjoy the tax benefits, he rolls over the recoupment values into a newer, larger aircraft."

The owner's inability to roll over the recoupment under the amendment would cut the market drastically in future," he said.

Even taking account of a 40% tax allowance for new aircraft, the net effect of the amendment was a significant increase in the former owner's taxable income, with an obviously negative impact on his cash flow," he said.

Travel agents wilt in heat of air war

SAA already showed a considerable loss on its domestic service and airline chief executive Gert van der Veer earlier indicated that SAA intended cutting down on domestic seat capacity.

Fliestar last week introduced a promotional fare of R139 on an off-peak flight between Johannesburg and Cape Town with effect from August 3.

"We fear that travel agents would not start pushing volumes at the expense of service to customers," he said.

Collectors expected to snap up Harvards

ARMSCOR has put up for tender 21 SAAF aircraft — including two Harvards which the company says are collectors' items.

On Sunday Armcosor advertised 19 NAM-AM-3CM, 10 Boebot aircraft, 9 Boebot spares and two Harvard 76s.

The Boebots were built for the SAAF by the former Atlas Aircraft Corporation and used mainly for reconnaissance, an Armcosor spokesman said yesterday. They were ideal for use in rural areas because of their short take-off and landing abilities.

The 40-year-old Harvards — used by the SAAF as training aircraft — were expected to be snapped up by foreign collectors. Tenders were expected from all over the world.

The tender deadline was set for September 14.

Skal congress major boost for Cape tourism

CAPE TOWN — The Cape tourism industry is to receive a boost by the arrival of about 1,800 tourist operators from all over the world who will be attending the 1993 Skal World Congress in the city in October.

Apart from the immediate economic spin-offs from the flood of visitors from 80 different countries, the Cape economy is likely to receive a further R3 million injection next year as a result of the congress.

The importance of making a favourable impression on the delegates cannot be overemphasized. They are able to exert tremendous influence on tourism to SA," Skal spokesman Mike de Groot said yesterday.

Association Internationale des Skal Clubs protocol director Len Graef of Canada and congress director Ian McCubbins from the UK said previous experience showed that the year following the congress the host city gained tourism worth about R35m.
Supply-side tax measures proposed

IMPLEMENTING supply-side tax measures would harmonise SA's fiscal and monetary policies, says the Bank of Lisbon in its latest Economic Focus.

Cuts in individual and corporate income taxes would promote greater productivity, savings and investment, it says.

The present monetary policy aims to create a better environment for saving and investment by materially reducing inflation. It concentrates on the supply side of the economy.

However, the Reserve Bank is still facing difficulties in applying its strict monetary policy.

"The second fundamental difficulty concerns the need to harmonise monetary and fiscal policies," it says.

The Bank of Lisbon argues that existing special tax incentives fa-vouring certain sectors should be removed and this should be accompanied by a reduction in the nominal rate of corporate taxation.

The imperative need for social investment must be addressed, it says, but should be carried out in a manner which does not impair the economy.

The report says that proposals to sharply increase social expenditures clashes with monetary policy and the need for lower taxes.

Privatisation has the potential to provide a supply-side boost to the economy and boost new foreign investment in the Republic.

In addition, the discount on the financial rand could narrow, making way for the elimination of the finrand system.

It says a major challenge facing SA is to convey an unequivocal message to the international community that, despite the magnitude of the socio-economic and political changes under way, it will still be possible to base economic policies on sound internationally accepted principles.
**Beware!** That snoop outside your window might not be an intruder but the taxman checking to see whether you are using that "home study," as you claimed in your income tax form, solely for the purpose of earning income.

Several people have recently received a shock in the form of one of the Receiver's men on their doorstep, asking questions about that "home study." Last year's Income Tax Amendment Act severely restricts the scope of this deduction by requiring that the "home study" be specifically equipped for the purposes of the taxpayer's trade (or employment) and that it be used regularly and exclusively for that purpose.

In addition to the stringent requirements of the Act, when the taxpayer renders his return he must also submit a detailed questionnaire to help the Receiver assess the appropriateness of the deduction.

**Challenge**

Notwithstanding all of this, the costs of a study should be claimed as a deduction when that room is used exclusively for business.

The Act does not define the term "exclusively," but if the room has a television in the corner or a sleeper couch against the wall, it is doubtful that it is exclusively used for the purpose of trade!

Beric Croome, tax partner at Kessel Feinstein, says: "The challenge of this provision of the Act is that the study be used for the purpose of the taxpayer's trade. There must be a direct link between incurring the expenses of the study and the production of income. Where to draw the line as to which occupations are eligible for the deduction and which are not is difficult."

The deduction has been claimed in the past by university lecturers, teachers, computer programmers and salesmen, journalists, attorneys, accountants, doctors and other professionals.

Company directors who need to communicate with their overseas offices after local working hours have also been allowed the deduction.

But the tightening of the legislature will now require that each case be assessed on its merits.

Teachers come under particular scrutiny in the questionnaire which the taxpayer is obliged to complete. Their future eligibility will presumably be determined on how much time is necessarily spent working from home.

Recent tax queries by the Receiver suggest that the taxpayer must provide a valid reason as to why he is forced to work at home and cannot work at his office.

Croome points out that there is a stronger case to allow the deduction to the self-employed professional than the employee who has a set place of work.

In fact, the Receiver will only allow the employee a deduction if he is obliged to maintain a study at his private residence in terms of his service contract.

**Tally**

The taxpayer who thinks he is entitled to the deduction must keep a tally of the non-capital costs incurred in the acquisition and upkeep of his domestic property.

Appropriate costs include the mortgage, bond interest or rental of the property, rates and taxes, water and lights, insurance and cleaning costs.

Direct expenses incurred for the purpose of trade may be claimed in full, for example trade periodicals, computer stationery and fax machine costs. Repairs to the study itself may also be claimed.

Croome suggests that wear and tear be claimed on the cost of the assets in the study. The current rates, calculated on the straight-line basis are: office furniture (10 percent), computer equipment (20 to 25 percent) and trade books (35.5 percent).

The taxman has certainly tightened up his act and the taxpayer should follow suit. Perhaps the first step should be to remove the TV set and replace the paperback novels with dog-eared trade hardbacks.
of an exceptional few. That is the property
A Home Loan

immediate prospects. Lynne Currie
is unlikely to have a major impact on
recent reduction in the home-loan rate
depressed the residential property
market more than expected and the
Political and economic uncertainty has

SURVEY

Business Day

Selldom-used deal for investors

Home Loan
Tax on life policy likely to change

LIFE assurers and their clients will benefit from a more favourable tax dispensation from March next year — provided revenue authorities and the Life Offices Association settle "certain" difficulties, says Southern Life deputy GM Tony Davie.

Speaking at a tax seminar yesterday, Davie said life offices, the Financial Services Board and revenue authorities had recently agreed in principle to do away with the problem sixth schedule to the Income Tax Act, which regulated the tax treatment of life policies.

"We agreed that the Insurance Act — rather than the Income Tax Act — should be the appropriate vehicle to define a life office's product range," he said.

Davie said the "trustee principle" would be applied from March 1 1993, which meant that life offices would pay tax on behalf of their policyholders and at more favourable tax rates.

"At present the life offices tax rate is set at 43%, which is the maximum marginal personal rate. But it is unfair to apply this rate to policyholders in lower tax brackets, and vice versa in the case of corporate policyholders."

"However, the LOA and government reached agreement that policyholders, who are natural persons, would be taxed at an average rate — namely 32% — while corporate policyholders will be taxed at the corporate rate."

Davie said the trustee principle was in line with a Margo Commission recommendation that it was more efficient to collect tax at the source of payment rather than from clients.

But the implementation of the trustee principle would require life offices to maintain four separate funds. These were an untaxed policyholders' fund, two taxed policyholders' funds, and a taxed corporate fund.

With the demise of the sixth schedule and the revision of the Insurance Act, both the insurance industry and clients would benefit, he said. "The classification of life policies — as standard, deemed standard or non-standard — will fall away and policyholders will receive tax-free policy benefits."

"Existing policies will also benefit from a 'tax holiday'. In that current non-standard policies will not be subject to tax on the gain element," he said.
Revenue slides as VAT falters

By ZILLA EFRAIM

REVENUE collections for the first three months of the financial year are much worse than expected and could result in a budget deficit of more than R20-billion.

Nedbank chief economist Edward Osborn says the shortfall in VAT collections could pose a serious dilemma for the Government.

The deficit for three months is R2.5-billion, more than double the R1.4-billion expected in the budget on a proportionate basis.

The deficit before borrowing for the year, forecast to be R15.5-billion, could now be close to 6% of gross domestic product — twice the 3% recommended by the International Monetary Fund.

Central Statistical Service (CSS) figures show that revenue collections for the first three months were only 4.9% higher than in the same time last year. This is a fall in real terms of about 5%.

This year's budget was for an increase of 11.2% on the assumption that GDP growth would be 1%. But GDP could shrink by at least 1%, says Mr Osborn.

The main cause of the shortfall is VAT, which brought in R3.5-billion. This is well below both the R4.3-billion in GST collected in the same time last year and budget projections of R5.3-billion for the three months.

Mr Osborn says the lower VAT collections reflect the poor state of the economy. He says the Government budgeted to increase its spending (6.6% over last year's).

This "extremely serious fiscal position" means that the Government cannot increase spending further to kick-start the economy.

"Government will have to weigh up the need for revenue and the future any increases in taxes like VAT might cause. It might have to live with lower revenue and finance the shortfall through borrowings."

9/4/72
Higher VAT or increased petrol levy on cards

GOVERNMENT may be compelled to raise the current 10% VAT rate and increase the petrol levy if tax income continues to decline, and all indications are that it will, says Stellenbosch University’s Bureau for Economic Research (BER) head Gchie Stuart.

Government financial spokesmen have indicated this year’s income from tax and other sources will fall short of the Budget’s target.

VAT collections for the first three months of the financial year amounted to R3,545bn against a Budget expectation for the whole year of R21,019bn, a Finance Department spokesman said.

In the same three months last year GST collections at 13% totalled R4,357bn against an expectation of R19,444bn for the financial year.

Income tax collections for April-June totalled R8,692bn against an estimate of R60,58bn for the year.

In April-June last year collections amounted to R7,540bn. The Budget estimate was R44,817bn for the year.

The spokesman said as a large number of big companies paid at the end of June, this would only be reflected in July collections. Also the first provisional tax payments were due at end-August, which would help to boost revenue. In spite of this, however, it appeared tax targets would not be reached.
Towards a fair and pleasant fiscal land

In the column this week tax experts consider an equitable system for a new South Africa.

There are several issues - do we need new taxes? Can we administer new taxes? Should these taxes (if any) be regional or national taxes? What incentives do we need? What lessons can we learn from other countries?

Maybe I should deal with the last question first.

The more one looks at comparative tax systems in other industrialised nations, developing nations, African nations and Eastern nations, the more one appreciates that there are few common threads.

It is extremely difficult to do more than generalise and when one comes down to the task of precedent-hunting with the question, for example, of "What does a capital gains tax (CGT) look like?", the answer is that there are as many different formats as there are countries with a CGT.

- In short, while we should not ignore foreign experience, our fiscal solutions must evolve according to the environment in which they must work.

- But there are some observations that can be made drawing from international comparatives - they are:
  - Very few countries have taxes outside the traditional and well-proven income tax, VAT/GST, capital gains tax and estate duty. Annual taxes on net wealth or on land are quite uncommon.
  - Our effective corporate tax rate (after allowances) is not badly out of line with our trading partners, but is high in comparison with our developing nation competitors.
  - The upper 10 per cent of our individual taxpayers pays an average tax burden in industrialised country terms, but receives a below-average scale of benefits in return.
  - Capital gains taxes are common in industrialised and developing countries.
  - One of our greatest difficulties in a developing South Africa is the lack of administrative skills both in the private and public sectors to cope with a plethora of different and difficult taxes - one must do mistakes, simple tax systems do not work unless the rates are exceptionally low.
  - We therefore need to be careful to achieve our ends with as little new legislation as possible.

At the same time, we face the difficulty of bringing our emerging entrepreneurial class in from the cold - they pay no taxes, they do not want to pay taxes and the system is, anyway, not user-friendly.

By David Clegg, tax consultant and partner at Ernst & Young.

Savings lead me?

Firstly, let me say that I believe a capital gains tax in some shape or form (and form is a debate on its own) is essential as a sort of moral lightning conductor.

I do not believe it is politically realistic to oppose one (although Namibia has).

My crystal ball tells me that this tax should apply to the sale of business assets, quoted and unquoted shares and to fixed property that does not constitute a primary private residence.

The rate will be 50 per cent of the person's average tax rate for the year (with a minimum rate of 10 per cent) and the cost base of assets will be indexed for inflation.

I believe that VAT must bear an additional burden, together with the financial services levy, through the creation of a regionally collected tax piggy-backed on the VAT/levy system and replacing the existing regional council levies. A federal South Africa demands regional taxes.

Land tax is a viable alternative to land confiscation, but is a non-starter for practical and administrative reasons.

Corporate tax rates must drop, but industrial allowances should remain relatively untouched - they are not especially out of line.

Some form of simplified small business tax, possibly based on accounting profits, is needed to blend the emerging SA into the old.

If all the above comes to pass, all South Africans will contribute to the new South Africa in fair measure.

With political peace we will become a fair and pleasant fiscal land for foreign investment.

Tomorrow: Michael Katz, chairman of the Tax Advisory
VAT revenue well below expectations

By Sven Lösche

Revenue from VAT is falling well short of expectations and has prompted fears that the government may have to borrow substantially more than budgeted.

Central Statistical Service figures show income from VAT and the outstanding remittants of GST fell 21.4 percent in the first three months of the 1992/3 fiscal year, compared with the same period last year.

VAT income was R3.56 billion (GST revenue of R4.56 billion in the April-to-June 1991 quarter).

Exchequer income for the first three months of the fiscal year rose only 8.9 percent to R15.96 billion (R14.66 billion last year).

This represented a shortfall of 30 percent on the amount budgeted and has prompted fears that the government may have to borrow about R3 billion more than budgeted.

The revenue collected amounts to only 18.8 percent of the budgeted figure.

Department of Finance officials point out that VAT is applied at a lower rate than was GST, but admit that tax income has been adversely affected by the poor performance of the economy.

The shortfall has led to speculation that the government is considering a hike in VAT from its current level of 10 percent.

Other sources of government revenue are holding firm.

Income tax revenue in the quarter rose by 18.7 percent from R7.52 billion in 1991 to R16.19 billion this year.
Lower tax bills boost
IDC Selections profits

PROFITS of the Industrial Development Corporation's (IDC's) general investment companies National Selections and Industrial Selections were boosted by lower tax bills in the year to June 1992.

Today's published results show the 53% IDC-controlled Industrial Selections' earnings improved to 14.36c (1991: 13.58c). A final dividend of 6.5c (6c) was declared, bringing the total dividends for the year to 12c. National Selections' earnings rose to 17c (16.47c) a share and the final dividend was upped to 8c (7.5c) bringing the annual total to 14.2c (14c).

Industrial Selections' pre-tax income increased marginally to R39,96m (R39,64m), but the tax bill, which fell substantially to R671,000 from R1,4m, boosted taxed income to R39,31m (R38m).

National Selections' pre-tax income also increased marginally to R39,73m (R39,38m). The tax bill fell to R600,000 from (R1,49m) leaving taxed income at R39,13m (R37,9m).

National and Industrial Selections' major investments included Sappi, Impala Platinum, C G Smith and Richards Bay Heavy Minerals, said IDC GM Louis Kingma.
Extending VAT to more foodstuffs from April did little to offset the effects of the recession on government revenue over the first quarter of the fiscal year.

According to the most recently gazetted Statement of Revenue, VAT collections totalled R3.5bn between April 1 and June 30. Together with sales tax revenue of R35m, this is 21% lower than the amount collected through GST in the first quarter of last year.

Though weak consumer spending ate into government VAT earnings, income tax revenue was 19.3% higher, at R9bn, compared with the first quarter of last year.

Total inland revenue for the quarter, after

payments to the self-governing states and TBVC countries, stood at R13.1bn, 4.1% higher than last year, but well below the 14% budgeted rate of increase in inland revenue for the year.

Other tax revenue came from:
- Nonresident shareholders' tax, 12% lower at R78m;
- Donations tax, up 158% at R2.9m;
- Estate duty, up 60% at R26m;
- Trade securities, down 27% at R41m;
- Stamp duties and fees, up 13% at R192m;
- Transfer duties; up 28.4% at R278m;
- Mining leases and ownership revenue, up to R61m compared with a negative R130 000 over the same period in 1991/1992;
- Interest and dividends, down from R9m to R3m;
- Recoveries of loans and advances raised, up 29% at R5m; and
- Departmental activities, up to R316m compared with R61m.

The increases in the fuel levy last August and in April boosted Customs & Excise figures over the period. Earnings from the fuel levy were at R1.6bn, an increase of 51%. The excise duty figure was up 35% at R998m. But the customs duty, up 5% at R702m, and the surcharge, up 1% to R361m, showed only small increases. The ordinary levy, -12.5% at R14m, and miscellaneous, -37% at R34m, were lower.

After Customs Union payments, revenue from Customs & Excise over the quarter totalled R2.5bn — an increase of 58%.

Total revenue for the period was R15.6bn, an increase of 11%.
Tax is but one means to a policy objective

In a nutshell, the emphasis is being placed more on how taxes are spent than on how they are raised.

Fourthly, the needs of South Africa's two sectors, namely the First World sector and the Third World sector must be reconciled and balanced.

The tax system together with other available instruments recognises that the business sector, particularly the manufacturing units, creates value and production wealth, which will serve as the base for sustaining the needs of the entire country.

Without a thriving business sector there will not be tax revenue to finance the needs of the Third World sector and to provide employment so vital for the country.

On the other hand, unless the needs of the Third World sector are satisfied, there will be instability which will undermine the stability required for new investment decisions and an efficient business sector.

Budgetary balancing is required in achieving this process of reconciling competing needs.

It cannot be overstressed, however, that the "engine" must be enabled to produce, we must nurture the tree and redistribute the fruit.

Finally, in identifying the current needs of society it will of necessity be important to embark upon a process of prioritisation. In this regard we must recognise that:

- There is a need to achieve equity. There must be a movement towards eliminating gaps in income.
- We must promote discretionary saving. This is difficult in a society which has high inflation and is subjected to political risk.

Nonetheless, the tax system must recognise this policy objective. Perhaps an entirely new instrument is required to cater for the real interest element (excluding the initiation portion) is subject to tax.

- We must promote new investment in plant and equipment.

Inflation

This is one of the greatest contemporary needs of the economy and the tax system must play its role here, bearing in mind, in particular, that we have high inflation.

In considering how the tax system can promote new investment in productive plant, obviously a lowering of rate of corporate tax will be important so as to enhance post-tax returns on new investments.

Some changes are clearly desirable in the existing estate duty and donations tax provisions.

It will be necessary to examine again the relationship between direct and indirect tax in our tax structure and, with regard to VAT, some changes will need to be considered.

Most notable in this regard will be the question of whether we should have multiple rates.

In this regard, considerations of equity may outweigh issues relating to the cost-effectiveness of compliance and administration.

Certain structural changes are required such as obtaining greater symmetry between the inclusions in gross income and deductions.

Further, tax from all timing elements arising from the definitions of "accruals" and "incurred" are in dire need of re-definition.

There is at present a great ability to manipulate the tax base in the context of deferring accruals and accelerating "incurrsed"; this is the single biggest loss to the fiscus.

We must also have to give greater consideration to manoeuvring in certain contexts more towards a residential base of tax instead of a source basis.

This will accord with international practice and it will be increasingly more important to harmonise with international trends.

Aspects of our dispensation relating to the taxation of pension, provident and retirement funds will also need thorough investigation.

Finally, the procedures and resources for administering the tax system and collecting taxes merit attention.
BUSINESS BAROMETER

VAT hike looms (320)

LOWER than expected government revenue from Value Added Tax, despite extending VAT to more foodstuffs, has increased speculation of either an increase in the VAT rate or an increase in the fuel levy to make up the shortfall. VAT collections totalled R3.5-billion between April 1 and June 30 this year.

This is 21 percent lower than the amount collected through GST in the first quarter of last year.
To feel the verdicts of thousands of taxpayers and legal experts, the jury must apply the law as interpreted by the judge. The outcome of the trial is determined by the evidence presented and the arguments made by both sides. The jury's decision is final, and it is up to the court to enforce it. The trial process is designed to ensure justice and fairness for all involved.
Not much left to redistribute
Not much left
to redistribute
LEFT-WING politicians talk about the need to redistribute wealth from whites to blacks in the "new" South Africa. However, they need not wait for a new government.

An analysis of figures issued earlier this year by the International Monetary Fund, and appearing in the latest issue of SA Tax Review, shows that wealth redistribution by way of taxation is already taking place on a substantial scale.

The figures show that throughout the 1980s whites as a group paid 32 percent of their income in tax. This compares with 24 percent for Asians, 17.7 percent for coloured people and 13 percent for blacks.

The figures also show that whites received back benefits equal to 13.3 percent of their income, which compares with 22.5 percent for Asians, 15 percent for coloured people and 18.5 percent for blacks.

Credit

The result is that the net tax burden — the difference between tax payments and benefits — on whites was equal to 23.3 percent of their income. Asians also had a net tax burden — equal to 17.7 percent of their income. On the other hand, coloured people had a tax credit equal to 11.1 percent of their income and black people a tax credit equal to 8.4 percent of their income.

Looking at these figures the IMF comments, in an understatement, that overall, the South African tax burden and its marginal tax rates cannot be judged to be low by international standards.

FOR those who imagine the whites can be bled further, think again, says no less an authority than the presumably unbiased IMF, reports DEREK TOMMEY, STAR 15/8/92.

High tax rate has already done job

It then gathers up its courage and adds that the tax burden on the white community appears to be relatively high, even by industrial countries' standards.

A table of the comparative tax burdens in various countries shows that that borne by white South Africans is at least twice as great as that in other industrial countries.

Compared with the 23.3 percent net tax burden borne by whites, Canadians stand at 11.1 percent, Britons 10.7 percent and Americans 9.8 percent.

These figures show that whites are highly taxed, but they also show something else — that anyone, whatever his race and who has to pay anything more than the minimal rate of income tax, is not getting value for his money.

In this situation, the IMF comments, any further raising in tax rates would be likely to raise disincentives to levels that are very high by international standards.

It is a welcome development for a racially neutral organisation such as the IMF to be concerned by the disincentive effect of South Africa's high tax rates, because until now claims by whites that they were being overtaxed have tended to be treated by the liberal element in society, in particular, as being completely unfounded — and even if they were overtaxed, whites should be happy to help the less privileged.

This all sounds extremely moral. But it tends to ignore the fact that the last census showed that South Africa had lost about 300 000 whites in the previous five years.

As these people must have gone overseas, these figures suggest that a lot of them were not prepared to make their future in South Africa — possibly because of the political uncertainty and also very possibly because of the high tax rates.

Concessions

The IMF suggests that the solution to South Africa's problem could be to improve the efficiency and equity of the tax system, in particular by reducing tax expenditures — that is, tax concessions — especially where they lead to greater investment in plant and machinery instead of in labour. It also suggests broadening the tax base and changing the mix between direct and indirect taxes.

Let us hope that it is matters like this that Minister of Finance Derek Keys is working on — and that there could be some slight relief for hard-pressed taxpayers in next year's budget.
VAT threat

VAT could be increased to 15% in the next fiscal year, says tax partner Ken Walton of accounting firm Ernst & Young.

He hopes any increase will be accompanied by a "zero" rating on most foods and medical services. That would allow the Government to deflect criticism.

Mr Walton says the Government has no choice but to increase VAT because collections have lagged behind budgeted revenue by about 30% so far this year.
Tax revenue up by 4.9%

PRETORIA — The revenue collected for the exchequer, for the first four months of this financial year increased by 4.9% compared to the equivalent period in the previous financial year, according to figures released by the Central Statistical Services.

Revenue collected in the period April to July amounted to R22.576bn representing 26.6% of the amount voted for the financial year, V.1.111432

Exchequer issues for the first four months of the financial year increased by 15.3% over the same period last year. (528)

Total issued amounted to R31.025bn causing a deficit of R8.449bn.

"The deficit of the Exchequer, before borrowing and debt repayment and excluding other statutory appropriations, during the first four months, amounted to 52.8% of the deficit voted for the fiscal year."
A dispute has arisen between Cape-based property company Equiko, and the tax authorities over tax losses brought forward from previous years.

Equiko's annual report for the year to December 1991 said the group had made no companies tax provision for the year.

It said the estimated value of tax losses to be set off against future income was R37m for the company and R67m for subsidiaries.

The 'preliminary' report in March said numerous property developments were in the planning phase.

Directors said the group had returned "very respectable results", and was well positioned to take advantage of opportunities should the economy improve.
Collection of revenue still behind the budget estimate

PRETORIA — Revenue collected for the Exchequer for the first four months of this financial year increased by 4.5% compared with the equivalent period in the previous financial year, figures released at the weekend by the Central Statistical Service (CSS) show.

But the R22.56bn collected in the period April to July represented 28.6% of the amount voted for the financial year — down from 28.8% collected last year and well below the 31% needed to keep pace with budget estimates, ANDREW KRUMM and Sapa report.

Exchequer issues for the first four months of the financial year increased by 15.3% over the same period last year.

Total issues amounted to R31.02bn, causing a deficit of R8.44bn.

"The deficit of the Exchequer, before borrowing and debt repayment, and excluding other statutory appropriations, during the first four months of the present financial year, amounted to 22.3% of the deficit voted for the full fiscal year."

"For the same period of the previous financial year, the deficit was also 22.3%," the CSS said.

GERALD REILLY reports that a senior Finance Department source said at the weekend the increases in revenue collections were no reason "to jump for joy".

He said the figures for July had resulted from the fact that large companies normally paid tax in June, and this was reflected in July collections. The financial year would still end with revenue substantially below the Finance Minister's expectations.

This was because VAT collections had sagged below expectations because of consumers' declining disposable incomes, the sharp decline in retail trade, and the continuing escalation of prices.

Economists said consumers were cutting back, even on so-called essentials where possible in an effort to stay within domestic budgets.
Govt to be challenged on VAT

By Paula Fray

Big business — on behalf of a wide range of organisations — will meet the Government within the next two weeks to press for the lowering, if not the zero-rating, of VAT on basic foodstuffs.

This comes almost a year since the introduction of the tax and follows a Food Logistics Forum meeting in Midrand last week at which more than 100 representatives of the food industry met to tackle high food prices.

The forum includes representatives from all sectors of the food chain, including farmers, control boards, agricultural co-operatives, manufacturers, retailers, wholesalers and consumer representatives.

Pick 'n Pay executive director Raymond Ackerman said yesterday that he and Premier Group chairman Peter Wrighton would soon meet Finance and Trade and Industry Minister Derek Keys to put forward the proposals on VAT.

Mr Ackerman said the forum recognised that the Government had to raise money. However, the forum had proved "conclusively" that the introduction of VAT had led to a 6 percent increase in food prices.

The forum proposed that the Government zero-rate basic foodstuffs and make up the lost revenue by keeping VAT on basic goods at 10 percent, while raising the tax level on luxury goods to either 20 or 25 percent.

"If he cannot zero-rate basic foods, we would call for them to be taxed at 5 percent, basic goods at 10 percent and luxury items at 25 percent," Mr Ackerman said.

Vat Co-ordinating Committee spokesman Dr Bernie Fanaroff said the organisation was "happy that business has accepted that our proposals were justified and correct, and that they have now thrown their weight behind them".
New law 'seems likely to spur emigration'

Tax relief for non-residents

ALIDA DASNOIS
Business Staff

THE slump in the economy is causing South Africans to look for greener pastures abroad.

And the trend is likely to accelerate with the introduction of new legislation exempting non-residents from tax on interest received from investments in South Africa, says tax consultant Mr Godfrey Shev of Kessel Feinstein.

"There's been renewed interest in leaving the country in the past two or three months," says Mr Shev.

In order to benefit from recently announced tax exemptions, he says, a South African wishing to leave the country does not have to emigrate formally.

"Proving that the taxpayer is no longer resident in South Africa is what's important. This means proving to the Receiver of Revenue that he or she is settled overseas."

Until recently, non-residents could benefit from tax-free interest on a list of investments in government and treasury stock only. But new legislation applicable from June 3 this year will make interest from all sources tax-free to non-residents, said Mr Shev.

"The interest received must have accrued after June 3 1992 and, in the case of emigrants, during the entire year of assessment the taxpayer must not have carried on business in the Republic (which for tax purposes includes the Common Monetary Area)."

"Taxpayers who owned their own businesses or who earned rental income in the year of emigration will only be able to benefit from the new provisions in the following tax year. In the first year after leaving South Africa, they should consider investing in government stock, but from the following year interest from any source will be free of all South African taxes," he said.

Emigrants who were salary earners, on the other hand, could benefit immediately after emigration from the new legislation on interest from their investments.

"These provisions are likely to make leaving the country a more attractive option," said Mr Shev."
Forum to lobby for variable VAT rates

CAPE TOWN — The Food Logistics Forum is to lobby for a differentiated scale of rates for VAT on different goods. Pick 'n Pay chairman Raymond Ackerman said yesterday.

A forum delegation is to present its proposals to Finance Minister Derek Keys in about 10 days.

Ackerman said the forum — which met last week — wanted all food to be zero rated, or alternatively wanted basic foodstuffs to be zero rated and other food rated at 5%.

Basic items such as clothing should be rated at 10% and luxury goods at 20%. He said this would reduce food price inflation to 10%.

Calculations on the effect of these proposals on total VAT revenue were being undertaken. However, Ackerman conceded that in the past government had opposed the idea of differentiated rates as this would make it easier to avoid paying VAT.

He also disclosed that Central Statistical Service (CSS) head Treurnicht du Toit had agreed to publish two rates of food inflation in future — one for the chain stores and one for smaller retailers.

He said independent consultant Louis Heyl had calculated that the food inflation rate at the chain stores, which sold about 45% of all food in SA, was 15.8% plus 6% for VAT which gave a rate of 21.8%.

This compared with the CSS rate of 28.5% for food inflation which Ackerman said meant that the smaller outlets were charging excessive markups of as high as 100%.

He said a differentiation of food inflation rates would open the way for joint ventures between the chain stores and the smaller retailers with the aim of bringing down food prices. Ackerman said the larger chains could take a minority stake in the smaller outlets.

Comment: Page 8
Perfectly legal allowances for film companies are the target of Revenue’s wrath

The principal pillar of taxation is certainly.

Without certainty, no new projects can be planned or undertaken and no businessman is able to devise the strategies needed for business to survive and even thrive.

Yet in SA the element of certainty has been steadily undermined and now has largely been terminated. At least, that is the jaundiced view of businessmen. The outrage stems from tax policies the Commissioner is now adopting in disregard for favourable tax rulings granted in the past to taxpayers involved in the film industry. About 38 000 people are understood to be claiming a total of R2bn in allowances.

An appeal against a film assessment will be heard in the Transvaal Special Income Tax Court in early October. The outcome is likely to have profound consequences.

Structures designed to promote the development of film industries are not confined to SA. They were introduced initially in Canada and, subsequently, in the UK and Australia. All provide tax allowances. In SA, Section 24F of the Income Tax Act was introduced by the authorities to do this. It provided a film allowance for production and post-production costs that could be claimed over two years — until a new subsidy scheme was introduced in May 1989.

Film investors have noticed that government has tried to disavow its obligations in this area too. An appeal to reverse a Transvaal Supreme Court judgment that government is liable for the subsidies it offered by way of a circular is being heard by the Appeal Court in Bloemfontein.

In a natural reaction to the tax incentives available, thousands of individual and some company taxpayers took advantage of the benefits offered by government. The structures applied generally were those of en commandite partnerships, in which there are disclosed and undisclosed partners. These partnerships were designed to provide investors with tax benefits that yielded a handsome return on their initial investments.

One result was that few investors cared about the quality of the film projects being undertaken. The tax advantages alone were seen to be sufficient, though the potential of commercial success added to the attractiveness of the propositions.

The allowances granted under S11bis of the Income Tax Act, for example, could result in benefits of up to 200% of the marketing expenses incurred.

With that kind of incentive and in the light of prior written rulings and oral assurances on which taxpayers relied, it is hardly surprising that so many individuals rushed to participate.

Subsequently, these activities were perceived by then Finance Minister Barend du Plessis to be immoral and, having spoken, the Minister's views were considered cast in concrete. Changes, made with retroactive effect, were designed to restrict the amount of allowances made available and to regulate areas in which the Commissioner thought he detected abuse.

The last assessments issued by the Receivers of Revenue, in respect of film partnerships, at least until recently, were for the 1986 tax year. The reason for the delay appears, at least in part, to be that an assessment made in respect of one film partnership is the subject of a Special Court appeal. A prominent businessman, who declines to be named, says the Commissioner gave an undertaking to a subcommittee of 14 managing partners of SA's major accounting firms that no assessments would be made until the outcome of the October Tax Court appeal became known.

Despite this, it now appears the Commissioner has instructed his Receivers to issue assessments disallowing all claims made in respect of film partnerships. In addition, it is alleged the Commissioner has ruled that the provisions of S99 'guaranteed interest' are to be applied. In effect, this enables Inland Revenue to levy interest on the difference between the shortfall paid by a provisional taxpayer and the amount that should have been paid. The action is being viewed by some of the people affected as a penalty induced by the Commissioner's decision to disallow film partnership claims.

The October appeal against the Receiver's assessment is in relation to the production of the film Jake Speed which, along with Alan Quatermain and King Solomon's Mines, were subjected to rulings by the Commissioner when the film partnerships were structured. Subsequently, these rulings were withdrawn and the claims for the film allowances rejected.

Of course, the particular matter of film allowances and their so-called abuse raises wider issues. To a man, those taxpayers interviewed by the FM reflected on their perceptions of the changing attitudes of the Income Tax Department over the past decade in these terms: "Government, and especially Du Plessis, sees the business community as being composed largely of criminals intent upon committing the immorality of reducing their individual and collective tax burdens."

Yet the right of individuals to ensure they pay as little tax as possible is already enshrined in law. In a landmark ruling, Lord Tomlin said of the Duke of Westminster's action against the UK Income Tax Commissioner that "every man is entitled, if he can, to order his affairs so that the tax attaching under the appropriate Acts is less than it would otherwise be." Tomlin adds that if a taxpayer is successful in achieving this, then however unappreciative the Commissioner may be, "he cannot be compelled to pay an increased tax."

It is becoming clear that SA's tax authorities are in danger of confusing what they see as "immoral" actions by taxpayers with those which are proved to be illegal. Assumptions have been made that because one example is judged to be an avoidance of tax, all other projects in the same category must automatically be similarly tainted. And, in an effort to recover potential losses, rulings issued earlier are arbitrarily withdrawn.

There are other examples of this heavy-handed approach. Leveraged leases making use of the tax base of some taxpayers and which had the effect of reducing the capital cost of projects, became the subject of the Commissioner's anger and resulted in the introduction of a new section to the Income Tax Act (S23A) in 1984. The effect of this action was to ringfence leveraged leases and create a privileged class of taxpayer. Sappi's famous Ngodwana project is an example of a scheme that fell foul of the retroactive effect of this legislation.

Other areas of economic activity that are now the subject of intense scrutiny by the Income Tax Department are aircraft schemes, plantation projects (the subject of an earlier ruling by the Income Tax Court) and captive insurance companies.

Businessmen and attorneys accept that, in each area, there have probably been abuses of incentives. But they argue that each case
Continued from page 24

their ability to do so is often what makes them cleverer and more successful than politicians. Some analysts, such as Chaplin, feel De Beers was genuinely caught out by the extended world recession and revelations of the extent of the Angolan problem.

But investors have plainly been taken aback by the time that De Beers took to appreciate what was happening in the market — and to communicate it. This sits curiously with the company's intelligence systems which are intended to ensure management is not caught unawares by market swings. A couple of years ago, incidentally, Oglivie Thompson said the group's market intelligence had been markedly improved since the last diamond recession (FM Anglo American Corp Survey, March 1990).

It's notable that the interim results announcement states that retail sales of diamond jewellery have not risen from last year's levels. "Moreover," it adds, "part of this retail demand has been met from stocks by the jewellery industry in the consumer markets, thereby reducing demand for rough diamonds." Even allowing for the sudden escalation of the Angolan problem, this suggests management had been basing its forecasts less on what was actually happening in the diamond market than on predictions of the world economy.

The question at issue is whether De Beers intentionally misled the market. They are all honourable men. It is whether De Beers has lost its touch. For it undoubtedly gave out unduly positive messages for too long.

When reality was perceived last week, some investors who had bought De Beers over recent months — after the presentations, etc — started dumping the stock, thus contributing to the precipitous drop in the price, which was traumatic. Danger now is that when the diamond market turns more favourable, investors may be less receptive to arguments. From these lines from De Beers and the share price could languish at lower levels for longer than it might otherwise have done when De Beers was perceived to have been more prescient.

But maybe it was not all De Beers' fault. One reason for the shock in financial markets is that the warning of a dividend cut has come so quickly after the diamond market peaked in 1988. The diamond market enjoyed an extraordinary boom in the Eighties, riding as it was on the longest post-war period of economic expansion, and fuelled partly by the Japanese "bubble economy.

Moreover, a harder look at the past 14 or so years does suggest that De Beers' stabilisation efforts have been less effective than before. There have been some rather sharp fluctuations in the group's fortunes. In the inflationary environment of the late Seventies, De Beers' profits were being driven by an international hard assets mafia; management warned repeatedly the situation was unhealthy and applied special price surcharges to dampen the exuberance.

In 1981, when the CSO was trying to reduce supplies to a choked trade pipeline, sales of rough diamonds were cut by half. De Beers cut its second-half dividend in 1980, then reduced the total payout by a third in 1981 and by a quarter in 1982.

Recovery was at first hesitant, but from the mid-Eighties growth was exceptional. CSO sales in US$ grew by 40% in 1986, by 20% in 1987 and by 36% in 1988, before dropping by 29% in 1989. De Beers' balance sheet swung rapidly from being heavily borrowed and with diamond stocks peaking at $1,950m, to being highly liquid.

During this period world sales of retail jewellery continued to grow steadily, helped by the annual promotion and marketing expenditure of more than $100m, and now as high as $160m. Sales of polished diamond jewellery last year were said to be holding up, but some analysts think retail demand slackened more than was generally believed.

With hindsight, the logic of a dividend cut should not have been dismissed, given a sufficiently bearish view on the world economy. An analyst who had forecast this as a possibility, Michael Coulson, of London broker Durlacher & Co, had noted that in the last recession the dividend cover on attributable earnings had varied between 2.8 in 1979 and a low of 1.5 in 1982.

In 1991 the cover was 1.8, and a maintained dividend, based on Coulson's forecast of a 15% earnings drop, would mean a cover of only 1.3 times. He added that, "the dividend will depend on perceptions of the diamond market's prospects in 1993 and the group's cash needs at that time, and it may even be that De Beers would be prepared to borrow to maintain the rate." But he added that a 25% dividend cut would result in a saving of just over $100m, a "very significant sum" in a difficult time.

Just how difficult a time it will be, and whether a 25% dividend cut will be the extent of it, will depend partly on confidence — at consumer level and in the trade. The decision to invoke the quota system, whereby De Beers will reduce its oflake of diamonds from producers by 25% from September is an adverse signal to the industry, but should help to improve the market fundamentals.

Part of the problem is that demand withered just as considerable new supplies were coming on to the market. CDM, a producer of high-quality gems, increased its output by 446,415 carats last year. Last week former De Beers chairman Harry Oppenheimer opened the Venetia mine, which at full output will produce more than 5m carats/year of mainly medium-quality gems. In Botswana, the biggest producer, Jwaneng, increased its output by 362,647 carats last year (though this is partly replacement capacity).

These are long-term projects, embarked upon some years ago; Venetia is being brought on stream in a US election year. Output from these mines can be stockpiled, if necessary with further quotas. But there may be a bigger problem in Angola.

Illicit diamond digging and trading escalated soon after the ceasefire ended the Angolan civil war in May 1991, and De Beers estimates there are now more than 30,000 diggers in the Cuanza region alone. Last month a CDM spokesman said up to 3m carats could reach the black market from Angola. James Picton, a local analyst who forecast a possible dividend cut, notes that these are generally high-quality gems, and estimates it could cost De Beers more than $500m to mop up the illicit supplies to the market.

De Beers has expressed confidence that the illicit trading will be stopped after the Angolan elections. But that does not sound an easy task.

The great pity about the events of the past week is that De Beers, after becoming more open about its business, may now be persuaded by the reaction to the dividend cut of its cartel through winks, nods and nudges. And, indeed, that may well be as essential to the maintenance of market stability — if that is a virtue — as its buffer stock dealing. For cartels inevitably enter periods when market tensions are intrusive.

If stability and predictability are what the market wants, it has reason to castigate De Beers for its uncharacteristic slip and to hope that JOT, having been jolted to a sober landing, will give up notions of "improved" corporate communications.

But perhaps there are some investors who have been persuaded that last week has created a permanent crack in a cartel that has till now defied all predictions of inevitable spontaneous implosion. That could present what the philosophers call a paradigm shift. If so, some investors might reason they are better off operating in a market characterised by fluctuation. And if they should prove to be clever enough to outguess the cartel — by no means a certainty — they could be the seeds of its destruction.

Andrew McNally

De Beers' Oglivie Thompson... not his best friend this year

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must be examined, treated and judged separately and on its own merits.

"It is grossly unreasonable," says one tax attorney, "to lump them all together and apply a universal censure."

A wide divergence of opinion and approach has developed between the country's business community and Revenue. The Commissioner and his previous Minister viewed commerce with a distrust verging on paranoia. Businessmen didn't write the Income Tax Act; they merely put it to work.

A prominent attorney says parliament is being bullied into approving legislation that is prospective in language but retrospective in nature. The effect, he says, is that the traditional relationship of wary but mutual trust between the business community and Revenue has been destroyed. "Now it's open warfare," he says.

The Income Tax Department's role is seen as having changed, from that of an impartial collector of taxes and an objective arbiter of the regulations, to an arm of a rapacious State's ever-growing need for increasing amounts of money. When the State over-spends — as it does consistently — the Commissioner is placed under increasing pressure to increase the levels of collections.

"Hattingh (the Commissioner) has been caught," says one observer, "between his traditional duty to administer the system fairly and impartially and the State's need for more revenue. He is an honest man locked into an impossible situation."

In addressing the perceived rift between taxpayers and the Department, the FM asked Commissioner Hansie Hattingh to respond to nine questions. On the subject of whether he considers himself bound by earlier rulings, Hattingh says the "rulings should be seen as opinions. They are subject to the facts ruling at the time the assessments are made."

Asked why assessments have taken so long to complete, Hattingh says: "The film partnerships are complicated structures and we have only now decided how to handle them. The assessments will all be made in Johannesburg and will be issued only after each case has been investigated."

Hattingh confirms that an appeal is to be heard in the Income Tax Court in October but declines to give the identity of the Department's legal representative and maintains silence on the question of whether he had issued the rulings in respect of the film partnership that undertook the Jake Speed project.

Hattingh denies that he has issued instructions to his Receivers to reject all applications relating to film partnerships and he tells the FM he has not instructed that Section 89 gratuitous stock should be applied.

Asked how he now views en commandite partnerships, Hattingh says he could not comment but adds that he does not think the recent plantations case judgment affects the film industry. "They're different animals."

Pressed to respond to the universal criticisms made by the business community about his department, Hattingh's response is: "The facts with which you have been provided and on which your article is based are far removed from the actual facts." He adds that he has been given insufficient time in which to reply "meaningfully."

The responses from the Commissioner avoid the crucial issues: that certainty must be reintroduced to the tax regime, no further retroactive legislation must be instituted and taxpayers should be treated, above all, with integrity and even-handedness.

The tax burden, carried largely by a small section of the community and the increasing demands of a State under pressure to address the requirements of a deprived majority are matters which need delicacy, deftness and diplomacy. In these circumstances, the deliberate estrangement of the most economically active sector of the country's population is a strange folly.

The intervention of Finance Minister Derek Keys and the establishment by his Revenue department of a new and reasonable modus vivendi with business and commerce should no longer be delayed.
Bloch and Inland Revenue at odds

CAPE TOWN — Inland Revenue has reversed all deductions from taxable income of royalty payments made by subsidiary Bloch Supermarkets to the JSE-listed, Ciskei-registered Bloch Ltd for the past five years.

The nature of Bloch Ltd’s registration has been found to be a form of tax avoidance in terms of Section 108 of the Income Tax Act taken with sections on sources of income.

An announcement today warned shareholders to exercise caution in dealing in their shares pending a meeting of shareholders to decide on action on Inland Revenue’s decision.

Simultaneously, Bloch’s earnings of 5.9c a share (4.6c) on after-tax income of R397 259 (R384 848) for the year to end-June were released. A final dividend of 3.5c (0.5c) from re-

Bloch Supermarkets, especially in the current — and anticipated — harsh trading environment.

Habibowitz said a meeting of shareholders would be held to decide whether Bloch Ltd should insist that Bloch Supermarkets pay both royalties and income tax, or whether it should agree to a settlement acceptable to Inland Revenue.

An agreement has apparently been reached with Inland Revenue that if Bloch Ltd registers in SA, the royalty payments by Bloch Supermarkets would be tax deductible in its hands. The royalty receipts would be taxable in Bloch Ltd’s hands subject to the deduction of R1.5m — half the original purchase price of the Bloch trademarks — spread equally over five years.
The Ministry of Finance and the Reserve Bank have formulated a plan of structural adjustment for the economy which is due to be announced soon.

The plan is said to include as its core the gradual removal of trade barriers and a reduction in government consumption expenditure, with increased emphasis on social fixed investment by the State.

We would welcome a plan of this sort as the ingredients which are being mentioned strike at the heart of the South African economy's long-term structural weaknesses.

While the measures being mooted should greatly assist growth in the long term, we would like to see structural adjustment go further.

One of the problems faced by the economy is that ever more savings are being diverted into equity-linked investments rather than real productive economic activity, leading, among others, to a greater concentration of power in the hands of a few large shareholders.

The source of this problem is the persistence of high inflation coupled with a tax structure which favours capital gains at the expense of income and profits which are heavily penalised. This stifles initiative and entrepreneurship, makes it more difficult to reduce inflation, dissuades new foreign investors and leads to capital intensive techniques.

A structural adjustment programme should therefore include constructive proposals for a new tax structure, a commitment to the removal of foreign exchange controls and a firm anti-inflationary monetary and fiscal policy.

In addition to these requirements it goes without saying that the economy needs also to raise the level of education and to develop skills appropriate to a growing economy in such a way that the level of wages becomes more competitive in relation to productivity.

For this, the support of organised labour is also clearly imperative. It is also the only way in which export growth can be promoted on a more sustainable basis.

To argue, as some people are doing right now, that the rand needs to be devalued in order to render our exports more competitive is a shortsighted policy, which was discredited seven years ago when it resulted in the inflation rate topping 20 percent.

Quick-fix solutions are short-term solutions. They do no address the long-term structural deficiencies. Mr Keys and Dr Stals seem to recognise this and their suggestions are in the right direction as a basis for discussion at the proposed Economic Forum.

By going further and including proposals for a new tax structure and for the removal of foreign exchange control it might be possible for the forum to reach agreement on a new structure for the economy which not only pleases all parties but also represents a vast improvement on the present structure.
Saclob asks Keys to lower company taxes

By Derek Tommey

The South African Chamber of Business (Saclob) would like to see lower company taxes in next year's Budget and personal income tax rates adjusted for inflation.

These were among Saclob's Budget proposals in a memorandum handed to the Minister of Finance, Mr Derek Keys, by an eight-man delegation led by the president, Mr Henkie Viljoen, yesterday.

Saclob also believes that VAT should not be increased above its present levels at this time.

"Political opposition would be enormous and there would be a risk of being forced to compromise on the integrity of the system by introducing different rates for foodstuffs and other "essentials".

Objective

In the memorandum Saclob suggests that the overriding objective of the Budget should be to stabilise the domestic economy and to promote international competitiveness.

It says that the practice of recent years of financing current expenditure through loans should end. The discipline of separating current and capital expenditure in the Budget should be resumed.

"The Budget should aid in tackling the high level of crime and violence and job creating programmes should be considered.

Saclob believes the privatisation programme could be revived if the proceeds were used to finance employment-creation programmes linked to large infrastructural projects — particularly in areas such as housing.

Various factors presented strong discouragement to economic growth, says Saclob. One was corporate tax which was much higher in this country than elsewhere.

In 1991 the nominal corporate tax rate in France was 35 percent, 34 percent in Germany, 38 percent in Britain, 35 percent in Italy and Canada and 48 percent in South Africa.

Effective corporate tax rates in Germany, Britain and the United States are of the order of 14 percent. In South Africa they are frequently well above 30 percent and are moving up because of a deliberate policy of removing tax concessions.

Corporate tax

Because of this Saclob believes there is room to reduce the corporate tax rate.

In the field of income tax the average rate for a family of four in Britain has fallen from 68 percent in 1979 to 23.7 percent in 1992. In South Africa rates have risen considerably.

At the same time inflation has been transferring real income from savers to spenders and from companies with relatively low stocks to companies with high stocks. Among both individuals and companies inflation is thus undermining efficiency as well as private sector savings.

Saclob believes that the flood of "social" spending needs to be reconsidered. A review should be carried out of all such expenditure to ensure that value is obtained, that the expenditure achieves its stated objects, and that wasteful or fruitless expenditure is avoided.

Saclob adds that the need to reduce and streamline the bureaucracy and to diminish its share of resources remains pressing. This need has been reinforced by revelations of corruption and unethical behaviour.

Capital gains

It opposes a capital gains tax. There are many reasons why such a tax is contrary to the aim of enhancing growth and the welfare of the population as a whole. A capital gains tax represents double-taxation and can be a tax on capital and not capital gains, and it discriminates against small business.

Saclob says next year's Budget must be regarded as a first, maybe small, but nevertheless very important step in the longer term total economic restructuring strategy for South Africa.

Secondly the Budget must be used as an instrument to rebuild business and consumer confidence.
Businessmen press for multirated VAT

PRETORIA - Government was moving in the direction of a multirated, value-added tax and this might be introduced before the year-end, Economatrix chief economist Azar Jammis said yesterday.

He said the introduction of a new system would depend on how desperate government was for additional funds and on political pressures. Multirated consumer tax was working well virtually throughout Europe, including in the UK where basic foods escaped the tax.

A task group of leading businessmen, led by Pick 'n Pay chairman Raymond Ackerman and Premier chairman Peter Wrighton, will plead for the introduction of a multirated VAT at a meeting with Trade and Industry Minister Derek Keys before month-end.

Ackerman said yesterday, that in the current SA political and economic climate, it was vital that the food spiral be slowed and one way was to modify VAT.

Jammis said the recession and a 10% VAT rate - the GST rate was 13% — had resulted in a steep fall in state revenue.

A Finance Department source said a multirated tax would be an administrative nightmare.
Tax thwarts unbundling

By CHERILYN IRETON

A R220-MILLION hurdle stands in the way of attempts to unlock wealth through unbundling large companies.

Business warned this week that large-scale unbundling of conglomerates would remain on hold until the Government abolished Marketable Securities Tax (MST).

Finance Minister Derek Keys has asked Inland Revenue to consider specific requests for relief from MST...

Distinct

The Government is reluctant to change the 1% tax until it can find another source for the R177-million MST will yield in the current financial year.

The tax is calculated at 1% of the total purchase price of marketable securities.

A reduction in the rate to 0.5% would result in a loss of revenue of R13.5-million in MST and R45-million in stamp duty. At the current rate MST will contribute an estimated R220-million in revenue, about 6.3% of tax collected by Inland Revenue.

Companies would rather sit with complex pyramids than pay the tax to restructure.

Malbank chairman Grant Thomas says it would make sense to merge Malhold, whose only asset is its shares in Malbank, with the operating group.

However, it would be expensive and difficult to justify if MST had to be paid. For Malbank to buy all Malhold’s shares at the current market price MST payments would total almost R112-million.

The JSE is also concerned that no MST is levied at other exchanges, opening in the rand monetary area.

Mr. Andersen says there are two good arguments why SA’s conglomerates should consider breaking up.

One strong reason for maintaining the group structure is that Gencor is a recognised international player, with access to valuable resources. This could disappear if it were split up, says Mr. Gilbertson.

Trend

Gencor is examining whether by hiving off Malbank, Sappi and Engen as stand-alone companies it could unlock additional wealth for shareholders and increase the focus of operations.

The international trend is to demerging operations. This more than political vulnerability is what the board will consider.

Moving the discount to assets at which holding companies trade.

There is also the official consideration where the conglomerate would feel less vulnerable in a new SA if it were split up.

On the other hand, SA is going to need conglomerates if it is to compete with First World countries or trade blocs.

The Gencor board is looking at all these arguments before it decides whether to go ahead with the primary unbundling. Chairman Brian Gilbertson says there is no fixed date for a decision on whether to break up the group, but “MST is one of the material factors that would prevent changes.”

Mr. Andersen says Mr. Keys’ letter to Mr. Keys says that the JSE is not killing the market.

SA has the highest rate of MST in the world. The exception is Belgium where the authorities have implemented steps to reduce the rate at which the tax is charged.

Mr. Andersen says: “SA has the third-worst liquidity of any stock exchange. We see a definite correlation between this and MST.”

JSE president Roy Andersen says in a letter to Mr. Keys that the implementation of MST is killing the market.

Mr. Andersen says: “SA has the third-worst liquidity of any stock exchange. We see a definite correlation between this and MST.”

Racobs told Mr. Keys this week that a reduction in MST could help to restore business confidence.

Mr. Keys confirms the requests for the removal of MST. He will consider the issue while preparing the 1993-94 budget. But it is unlikely there will be any changes before then.”
Delegation's plea for different VAT ratings

Staff Reporter

A STRONG plea for a multi-rated value-added tax (VAT) system — including zero-rating for basic foods — to be applied before the end of 1992 is being made to the government in Pretoria today.

The plea comes from a Food Forum delegation, led by Pick 'n Pay chief Mr Raymond Ackerman, who are meeting Finance and Trade and Industries Minister Mr Derek Keyes. They will present a 10-point plan to combat soaring food prices.

The delegates will push for multi-rated VAT before the end of the year. They want basic foods exempt for VAT, 5 to 10 percent VAT on other essential items such as clothing, and 15 percent or more on luxury items.

Mr Ackerman said they expected "to be well-heard" by Mr Keyes.

"But multi-rated consumption tax is working well in virtually every European country and the United Kingdom where basic foods are zero-rated," Mr Ackerman said before the meeting.

"All these countries — like South Africa — set out to maintain a single-rate, but once it became apparent that poor people could not afford to pay tax on food at the same rate as the rich did for their luxury goods, they abandoned this rigid policy."

The delegation expected to address the issue of how Mr Keyes could balance his VAT budget with the proposed differentiated rates.
Tax practitioners have long complained about the time it takes to get a hearing in the Income Tax Special Court. Now they have an added reason to resent these delays which, it seems, have prompted new legislation extending the period for which books of account and similar records used in the preparation of tax returns must be retained. Previously, any accounting record used in the preparation of tax returns had to be kept for five years from the date of the last entry.

Arthur Andersen tax partner Stephen Minne says Section 75(1)(f) of the latest Income Tax Amendment Act decrees the period of five years now runs from the date of receipt, by Revenue, of that tax return which incorporates information drawn from the last entry in the record.

The problem with the previous requirement — from Revenue’s viewpoint — was that when a tax case finally came to court, the retention period had often ex-

pired. Taxpayers were able to tell the court that records no longer existed, because they had been kept only for the statutory period. Considering tax returns can be filed as long as two years after the date of the last entry in question, Revenue has now given itself a generous extension.

Accounting records that must be retained include all ledgers, cash books, journals, cheque books, bank statements, deposit slips, paid cheques, invoices and stock lists. The same requirement applies to all other books of account relating to any trade carried on by the taxpayer and recording details from which his tax returns were prepared.

Individuals whose gross income consists solely of salary, wages or similar compensation do not have to retain records but, as before, anyone who fails to retain the relevant records is guilty of an offence and liable to a fine of up to R2 000, up to 12 months in jail, or both.
The PAYE answer to a taxing issue

TO PAY as you earn or pay later has been the taxing issue for private-company directors over the past three years. The latest answer is that the monthly remuneration is not subject to PAYE.

In yet another about-turn by the Receiver, the amounts paid to private-company directors and members of close corporations will not be subject to the PAYE withholding tax.

The 1992 Income Tax Act, passed last month, excluded these amounts from the definition of "remuneration", and thereby out of the ambit of the PAYE provisions.

Effectively, the new provisions restate the position of two years ago.

Last year, Revenue slapped PAYE on advances and remuneration to private-company directors after a number of schemes had developed which abused the exemption.

A source close to Revenue says the new amendment is not as "toothless" as the law of two years ago, and that any abuse will be stamped out.

In terms of the new amendment, the commissioner is empowered to impose PAYE on the remuneration of specified directors at his discretion.

The latest amendment will take effect going back to March 1 1992. However, as reported in the July issue of "In Touch with Ernst & Young", PAYE already paid since March this year won't be refundable. The money will, however, be offset against any future liability.

The latest policy provides a considerable cash-flow advantage to private-company directors and CC members. Instead of the monthly tax withholdings under the PAYE system, there will be only three provisional tax payments during a year.
PROVIDENT FUNDS: A legitimate way to save on tax bill

Forgoing that bonus could serve you well

Although provident funds and retirement or annuity funds have similarities, the first provides a number of distinct legitimate advantages the latter two cannot, writes tax partner ERNEST J MAZANSKY.

The essential purpose of a provident fund, like a pension fund or retirement annuity fund, is to create a savings medium to provide for retirement. However, a provident fund can at the same time provide a legitimate tax-saving medium.

A provident fund is similar in principle to a deferred compensation scheme in that the employer pays out funds now as part of the employee’s package and gets a tax deduction. However, the income accrues to the employee only at some future time.

Deductible

It also has similarities to pension funds but — in my view — has a number of distinct advantages when compared with a pension fund, especially insofar as more senior executives are concerned.

In the case of a provident fund, both employer and employee usually contribute.

In each case, contributions are tax deductible.

In the case of a provident fund, only the employer’s contribution is tax deductible. However, with proper planning, the fact that the employee cannot treat it as deductible should not present a problem.

Sacrifice

This is because it is possible for an employer to make a contribution equivalent both to what it would have contributed to a pension fund and that which the employee would have contributed to the provident fund.

This would make the total contribution tax deductible in the employer’s hands.

The employee would in such a case forgo an increase in salary or a bonus. Because he was not making a direct contribution to the provident fund, his contribution would in effect be tax deductible.

Forgoing a portion of a salary or bonus is known colloquially as “salary sacrifice”.

While this is legitimate, I would not recommend an employee sacrificing a portion of his existing salary for this purpose — that is, where his salary would drop from one month to the next.

Such an act could be attacked under general anti-avoidance rules.

Although the Income Tax Act regulates criteria for deductibility of an employee’s contribution to provident funds, provident funds, medical aid schemes, etc., it is my view that, provided the employee’s total remuneration package is reasonable with regard to the value of services rendered by him, the Receiver of Revenue will not be entitled to disallow any employer’s deduction as excessive, regardless of its size or value as a percentage of the total package.

This facilitates enough flexibility to allow employees to shelter a portion of their earnings from tax, should they not be required for other purposes.

Obviously this must be done within reasonable limits in order to avoid an attack by Inland Revenue.

Because the provident fund’s net income is invested to best advantage, its main benefit is that it facilitates an investment in a growth portfolio.

Such investment is made out of pre-tax income, whereas savings or investments are traditionally made out of taxed income.

This could well suit employees who feel they do not really need an increase or bonus because of their particular financial circumstances.

What would have been granted as an increase could instead be contributed by the employer to the fund for their benefit.

In the case of a provident fund, the employee can receive the full value of the fund on retirement.

Another substantial advantage of a provident fund compared to pension or retirement annuity funds is the additional flexibility it gives employees.

In the case of a pension or retirement annuity fund, on retirement the employee is entitled to a cash payout of a maximum of one-third of the value of this fund, and is obliged, by law, to take the balance by way of an annuity.

In the case of a provident fund, he can receive the full value of the fund on retirement rather than being limited to one-third, and thus has much more flexibility in dealing with his financial affairs.

On retirement from the fund a significant portion (if not the whole) of the lump sum which he receives will be tax free.

Any balance will be taxed at his (lower) average tax rate for the year, rather than at the (higher) marginal rate.

Rules

With proper planning, even this average tax rate can be reduced significantly.

While these rules apply equally to pensions and retirement annuity funds, the benefits can be greater with provident funds in view of the absence of the one-third limitation.

Another point to be noted is that use of a provident fund is not limited to large companies.

Even small companies with only a few employees can create provident funds for their employees, both senior and junior.

Future

In summary, a provident fund is a tax-efficient savings medium which allows discretionary income to be invested on a pre-tax basis in a portfolio which, if well managed, will yield substantial growth.

Moreover, while the employer will obtain an immediate tax deduction, the employee will be taxed only (if he is taxed at all) at some future point in time and then at a favourable rate.

This is of particular benefit in a one-man business where the employer and employee, though legally different parties, are one and the same.
Food relief task-force plan

PRETORIA. — Members of the Consumers Union said yesterday that in the face of food inflation increases by about six percent since the implementation of VAT, more efficient relief programmes were necessary.

The forum is planning a task force to seek alternative methods of relief in conjunction with the Departments of Agriculture and Health.
VAT action group meets Keys

THE VAT action group of the Food Forum on Friday requested Finance Minister Derek Keys to zero-rate basic foodstuffs.

Lillibeth Moolman and Sally Moolman said in a news release after meeting with Keys that it had been agreed at the meeting to continue relief programmes for the “very poor”, and to improve the efficiency of the programmes.

They said the group briefed Keys on a recent Food Forum conference which had found the main burden of the implementation of VAT had fallen on basic staple foods which had been exempted from GST.

This had increased food inflation by about six percent and had come at a time of serious drought and recession in the country. Both parties agreed this was a serious and complex problem.
PRETORIA — The zero-rating of basic foods will be taken into account "with all relevant factors" when Finance and Trade and Industry Minister Derek Keys next looks at taxation changes.

Keys gave this assurance to the VAT action group of the Food Forum at a meeting in his office in Pretoria on Friday.

The group stressed to Keys that zero-rating would immediately reduce prices.

However, Keys said he was concerned that the zero-rating of basic foods might not bring about a reduction in food prices in many areas.

Keys and the group agreed clarity on food prices was vital to eliminate exploitation of consumers.

The action group was made up of representatives of consumer bodies, retailers, processors and organised agriculture. Among them were Pick 'n Pay chairman Raymond Ackerman and Premier Group chairman Peter Wrighton.

The directors-general of Keys's two departments were also present.

Keys was briefed on the developments at the recent Food Forum conference.

The conference, he was told, had found the main burden in the implementation of VAT fell on basic staple foods which had formerly been exempt from GST.

This, it was claimed, had increased food inflation by about 6%.

It had also come at a time of drought and recession.

It was agreed at Friday's meeting that relief programmes for the very poor should be continued and that their efficiency should be stepped up.

A forum task group would be formed to investigate food relief problems as well as alternative means of relief in conjunction with the Department of Agriculture and National Health, the forum said.

Meanwhile, Board on Tariffs and Trade deputy chairman Helgaard Muller said work was progressing on the second phase investigation into food price inflation.

Comments from a large number of organisations had been received on the board's "discussion document" released six weeks ago.

Muller said he welcomed the investigations being made by the Food Forum, and a decision would be taken next week on liaison between the board and the forum.
VAT on basics stays for now, says Keys

By Zingisa Mkhakama and Sapa

The zero-rating of VAT on basic foodstuffs may not bring about a reduction in food prices, Finance Minister Derek Keys told Food Forum representatives in Pretoria at the weekend.

The forum delegation had met Mr Keys to press for zero-rating of VAT on basic foodstuffs and for the introduction of multi-rated VAT tax to be introduced before the end of the year.

However, Mr Keys told the forum on Friday that he would consider their submissions when taxation changes were made early next year.

However, Econometrix director Dr Azar Jammine said VAT was responsible for the increased food inflation and had played a role in "eroding the ability for the masses to eat".

Dr Jammine said food accounted for a high proportion of what low-income groups, especially the black population, spent their salaries on.

The introduction of VAT on basic foodstuffs, such as meat, fruit and vegetables, had compounded the problems for these income groups.

Dr Jammine said he believed that if the Government could remove VAT from basic foodstuffs, and the benefits could be passed on to consumers, low-income groups would no longer be impoverished.

But he warned that the introduction of a multi-VAT tax system could be an "administrative nightmare" and would be expensive to implement.
Spotlight on VAT

Relief programme for 'very poor' to continue:

THE VAT action group of the Food Forum on Friday asked Finance Minister Derek Keys to zero-rate basic foodstuffs.

Mrs Lilibeth Moolman and Mrs Sally Motlana said after meeting Keys that it had been agreed to continue relief programmes for the "very poor" and to improve the efficiency of the programmes.

He would consider the submission and take into account all the factors when changes in taxation were considered.

They said Keys expressed concern that the zero-rating of basic foods might not reduce food prices in many areas.

It was agreed that clarity on food pricing was important to ensure the consumer was not exploited.

They said Keys was sympathetic to their approach as he was concerned about the escalation of food prices.

The delegation said the group briefed Keys on a recent Food Forum conference which had found the main burden of the implementation of VAT had fallen on basic staple foods which had formerly been exempted from GST.

This had increased food inflation by about six percent and had come at a time of serious drought and recession in the country. - Sapa.
TAXATION - 1992
SEPT. - DECEMBER
An economic and tax convention "Blueprint for Prosperity" will be held at the Johannesburg Sun on October 8, where ideas will be exchanged between organised business, organised labour and the major political parties.

The forum will bring together speakers from the ANC, IFP, DP, government, NAFOCO, Sasol, Fabcon, AHI, Cosatu and the private sector and is being sponsored by Southern Life and The Star.

Martin Sweet, assistant general manager, legal and tax services, Southern Life, said: "The poor performance of the South African economy is cause for great concern."

"Mr Mandela and others have called on big business to find ways of breaking the present economic deadlock. The response of Southern Life and The Star was to back a forum for debate where key players in the political, economic and business environment could exchange ideas.

"Economic issues need to be addressed urgently. We cannot wait for the political reform process to run its course. A sound economic performance before, during and after any such political transition is the cornerstone of any stable democracy."

"Political liberation must be underpinned by economic stability if we are to prosper and make foreign investment more than just a pipe dream. There can be no democracy without economic growth."

"Now, more than ever, we need to build bridges and to direct the enormous potential of our country."

"It is the settlement of differences and the discussion of the future with a common purpose that will enable South Africa to take its place as a major player, not only on the African continent, but also in the world."

"Blueprint for Prosperity" aims to bring together people with divergent viewpoints on economic issues in order to discuss their proposals.

Mr Sweet said the future economic policy had to be developed according to an equitable system for a new South Africa, and any system decided upon only after consultation with all interested groups.

"The convention speakers will also discuss future tax scenarios and whether certain taxes can be used as a redistributive mechanism."

"Capital gains tax, transfer tax and land taxes will be debated. Other issues like unemployment, job creation, poverty and crime will also be addressed."

"We hope that 'Blueprint for Prosperity', which is set against the present economic scenario of doom and gloom, will give hope for and insight into the future."

"The convention is an ideal opportunity for every business leader, politician, investment and tax expert to obtain first-hand the views and policies that are likely to shape our economic and financial destiny."

Speakers at the conference include: Dr Zach de Beer (leader of the Democratic Party), Cyril Ramaphosa (secretary general, African National Congress), Dr Stef Naudé (director general, Department of Trade and Industry), Khehla Mtshizuka (managing director, Absa), Professor Katz (chairman, Tax Advisory Committee), Archie Nkonyene (president NAFOCO), Professor Sipho Shabalala (Department of Business Management, University of the Transkei), Professor Dennis Davis (President of Law Centre, Centre for Applied Legal Studies, University of the Witwatersrand), Dr Frank Mdlalose (national chairman, Inkatha Freedom Party) and Yayaanand Naidoo (negotiations coordinator, Cosatu).

- Booking for this convention can be made through Cordev Marketing, telephone (011) 463-3245/5. The fee for "early-bird" reservations is R120 per person.
R14bn handout to homelands

Gerald Reilly

SA’s taxpayers contributed nearly R14bn in grants to the six homelands and four independent states this financial year, much of it spent on salaries and perks for expanding bureaucracies, DP Homelands spokesman Peter Soal said last week.

He agreed with Reserve Bank Governor Chris Stals that growing staff numbers in TBVC and homeland bureaucracies partly accounted for high government spending.

Central Statistical Service figures for the year to end December 1991 showed the number of bureaucrats in the six homelands increased by 16,568 from 1990.

They were paid R1,045bn in the last quarter of 1991, compared with R813,634m in the same quarter in 1990. Soal said grants to the homelands in this year’s budget amounted to more than R7bn — Gazankulu R293,330m, KwaZulu R202,330m, KwaNdebele R486,084m, KwaZulu R3,146bn, Lebowa R1,912bn and Qwa Qwa R355,247m.

Grants to the independent states were also big. Bophuthatswana got R1,662bn, Transkei R2,492bn, Venda R743,854m and Ciskei R1,146bn.

Soal said not only was it vital that SA drastically thinned out its own massive bureaucracy, but an urgent investigation should be launched into the expanding civil services of the homelands.

One of the major problems to be faced in reincorporation would be resistance from vested interest in the bureaucracies — ministers and senior state officials with lucrative perks, courtesy of the SA taxpayers, he said.

SA told to gear up for global export

Gerald Reilly

PRETORIA — SA industries were not geared to cope with a substantial increase in exports once global economic recovery started and export potential improved, Trade and Industry deputy director-general Gerrie Breyi said last week.

He stressed that one of the greatest challenges facing industry was changing export awareness.

A recent survey of 608 manufacturers showed that 43.3% manufactured only for the local market, while 42.3% exported less than 10% of their production.

The normalisation of trade relations with the international community would increase competition. At this stage, however, many products were simply not competitive.

Urgent solutions would have to be found for several issues blocking trade expansion, notably political uncertainty.

Others were inflation, education and training of the work force, and reform of the tariff and tax structure. This was essential in any new economic policy aimed at accelerating industrial development and broadening the industrial base.

There had been breakthroughs in trade relations with central and eastern European countries, as well as Scandinavia. Trade with countries in the Far East, South America and Africa had grown “dynamically”, relations with many Western European nations had warmed markedly, and considerable expansion could be expected.


“This is a trend we expect to continue throughout the 1990s, especially now that most sanctions and trade boycotts have been lifted,” he said.

Trade with Europe expanded from R44,4bn in 1990 to R65,3bn in 1991, trade with Asia from R19,9bn to R22,9bn, with the Americas from R9,8bn in 1990 to R13,9bn in 1991 and trade with Africa from R4,7bn to R5,8bn. However, the fact that countries worldwide were opening their doors to trade with SA did not mean local exporters could gain immediate or easy access to the markets. Trade with the majority of these countries was still at a low level.

Government believed the time was right for the private sector to explore international markets. The economic downsizing should motivate businessmen to venture into world markets, Breyi said.

Breakthroughs in new trade relations had brought about a totally new dimensions in the country’s overseas markets.

“Interest in SA products is at an all-time high as evidenced by the marked increase in the number of trade inquiries reaching the country’s foreign economic offices over the past two years,” he said.

Industry had concentrated on local production and the limited local market, and as a result had started losing its international competitiveness. It was imperative that a more outward approach be adopted.

Internationally, markets for manufactured good were expanding faster than markets for raw materials, he said.
Calls for zero-rating gain voice

By Zingisa Mkhuma
Consumer Reporter

2/1/92

The record food inflation rate has prompted more political organisations and consumer groups to call on the Government to consider zero-rating VAT on basic foodstuffs.

The Consumer Council, Inkatha Freedom Party (IFP), the Democratic Party (DP) and Cosatu yesterday responded to the Central Statistical Services (CSS) figures which showed that food prices had risen by 30.4 percent between July last year and July this year.

Cosatu said at least 20 percent of the food price increases was a result of the Government’s decision to impose VAT on basic necessities, despite opposition from the trade union federation and numerous other organisations.

Cosatu said VAT was partly to blame for the food inflation. It accused businessmen of trying to hide behind VAT and the drought to try to disguise inefficiencies, of monopolistic practices and of generally exploiting the consumer.

Cosatu reiterated calls to the Government to:
- Zero-rate all basic foods, as well as medicines, medical services, electricity and water.
- Implement "effective" poverty and drought relief programmes.
- Devise methods to ensure the immediate stabilisation of prices of staple foods.
- Expedite investigations into control boards and the Marketing Act.
- Address the monopolistic and exploitative practices in the food industry.

The IFP said it was disturbed by the excessive food price rises particularly in the light of the prolonged recession and the rising unemployment rate.

IFP economics spokesman Gavin Woods called for a co-ordinated strategy to be implemented to bring down food inflation.

"Included in this strategy would be the exposure of those who are making excessive profits and the exemption of basic foodstuffs from VAT," he said.

The Consumer Council had asked for the freezing of prices on basic foodstuffs as an emergency measure, until the economy had stabilised, executive director Jan Cronje said.

Mr Cronje said, "The unrelenting surge in food costs prevents a decrease of the inflation rate. This prevents a fall in interest rates at a time when South Africa can least afford it.

"Escalating food prices cannot be tolerated as they continue to impoverish consumers."

DP finance spokesman Ken Andrew urged the Government to remove VAT on food and allow imports of cheap foods.

Mr Andrew said soaring food prices needed to be recognised as a national crisis.
Rising food inflation draws wide criticism

RISING food inflation, estimated at 30.4% during July last year, has drawn strong criticism from political parties, trade unions and consumer groups.

Convinced yesterday that high food prices, VAT and drought relief would be high on the agenda in the next phase of mass action.

The union federation described government's economic policies as a "national scandal".

"To allow food prices to spiral out of control at a time of mass poverty, drought, unemployment and famine conditions, is the height of irresponsibility."

Consumer Council executive director Jan Cronje said basic food prices should be frozen until the economy recovered. "The unrelenting surge in food costs prevents a decrease in the inflation rate. This prevents a fall in interest rates at a time when SA can least afford it."

ANC spokesman Carl Niehaus said VAT had been a major contributor to food price hikes. "This is what we predicted would happen under the new VAT system."

He said in the light of growing unemployment, the drought and low salaries, food inflation could cause "a very serious situation."

The ANC called on government to find ways of making food more affordable.

DP finance spokesman Ken Andrew proposed the removal of VAT from basic foodstuffs, an investigation of agricultural control boards, the encouragement of cheap food imports, an increase in hunger relief programmes and an end to cartels and monopolies in the food supply chain.

Gerald Reilly reports that Johannesburg's fresh produce market director Daan Spengler said high prices were likely to continue to the end of the year, even if normal summer rains fell.

Comparing supply weights in August with August last year, onions were down by 12%, potatoes by 2.5%, tomatoes by 16% and vegetables generally by 19%. However, because of the abnormally high prices, turnover was up 30% compared with August last year.
'Non-standard' policies warning

CAPE TOWN — Inland Revenue has warned companies and individuals that they face an onerous tax burden if they buy life assurance products structured on the assumption that the Sixth Schedule of the Income Tax Act is to be abolished.

Inland Revenue's Ian Meiklejohn expressed concern that life assurers were selling policies defined as non-standard in terms of the Sixth Schedule in anticipation of its abolition next year.

Life Office Association chairman Louis Shill also expressed concern about the practice saying life assurers selling such products were "leading people up the garden path" and taking unfair competitive advantage.

While there was agreement between life industry and tax authorities that the Sixth Schedule was unnecessarily restrictive, government had not taken any decision about its fate, Meiklejohn said.

He said life assurers could become "unstuck" in selling non-standard policies.

These are policies with a minimum amount of life cover, where the term for paying premiums is less than 10 years and which carry the normal company tax rate if owned by companies.

Single premium policies sold to companies would be an example of non-standard policies.

Under the regime of the Sixth Schedule such policies are not tax efficient as an onerous penalty tax is imposed when payment is made, in addition to the tax imposed on the money invested in the life assurer's fund. For standard policies no additional tax is imposed when the benefit is paid out.

Meiklejohn said the after-tax return on a non-standard policy would be significantly lower than the inflation rate as the tax rate could halve the final return.

Assuming an inflation rate of 15% and a company tax rate of 48% or an individual rate of 48%, a life assurer would have to generate a growth of 33% or 28% respectively to match the inflation rate. This was "highly unlikely", he said.
Greta Steen

But is the timing right? Tactics may be right, but is the timing right?
The cost of red herrings

The impact of VAT will soon fall out of the inflation figures. And some of the disinflationary benefits created by tax credits on inputs will now be working their way through the economy. Yet lobbyists continue to press for concessions that will erode the tax base and undermine the entire concept of taxing at each stage of the production and distribution chain.

VAT is a huge red herring in the inflation debate; only constantly rising prices constitute inflation — and the imposition of VAT was a once-off event.

Food price rises have been exceptionally high, for a number of diverse reasons including VAT. Its impact on food prices can be gauged by the fact that food inflation in October last year, when VAT was introduced, was six percentage points higher than it had been the previous month.

If that month’s entire increase is attributed to VAT, it would account for only six percentage points of the 30.4% rise in food prices in the 12 months to July. And it does little to account for a differential of nearly 20 percentage points between food inflation and non-food inflation.

“What we are seeing,” says Aubrey Dickman, honorary professor at Wits Business School, “is a change in relative prices.” Since the end of 1989, positive interest rates have made credit more expensive. Consumers have chosen to borrow less and fund more of their purchases out of income or savings, which has reduced spending potential — and the decline in demand has contained the overall inflation rate.

But consumer resistance is weakest when it comes to food purchases. And when domestic prices rise, consumer choices are limited by a variety of import barriers.

This has allowed producers and distributors to pass on the cost increases generated by a skewed distribution system. And the situation is now being aggravated by one of the worst droughts in history.

There is little we can do about drought damage — but we can solve some of the other supply problems plaguing us. If the people who petition for the removal of VAT on unprocessed foods were to devote their energy to freeing the food distribution channels, they might accomplish something worthwhile.

The pattern of food price rises is revealing. The last time food inflation and overall inflation were in the same ballpark was February 1991: food 15.7%, overall 15.5%.

The food pricing decisions began to be made in anticipation of VAT, which applies to a far wider range of foodstuffs than did GST. The differential between food and overall inflation which opened up in March 1991, at 1.8 percentage points, was 4.3 percentage points by September, the month before VAT was introduced, and 10 percentage points by January 1992. The drought came and, by July, the differential had climbed to 15.8%.

The validity of the figures produced by Central Statistical Service (CSS) has been questioned by Raymond Ackerman, chairman of Pick ’n Pay and a prominent member of the Food Logistics Forum, an organisation consisting of farmers, marketing boards, agricultural co-operatives, manufacturers, wholesalers, retailers and consumer groups. The forum commissioned an independent study, by Louis Heyl & Associates, of supermarket food prices and found a 12-month rate of increase of only 21% — with VAT accounting for 6% — in June.

CSS head Treurnicht du Toit says he has examined Heyl’s data and is not satisfied with the quality of input. He has no complaints about Heyl’s methodology but points out that it is based only on information supplied by Pick ’n Pay and OK Bazaars. “Is that representative?” Du Toit asks.

A readily identifiable problem, he says, was that Pick ’n Pay submitted only bananas for the category “fruit”. These, weighted with OK’s fruit prices, showed a year-on-year increase of 4%. Official statistics over the same period for all fruit showed an increase of 42%. “Obviously, less representative inputs can make the statistics look better.”

Ackerman denies Pick ’n Pay used only bananas in its fruit basket. “Whatever information Heyl asked for, we gave,” he says. Heyl wasn’t available to clarify the issue.

Ackerman is not happy with CSS’s inputs either. “Meat makes up more than 30% of their basket and average meat consumption is nowhere near that figure,” he says. “Even Heyl’s basket, of which meat made up about 25%, overstates it.”

He also says that official inflation figures are boosted by the prices charged by small retailers. “Not because they’re deliberately ripping anybody off, but because they don’t have the infrastructure and economies of scale that the big groups do.” He would like to see food statistics split to show prices of major food chains and of small operators.

Says Du Toit: “In principle, we are not opposed to breaking down the statistics into two categories, but we do not have the resources to restate previous data. It is possible that July’s figures can be split but, even so, we will still not be able to provide year-on-year comparisons until next July.”

But these are sideshows.

The real debate is over VAT concessions. One of the main reasons GST failed was the erosion of the tax base. At present, 10 foodstuffs (which could all be fairly considered “basic”) are zero-rated. They include brown (but not wholewheat) bread, meat, cheese, milk, meat meal, rice, bread, beans, lentils, chickpeas in cans and milk powder.

The loss to Revenue if all foodstuffs were zero-rated could be about 20% of the present tax base — or R3.5bn-R4bn if VAT revenue for the first full year has been correctly estimated at R18.5bn. In the present economic climate, the possible options for replacing the lost revenue all look implausible.

The standard VAT rate could be increased from the present 10%. But extending the list of exemptions makes it easier to cheat and any substantial increase in the standard rate would increase the incentive to cheat.

Alternatively, direct taxes could be increased. But Ernst & Young international tax partner Ray Eskanazi points out that tax on individuals and companies is relatively high. The average tax rate on a married South African earning the purchasing power equivalent of £24 000 is around 30% — compared with a flat rate of 25% in the UK. As for companies, the nominal SA rate is 48% compared with 33% in the UK.

So there is no easy substitute for VAT revenue lost.

Extending exemptions will not solve the problem of accelerating food inflation. And it is likely to increase what is already a huge shortfall in revenue intake at a time when there is enormous pressure on spending.

There is no bigger spur to inflation than a burgeoning State deficit.

INSURANCE

Selecting targets

With truck hijacks taking place at the rate of eight a day in the PWV area, large fleet operators are re-examining their self-insurance programmes. Some carriers of high risk items are finding it difficult to obtain regular insurance coverage.

Graeme Wright, assistant director of brokers First Bowling, claims there is evidence that hijacks are carried out “to order.”
EXCHEQUER revenue collections increased by 4.5% in the first four months of the 1992-93 fiscal year over the same time in the previous year. The budgeted increase is 13.2% for the year.

A Central Statistical Service report shows consolidated fuel levies saved the day with a 40.7% increase. VAT collections fared worst, falling 17.6%. Income tax, excluding gold mining, rose 4%.
Keys to make the rich pay

By KEVIN DAVE

WEALTH, capital gains and land taxes feature in Finance Minister Derek Keys' economic restructuring plan.

The plan is still under wraps as finishing touches are completed, but sources say these taxes - some were first suggested by the ANC - are prominent.

The new taxes will raise new revenue for the cash-strapped Government. They will also allow tax reform to make room for lower individual and company taxes. These so-called sin taxes could help the Government sell the more unpopular parts of the plan. Wages, for instance, could fall if the economy is speeded up by foreign competition through lowering of import duties.

The wealth tax is likely to take the form of higher death duties. Additional taxes on individuals of high net worth are also believed to be under consideration.

Land taxes are being designed to encourage owners of vacant property to sell. This would alleviate the land and housing shortages.

Estimates show that these taxes could increase revenue by 10%, sufficient to enable the Government to cut the top individual rate of tax from 44% to 40% and company tax from 48% to 42%, says one source.

Variable

Changes to VAT are also likely. A variable VAT rate is a strong possibility, some basic goods remaining zero-rated. Luxury goods may have a much higher VAT rate, say 15% to 20%.

The Development Bank (DBSA) recommends the new taxes in its report on economic restructuring, saying "Serious consideration must be given to making company and personal taxes more efficient by broadening their bases and lowering the marginal rate and extending wealth taxes (national property tax, capital transfer tax) and capital gains taxes."

The International Monetary Fund report, Economic Policies for a new SA, which was held to have been influential in the design of Mr Keys' plan, pointedly noted that SA had neither wealth or capital gains taxes.

Mr Keys and plan architect, Josip Jacobs, are likely to have discussed this week when they met an IMF mission which visited SA for its annual update.

Mr Keys was expected to make some details of his plan public this week, but says that the full report should be completed by November.

It is believed that drafts of the report are complete and some have been circulated for comment. The final report is expected to be synthesised by a task force.

Mr Keys says the parts of the "integrated and co-operative economic model" will be assembled and tested for credibility, compatibility and reliability in the next two months.

"Input received during December and January would be in sufficient time to help shape next year's Budget.

Contributors include Reserve Bank Governor Chris Stals, Competition Board chairman Pierre Brooks, Trade and Industry Director-General Stef Naude and tax expert Michael Katz. Mr Katz declines to comment.

Mr Naude's report is believed to deal with trade and industrial policy, and calls for phased tariff reductions in line with SA's commitment to the General Agreement on Tariffs and Trade (GATT), the introduction of export processing zones to stimulate investment, and the replacement of the general export incentive scheme (GEIS).

Mr Brooks says he is recommending a more effective competition policy, promotion of deregulation and safeguards against unfair competition by the State.

In his annual address last week Dr Stals drew attention to the Reserve Bank's annual economic report which identifies several problem areas which need to be dealt with.

They include the continuing rise in real wages, a fall in the Rand, militancy of trade unions, and the need to make SA self-sufficient in certain areas.

Dr Jacobs says the restructuring plan is being completed and figures are still being quantified. He says levels of dissaving in the economy are to grow by only about 90%.

To Page 3

New taxes

Re-launched and available immediately for new investment.

"We can't export capital, so we need foreign capital to augment our resources."

A structural adjustment is inevitable because without it "we'll end up in hospital in any case".

Dr Jacobs says a successful adjustment may take longer than 10 years and will need the support of key groups such as the trade unions.

A solution is to empower people "Training and education hold the key."

Expectations will have to be toned down and productivity improved.
Anti-VAT lobbyists praise
Govt rethink on basic foods

By Zingiswa Mkhumalo
Consumer Reports

The VAT Co-ordinating Committee (VCC) has welcomed the news that the Government is pondering zero-rating VAT on basic foodstuffs, but warned that the issue should be dealt with urgently.

VCC convener Dr Bernie Fanaroff said on Friday he was happy the Government was taking the issue seriously, but stressed that the VCC had a problem with the time-scale.

Dr Fanaroff was reacting to Finance Minister Derek Key’s statement last week, that during the March Budget the Government might consider exempting basic foodstuffs from VAT.

Mr Keys said the Government’s spending would be cut by 3 percent, and that this could entail retrenching up to 8 percent of its workers. About 30 000 public servants could lose their jobs.

Dr Fanaroff criticised the proposed retrenchments.

“Don’t want this to be a trade-off. There are other ways of decreasing expenditure and increasing revenue, and we would be happy to discuss them with the Minister.”

More low-income earners in the public service could lose their jobs when the Government reduces its spending, the Econometrix research institute has warned.

Econometrix spokesman Tony Twine argued that if the Government fired a cross-section of workers, it could achieve a 3 percent cut in spending by reducing the number of workers by 3 percent.

Mr Twine added: “If you have a 5 percent decline in people only reducing your spending by 3 percent, then it means you are firing a larger proportion of lower-paid workers.”
Twinge of conscience nets taxman R3 000

PRETORIA — With a likely budget deficit of more than R20bn by the end of the year, it seems South Africans may be beginning to feel sorry for the taxman.

Tucked away in the voluminous Government Gazette is an indication that at least one South African may have taken pity on the Commissioner for Inland Revenue.

Last week the commissioner's Bloemfontein office acknowledged the receipt of the small sum — by the commissioner's standards — of R3 000, which would not have been unusual had the contribution not been anonymous.

The entry also demonstrates that the compiler of the plethora of notices published each week has a sense of humour: the announcement is listed under the heading "Conscience money".

In fact, the invisible compiler has had a field day recently, noting without a trace of consternation the loss of two Treasury bills, together nominally valued at R6m.

The gazette requests the public to contact the bank concerned if anyone has any knowledge of the whereabouts of the bills, and concludes: "Your co-operation in this regard would be appreciated." One would hope so.

Generally the gazette compiler's understated humour is reserved for the list of undesirable publications.

Last week's list included more contributions from Australian luminary Kevin Bloody Wilson.

Among other authors' more pornographic contributions to the "undesirable undermentioned publications or objects" are Wilson's views on Your Average Australian Yobbo.
Tax revenue lags behind estimates

GERALD REILLY

Government tax revenue is falling further, and further behind budget estimates, according to latest collection figures.

They show in the first four months of the financial year, April to July, VAT collections amounted to R14.73bn against an expectation of R15.60bn for the whole year.

Therefore, with two-four-month periods ahead, VAT would have to yield a massive R16.14bn to reach the budget's target figure, which economists say is highly unlikely.

Income tax collections for the four months amounted to R12.28bn with the year's total expected to be R13.04bn, of which R3.53bn was expected to come from salary earners.

A finance department spokesman said final demands were being served on the 20% of 387,000 income tax payers who had not submitted their tax returns for the 92 financial year.

Of the 75,000 forms issued in Durban, only 53,000 had been returned, 71%. In Pretoria, 35,000 of a total of 54,000 salary payers had made returns, 65%. In the Johannesburg area 82,000 were issued and so far 53,000, 64%, had been returned. In Cape Town the figures were 54,000 issued and 35,000 returned, a 66% return rate.
Pay talks delay jail monitors

Six detainees died in police custody last week, bringing the number of deaths in detention since January last year to more than 180.

Lawyers for Human Rights director Brian Currin said last night that it was unacceptable that the team would report to the minister and police commissioner.

A system of reporting to a judge or an attorney-general would have been far more effective, he said.

Capt Craig Kotze said yesterday.

The monitoring team would report to Kriel and Police Commissioner Gen Johan van der Merwe.

The six retired magis...
Some companies with overseas control may find themselves obliged to pay nonresident shareholders' tax (NRST) twice over or even, in extreme situations, more than twice. This could follow from a recent amendment to section 42 of the Income Tax Act. NRST is payable (currently at 15%) by nonresidents — companies as well as individuals — entitled to dividends declared by SA companies.

Kessel Feinstein tax partner Ernest Mazansky says section 42 — as previously worded — based the obligation to pay NRST on the criterion of ordinary residence in the case of individuals and on the place of incorporation in the case of companies.

So any company not incorporated in SA fell into the category of “nonresident” and had to suffer NRST on dividends from SA sources. However, these criteria created problems with certain double tax treaties. To discriminate on the grounds of nationality is outlawed by certain important double tax treaties to which SA is a partner.

The issue was brought to a head by a case in the Income Tax Special Court. A Dutch holding company which had NRST deducted contended successfully that the requirement that it had to pay SA tax, where its SA-incorporated counterpart would have been exempt, was discriminatory and hence barred by the treaty.

To put SA domestic tax law into line with the treaties, but allow for the continued collection of tax, government this year amended section 42 to require NRST to be paid if the place of effective management of the company receiving the dividend is outside SA. Generally speaking, says Mazansky, the place of effective management is where policy and other important business decisions are taken by the board.

This basis can have unexpected consequences. Consider, for example, the case of a SA operating company (Opco) which declares a dividend to its holding company (Holdco) — incorporated in SA — but which is in turn the subsidiary of an overseas company (Foreignco). Previously, the dividend declared by Opco to Holdco would not have attracted NRST. Now it will attract the tax if the place of effective management of Holdco is actually overseas, where its board takes decisions. This often happens where the majority of Holdco’s board comprises foreign-resident employees of Foreignco.

When Holdco, in turn, declares a dividend payable to Foreignco, NRST becomes payable again on the sum remaining after the first deduction of NRST. This is because Foreignco’s place of effective management is also outside SA. As the result of double NRST, the dividend will have been eroded by 27.75% by the time it reaches Foreignco, unless Foreignco is in a country with which SA has a double tax agreement containing a clause which relieves the double tax on dividends. Not all double tax treaties have this effect.

Mazansky argues the result is perverse, as SA wants overseas companies to fund their SA operating subsidiaries with permanent share capital rather than with temporary loans. Interest receivable by non-residents is now tax-free, while NRST has been made more onerous, thereby encouraging investment via loan capital rather than share capital. An obvious way to solve the problem is to grant Holdco the example a credit for the NRST deducted from its dividend from Opco.
New group to review tax policy

TAX policy — including the possible implementation of wealth taxes — is under review by a new Finance Department unit that includes left-of-centre academics.

Headed by deputy director-general Hein Calitz, the unit will work on new fiscal strategies in the wake of the demise of the five-year plan to lower personal and company taxes. It will also take a new look at policy benchmarks such as a deficit of 3% of GDP.

Calitz said yesterday the tax research unit that had been in operation for the past two years was incorporated into the new fiscal analysis and policy planning unit. He would not be drawn on specific issues under consideration, but said the focus would "of necessity be on high priority policy issues" while its brief could "potentially include the full fiscal policy field".

It is understood the committee’s work will provide input for next year’s budget proposals. It will have to come up with tax and spending suggestions, given a revenue crisis and pressure to increase social spending.

While the Development Bank is pushing for wealth and property taxes, economists believe such taxes would be mainly for symbolic effect and would not add the speculated 10% to revenue (R7bn-R8bn). To achieve that income (more than twice the expected shortfall in VAT collections) would require excessively high rates of taxation.

Calitz said the unit was being guided by University of the Free State Prof Frederik Fourie. Fourieja is widely regarded as left-of-centre, as is another member of the unit, Unisa’s Prof Philip Mohr.

Fourie has said the task facing economic policymakers was "to gauge the speed and ways of inequity to redress that an economy liberated from external and internal constraints can actually bear".

Mohr was a member of the first left-of-centre scenario-planning exercise, the Mont Fleur scenarios.

Calitz said the unit’s abilities could be strengthened by contacting expertise at academic and research institutions.

The unit would build on the work of the tax research unit, which included an investigation into the structure of personal income tax — the adjustment of the tax thresholds and the impact of fiscal drag, company taxation and inflation, excise duties on luxury goods and an international comparison of fiscal systems, with the emphasis on government social expenditure.
REVENUE ACCOUNT

Carryover 11/9/92

Revenue flows in the current fiscal year appear to be slowing, with a particularly disappointing intake in July:
- Income tax raised only R4.3bn (compared with R3bn in July 1991); and
- VAT R1.3bn (R1.4bn from GST).

Thus, in the first four months of the fiscal year:
- Income tax earnings amounted to R13.3bn, only 5.4% higher than in the same period in 1991. This contrasts with the figure over three months, when it was 19.26% higher;
- VAT earnings at R4.9bn, were 17.85% lower than GST earnings.

The setback to income tax may simply be technical — July ended on a Friday, so cheques paid to Inland Revenue late on that day were only banked on the Monday. August’s figures would reflect the carryover.

Revenue from other sources in the first four months was:
- Non-resident shareholders’ tax R105m (down 14.78% from the first four months of the last fiscal year);
- Donations tax R3.5m (up 156.68%);
- Estate duty R31.8m (up 8.04%);
- Trade securities R36m (down 24.86%);
- Stamp duties and fees R266m (up 11.42%);
- Transfer duties R445m (up 52.04%). The increase reflects the 0.75% levy on financial services introduced in the Budget and payable at the start of each quarter. This accounted for about R30m of July’s figure of R167m;
- Mining leases and ownership R80.5m (up 232.23%). Most of this amount came in the form of a carryover from the previous fiscal year;
- Interest and dividends R7.7m (down 60.32%);
- Levies R4.7m (up 711.4%);
- Recoveries of loans and advances R8.4m.

In the four months, total earnings from inland revenue, after payments to the self-governing territories and TBVC states, were 1.1% lower, at R18.9bn.

However, Customs & Excise earnings have grown steadily, following increases in excise duties announced in the Budget — the category brought in R1.4bn in the four months, up 30.97%. Increases in the fuel levy in October and April pushed earnings to R2.2bn, up 49.72%.

Earnings from customs duty totalled R959m in the four months, up 5.03%, and from the surcharge, R447m up 0.31%. The categories miscellaneous were down 55.52% and the ordinary levy down 20.22%. In spite of a large disbursement to the Customs Union countries in July of R1.2bn (out of R1.3bn brought in), net C&E earnings for the year reached R2.7bn, 50.93% higher than last year.

Total earnings for the State Revenue

FM 11/9/92 320

(320)

(up 27.6%); and
- Departmental activities R436m (up 250.73%).

FM 11/9/92 320

account over the first four months of the fiscal year were R21.6bn, only 3.29% higher than in the comparable period in 1991.
**Ray Eskinazi**

**IN MY OPINION**

**Trick or treaty**

Ray Eskinazi is international tax partner at Ernst & Young

**Taxpayers** and governments see double tax treaties differently, as illustrated by the quote: "The taxpayer hopes the treaty will prevent the double taxation of his income; the tax gatherer hopes the treaty will prevent fiscal evasion; and the politician just hopes."

The UN Group of Experts on Tax Treaties has pointed out that growth in the flow of investment from developed to developing countries depends largely on the international investment climate, of which an important part is preventing or eliminating double tax.

Negotiations are believed to be under way to extend SA’s network of 22 treaties to Taiwan, France and certain eastern European countries. Issues that need to be considered in negotiating future treaties include:

- The tax system could be based on source rather than residence, initially limiting the base for collection;
- In relation to each future treaty partner, should SA be classified as a developed or developing country? SA’s treaties with developed European countries are based on the OECD model, which assumes a reciprocal flow of investment. As SA is a capital importing country, the income flows mainly to the developed country. By reducing its taxes (including withholding taxes) imposed on the basis of source of income, SA sacrifices revenue in favour of a developed country which would subject the income to tax but grant a credit for the SA taxes paid.

The UN Group of Experts on Tax Treaties has altered the OECD archetype to develop a model treaty between developed and developing countries. It may serve as a useful basis for future treaty negotiations.

- The possibility of fundamental amendments being made to SA’s tax system — to reflect the new political, social and economic order — should be anticipated in negotiating the treaties;
- The extent to which concessions such as "tax sparing" should be included in a treaty must be considered so that they complement future domestic tax-based incentives. "Tax sparing" would allow the tax which would have been levied by the source country, in the absence of tax relief, to be set off against the liability of the foreign investor in his home country, resulting in a benefit to the investor;
- If SA’s tax system were supplemented by a network of favourable treaties with other African states, SA could serve as a tax-efficient conduit for routing investment in Africa from Europe and North America.

The scope of any anti-treaty shopping provisions in each treaty would affect this opportunity.

This possibility should be seen in the light of information contained in the World Bank 1992 Investment Report: Flows of direct foreign investment to Africa halved from 1989 to US$2.2bn in 1990 — slightly more than Portugal received that year.

- Over time, SA could conclude a series of multilateral tax agreements with other sub-Saharan African states, much like the series of agreements concluded by the Nordic states of Denmark, Finland, Iceland, Norway and Sweden;
- An "Investment Guarantee Agreement" (IGA) could be used to supplement a treaty and guarantee investors get treated in a certain way on non-tan issues. Malaysia has concluded about 20 IGAs with mainly developed countries.

An IGA is meant as a guarantee against noncommercial risks such as expropriation or nationalisation and to allow for remittances and repatriation of capital.

For a developing country, an IGA should help to quicken the pace of industrialisation by encouraging the inflow of foreign capital. It is generally considered that an IGA that prevents arbitrary action by a recipient country generates confidence in foreign investors.
Now the Receiver demands to know all

Maria

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Leigh Hassall

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Do Whites have Wealth to Redistribute?
Mining revenue to state coffers drops

GOVERNMENT's tax receipts from the gold mines as a proportion of total revenue fell to another record low in 1991, the Chamber of Mines said yesterday in its yearly statistical review of the mining industry.

The total contribution of the mining sector to government revenue also fell to a record low, albeit less precipitously.

The figures reflect the further marginalisation of the industry within the SA economy as the mines faced another year of low commodity prices. The chamber said average rand gold prices in 1991 were almost unchanged for the third year running at R998 an ounce.

Tax paid by the industry fell last year to the lowest level in nominal terms since 1979.

The chamber calculated that in the year-ended December the gold mines paid R587m in tax. That compared with R627m paid by the industry in the year-ended March 1991, which was the lowest sum contributed to state coffers since the amount of tax paid doubled from R445m to R881m between 1978 and 1979.

Government received only a little more than 1% of its total revenue from gold mines in 1991, compared with 2.2% in 1990, 4.5% in 1990, 10% in 1985 and 26% in 1981.

Overall revenue from mining fell to 4.1% of total revenue in 1991, down from 4.6% the year before.

Government revenue from the gold mines is likely to fall lower still in the current financial year, thanks to the rewriting of the mining tax formula in the gold mines' favour in the 1992 Budget and the sustained weakness in gold prices.

Chamber figures showed that in 1991 SA's gold mines produced 556.2 tons of gold (1990: 603 tons), after treating 98-million tons (102-million) of ore.

Uranium production fell by a third to 1.774 tons (2.93 tons), the lowest level since 1964, a reflection in the slump in uranium prices because of a glut of the material on world markets.

The chamber said the average number of employees on the gold mines fell to 434,550 from 473,681 in 1990, the lowest figure since 1977.

The chamber's safety statistics showed that the number of mineworkers who died on the gold mines fell sharply to 443, against 522 fatalities in 1990. The fatality rate per thousand workers fell to 1.18 from 1.24, although the reportable injury rate rose to 12.7 from 11.2.

Nearly 5,000 workers have died on the gold mines from 1983 to 1991.
Doubt over deferred compensation schemes

CAPE TOWN — A recent case in the Natal special court for hearing income tax appeals has led to fears regarding the viability of some deferred compensation schemes, especially in the case of small companies or close corporations, Sanlam legal researcher Emile Wessels said.

In the latest issue of Optimum, a publication of Sanlam's legal services department, Wessels said the court had refused a company a Section 11(a) — a deduction for the payment of a gratuity — "with grave tax consequences".

The court confirmed a decision by the Commissioner of Inland Revenue to disallow the deduction, though being a special court, its decisions are not binding on subsequent courts.

"It was held that the expense was not incurred in the production of income or, alternatively, not laid out wholly and exclusively for purposes of trade," Wessels said.

The court had followed a subjective approach, namely that if the taxpayer (the company) did not intend the expenditure to produce income it would not qualify for a Section 11(a) deduction. It found that the expenditure on the gratuity in question was not intended to produce income but to improve the retirement benefits of the company's major shareholder.

A gratuity payment on retirement would be acceptable if its clear purpose was to induce the employee to stay on in employment or to motivate him to work harder — that is, if the payment played a role in producing income.

Wessels said the result of the judgment was that gains could be taxed three times as the policy would not have been held in the life assurer's untaxed portfolio; the full proceeds would be included in the company's gross income without a corresponding deduction; and the gratuity would be included in the employee's gross income.

"I believe that deferred compensation should not be marketed in a vacuum — the surrounding circumstances must be taken into account to facilitate the successful implementation of a scheme. If the true purpose of the scheme is to produce income (by motivating employees) one must try to accumulate evidence that shows this to be the case," Wessels said.

"It can be dangerous to implement a deferred compensation scheme in the case of companies where the majority shareholder is the only person to benefit from it. It may be difficult to convince a court that he needed this type of inducement to stay on, especially where he is the sole shareholder," Wessels said.
Violence must 'be stopped'

CRITICAL PERIOD

Premier boss warns of effects of political instability:

By Joshua Raboroko

CERTAIN ACTIONS by political parties damaged the economy and would weaken the ability of the corporate world to help small businesses develop and create jobs for the disadvantaged.

Speaking at the Business and Entrepreneurial Development Conference in Midrand yesterday, the chief executive of the Premier Group, Mr Peter Wrighton, said black economic empowerment could not take place in an atmosphere of violence and political instability.

"We all know that the regeneration of business cannot take place without peace and political stability. We plead with our leaders to act more like statesmen in this critical period of our history," Wrighton said.

He appealed to the corporate world to help township entrepreneurs.

"Big brother must help small brother grow," he said.

National Sorghum Breweries' Professor Mohale Mahanye said one of the stumbling blocks to black advancement was lack of finance.

He said big business and the Government should pump money towards black economic empowerment.

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Cosatu's appeal to employers

Deadline to taxes nears as protests increase:

By Ike Motsapi

THE CONGRESS of South African Trade Unions has set December 1 as a target date for employers to stop deducting the Pay As You Earn tax from workers' salaries.

Cosatu media officer Mr Neil Coleman yesterday said they expected companies to support the call as part of the ANC-led mass action.

Instead, employers would be asked to pay the tax into a fund for "peace and democracy" to be established soon.

The federation also agreed to step up the mass action campaign.

It would also call for the occupation of government buildings.
PAYE defaulters face prosecution

PRETORIA — The Commissioner for Inland Revenue was obliged to prosecute or penalise employers who defaulted in PAYE or SITET payments in terms of the Income Tax Act, an Inland Revenue Department source said yesterday.

Penalties faced by employers who submitted to Cosatu demands that they join a tax revolt and stop making monthly tax payments on behalf of employees included a 10% surcharge on the tax withheld.

There was also a criminal sanction of a R400 fine or six months jail or both for each individual non-payment. Dozens of employers were convicted every year for non-payment contraventions, the source said.

Legal sources said incitement to commit an offence — such as threatening employers to coerce them into co-operating in a tax boycott — could be dealt with in terms of the Riotous Assemblies Act and the Act on Intimidation.

Inland revenue statistics showed nearly 80% of income tax revenue came from SITET-and-PAYE payments. No figures were available indicating the revenue from SITET payments alone but there were just over 900,000 taxpayers earning between R20,000 and R50,000 a year.

Anyone earning less than R50,000 a year is a SITET payer and does not have to submit an income tax return.

DP parliamentary finance group member Douglas Gibson said yesterday any employer submitting to the tax boycott campaign should be prosecuted to the limit.

The country was in dire need of funds for vital socio-economic upliftment projects and any unlawful interference with the tax collection system had to be condemned, he said.

An NP statement yesterday said the PAYE sabotage plan was nothing less than "economic terrorism".

"It is yet more evidence of the Cosatu tail trying to wag the ANC/SACP alliance dog and undermine ANC moderates' attempts to get negotiations back on track.

"If Mr Mandela is genuine about resuming negotiations and becoming a part of the solution, then he should call Cosatu to order and stop the alliance's spoiling role in the economy," it said.
Tax receipts down 11%  
By Derek Tommey

Tax receipts dropped 11.2 percent in August to R5.3 billion — down from R6 billion a year ago. But the Ministry of Finance has hastened to reassure the public that this is not the start of a trend.

It says that one reason for the low figure is the large month-end carryover to September. When a month ends on a Friday, a weekend or a Monday, tax payments intended for that month are usually only recovered the following month.

Two other reasons are that VAT collections appear to be continuing to fall below budget, and certain departmental income was received in 1991 but not in August this year.

Because of these factors, it says the August 1992 figure for Inland Revenue cannot be used to deduce the revenue pattern for the entire financial year.
The ANC/SACP/Cosatu alliance says its PAYE tax boycott will start on November 1. It wants employers to stop paying PAYE deductions to Revenue and place them, instead, in a “fund for peace and democracy.”

Employers who comply will face serious penalties. Arthur Andersen tax partner Pierre du Toit says the Fourth Schedule to the Income Tax Act imposes a duty on every employer (unless the Commissioner has granted an exemption) to withhold employees’ tax (PAYE) and pay it to Revenue within seven days of month’s end.

It is a debt due to the State and an employer who fails to withhold PAYE is personally liable for the amount.

Failure to pay over PAYE also exposes the employer to a penalty of 10% of the unpaid amount.

And, under section 89(b)(2) of the Act, tax not paid over within the prescribed period attracts interest at the current gazetted rate (now 18%). The Commissioner may absolve the employer from the penalty if he is satisfied failure to pay was not due to an intent to postpone or avoid the tax or assist the employee to evade his obligations under the Act.

However, it is highly unlikely the Receiver will not move against employers who fail to make the payments. If taxes cannot be collected a government writ has ceased to run.

Union officials too could face penalties. In certain circumstances they could face charges of extortion under common law. The alliance will be putting pressure on employers to pay money, which should have gone to the government, into a fund to benefit workers. Assuming the demand is backed by threats of strike action or worse, then all the elements needed to prove the offence would be present.

Extortion may be tried in the Supreme Court and the penalty imposed could be severe.
Some taxing questions for employers

To support casuals' career goals

WENDI MACHANA

To deduct PAYE and social if..
Food prices are hard to swallow...
NO SAY, NO PAYE

By SNUKI ZIKALALA,
South African Labour Bulletin

COSATU is planning on playing its trump card - a tax boycott - in December in its campaign to have the government step down in favour of a constituent assembly and interim government.

The main problem facing the campaign, however, is that it will need the co-operation of employers.

At a recent campaigns conference, Cosatu's campaigns co-ordinator, Jay Naidoo, targeted December 1 as the date on which the boycott would start.

The plan is to have employees tax deductions paid into a "peace and democracy" fund, which will be made available if and when an interim government is in place.

While workers will continue having taxes deducted, management are going to be asked to defy the law and pay the taxes into the fund.

Cosatu acknowledged that employers weren't likely to warm to the idea, but felt that through negotiating it could receive undertakings from most of them.

It said workers would be asked to put pressure on employers to consider the request.

Although the idea seems far-fetched, events in the past weeks have shown a willingness among some employers to compromise with unions and communities on broader issues.

During the August stayaway - part of the mass-action campaign - employers agreed after consultation with unions not to dismiss striking workers.

Banks have held discussions with the SA National Civics Association in an attempt to avert a bond boycott. Although no general agreement was reached, The Perm accepted in principle Sanco's call for a code of conduct for banks.

The other banks were, however, scared off by Sanco's demand that they stop providing the government with banking services until an "irreversible process of democratisation" was underway.

Council of SA Banks head Tony Norton said: "It is a point of principle that people cannot co-opt our industry."

Finance Minister Derek Keys announced on Wednesday that the economic forum, due to have been launched this week, had been postponed because of Cosatu's determination to go ahead with the tax boycott.

Cosatu is an important member of the forum, created to formulate a national economic policy that could rescue SA's economy.

The tax boycott plan has won the support of the SA Council of Churches, in an attempt to ensure that a broader section of the community takes part.

Cosatu will also be trying to co-opt non-unionists and white workers by highlighting the "government's misuse of funds".

Naidoo said: "We will have to convince white workers that the government has been misusing the tax money. They will also benefit from a proper, efficient and well-run government."

In a campaign that relies so heavily on co-operation by employers - and for that reason excludes the public sector - Cosatu and other supporters are going to have a lot of convincing to do.
Tax take plunges

TAX collections in August plunged — revenue of R5.335-billion was 11.3% down on August last year. This is the second time this year that revenue has fallen below the corresponding figure in 1991 — July collections were 5% down.

Standard Bank chief economist Nick Csyloska says cumulative April-to-August tax revenue is a mere 1.4% up on the corresponding time last year. A 15.7% increase was budgeted for.

Mr Csyloska says government expenditure has increased 28.3% compared with a budgeted 15.5%. The final budget deficit could be as high as R22-billion — 6.2% of GDP.

Handelsinstituut chief economist Nick Barnardt says interest on government borrowings to finance the shortfall will be at least R700-million.

The Department of Finance attributes the decline in revenue to the month-end falling on a weekend. Much of the tax collected will be processed the following week and will be shown in September's figures.

The distortion is magnified because provisional tax payments are made in August.

A spokesman says the August 1991 figures were abnormally high because of a R170-million profit on the trading account of the Department of Water Affairs.
GOVERNMENT has been urged by business and labour to avoid presenting its integrated normative economic model — which Finance Minister Derek Keys has said will be ready in November — as a fait accompli.

The forum's future hangs in the balance after government decided to defer its decision on whether to take part because of Cosatu's mass action and anti-PAYE campaigns.

Cosatu negotiator Jayendra Naidoo argued it was difficult to consider documents from any party which had gone through extremely rigorous scrutiny, resulting in that party being strongly committed to it.

He said labour and business were keen to see all proposals — before they were fine-tuned — on the table at a plenary session of the proposed economic forum. BIDP 21/11/92

Business representative John Hall said while business understood time constraints on government regarding its economic model, employers had been frustrated by "pseudo-consultation" in the past.

Anglo American's Bobby Godsell said there were many long-term documents which the economic forum — when it was launched — should begin comparing immediately.
Tax break condition likely to be retained

LINDA ENSOR

CAPE TOWN — The scrapping of the Sixth Schedule — if and when it comes about — would not necessarily do away with the requirement that there be an element of life cover in deferred compensation policies for such policies to qualify for tax deductions, Inland Revenue's Ian Meiklejohn said on the weekend.

Speaking at the Cape Assurance Industry Liaison Committee (Cailcom) conference, Meiklejohn said "there is a widely accepted view that because the Sixth Schedule will go, the life cover requirements in terms of Section 11 (w) of the Income Tax Act will go as well.

"But this does not follow. To justify a Section 11(w) deduction life insurers have to be able to show that their products are different from those of other financial institutions."

Meiklejohn said the requirement that life cover amounting to eight times the premium be included in endowment policies was necessary to keep level the playing fields between deposit taking and contractual savings institutions.

He said he was also disturbed by the use of deferred compensation policies in some cases and urged that service contracts be reviewed. It was acceptable from the point of view of tax deductions for deferred compensation to be used as an incentive to keep an employee in employment — which meant the benefit was forfeited if the person left the firm.

However, if the service contract contained a clause giving the employee an irrevocable entitlement to the benefits of the deferred compensation policy — even when he or she left employment — then the premiums would become taxable as a fringe benefit.

Meiklejohn said Inland Revenue had not clamped down on malpractices as yet as it was difficult to unravel existing schemes and it was virtually impossible to change course midstream.

However, he stressed that it was not impossible to do so and urged employers to review carefully their service contracts in terms of Section 7 (1) of the Income Tax Act which required that any amount capitalised for the benefit of an employee was taxed in his hands.

On the taxation of retirement funds, Meiklejohn said while suggestions were being discussed at present, he felt it would be dangerous to introduce any radical changes to the taxation of these funds. Any changes would occur within the framework of the protection of vested rights and only after full discussion with all interested parties.

While it was assumed that life offices were overtaxed and that a new dispensation would mean lower tax, there were also areas where life offices were undertaxed, he said.

The de facto tax deductibility of about 47% of expenses was probably too generous, Meiklejohn said, and should be closer to 42%. Legally, 55% of expenses are tax deductible but expenses relating to dividend income were disallowed so the figure was lower.
Borrowings of R7bn likely
Fiscal crisis as deficit heads for 6%

GOVERNMENT will have to borrow
about R7bn more than budgeted as its
cash crisis deepens and it heads for a
deficit of more than 6% of GDP,
economists say.

Revenue and spending figures released
at the weekend show the revenue squeeze
did not ease in August, contrary to ex-
terpretations that seasonally large tax pay-
ments would provide relief. Instead, Inland
Revenue deposited 14% less in the Exche-
quar account in August compared with last
year.

The major problem is the under-collec-
tion of VAT, with a projected shortfall of at
least R5bn. Unable to increase the VAT
rate because of its political sensitivity,
government will be forced to borrow ex-
cessively — building a debt mountain that
will be a burden for years to come.

Persistent recession is also playing hav-
occ with government finances as other tax
collections reflect the slack economy. The
cash-strapped Exchequer’s deficit is al-
ready running at about 90% of the budget-
ed R16.8bn.

Economists immediately revised their
deficit and borrowing projections for the
year. Forecasts for the deficit now range
from R22bn-R25bn, from R20bn after the
previous figures were released. This repre-
ts a deficit of more than 6% of GDP,
against a budgeted 4.5%. They warned that
a tight rein would have to be kept on
spending to avoid more pressure on shrin-
gring resources.

The surprisingly low revenue figures for
August prompted the Finance Department
to issue a statement to calm the capital
market. The statement ascribed the low
Inland Revenue figures to a “reasonably
large month-end carry-over” to Septem-
ber, low VAT collections and differences in
departmental incomes between August
1981 and this year.

The statement said: “Provisional tax
payments by individuals are usually made
in August. Due to the extent of this type of
payment the effect of a month-end carry-
over on the August revenue figures is sub-
stantial. The low August figure for revenue
cannot be used to deduce the revenue pat-
tern for the entire fiscal year.”

Economists are assuming that the April-
August pattern will not continue for the
full fiscal year, otherwise SA would have a
deficit of R5bn.

Total revenue was up by only 1.4% after
the first five months of the fiscal year, but
projections are for an increase of about 7%
for the year. This compares with a budgeted
rise of 15.7%.

Finance Minister Derek Keys, who is in
Washington for the IMF/World Bank
meetings, said in London last week: “As
taxable income declines with the economy,
we are not achieving our budgeted rev-
ue.” Fortunately, we feel we can handle
the divergence without raising taxes and
without recourse to money creation.”

Nedbank chief economist Edward Os-
born said the deficit could be as high as
R25bn. He was concerned about the inter-
est payments incurred through more
borrowing.

Deficit

Even assuming very conservative bor-
rowing and spending in the future, interest
payments could rise to almost 18% of total
spending in the financial year 2002/3, from
a budgeted 16.4% in the present fiscal year
and 11.7% in 1983.

HILARY GUSH reports Standard Bank
economist Nico Caypionka noted Inland
Revenue collections were down compared
with the April-August period last year.

“Note that the decline is in nominal and
not real terms. This is an ugly situation. It
shows the Minister of Finance has an ex-
tremely difficult job. The main culprit is
the undercollections for VAT. To some ex-
tent, government can do little about reve-
nume, but government expenditure will
have to be curtailed.”
Petrol tax hike — govt’s best option

From GRETA STEYN

Johannesburg — The government’s easiest option to alleviate its cash crisis would be to raise petrol taxes, economists said yesterday.

They also predicted economic reforms such as tariff and surcharge reductions would be put on hold until the revenue dilemma eased.

In the next fiscal year, individual taxpayers would continue to face erosion of income through fiscal drag as they bore the brunt of government’s financial crisis, they said.

Sa cob economist Ben van Rensburg said the easiest way out for government would be to raise the petrol levy.

In the Budget, the levy on petrol was raised by 8c a litre to bring the take from this source to R33bn. Any further increase would raise at the most a few hundred million rands.

Van Rensburg predicted excise duties would be raised substantially in the next Budget, but said government was not likely to take recourse to a luxury VAT rate.

“Variable VAT rates are unlikely to increase income from the tax and it causes too many administrative problems,” Van Rensburg said.

He believed looking for more sources of revenue was a futile exercise in an economy battered by recession. The personal tax take had been knocked by retrenchments, income from company taxes had been hit by liquidations and VAT collections were feeling the pinch of cutbacks in consumer spending.

“SA is already overtaxed. Raising more tax will only harm the economy further. Individuals are 45% worse off after three years of fiscal drag.

If government wants to reduce the deficit next year, it has to cut back on spending rather than look for additional revenue sources,” he said.

Afrikaanse Handelsinstituut economist Nic Barnardt said the deficit of 6% of GDP had to be seen as a sign of the severe recession, rather than expansionary fiscal policy.

“Spending figures do not provide any evidence of aggressive fiscal policy to turn the recession around,” said Barnardt.
Petrol levy rise is 'easiest option'

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"Spending figures do not provide any evidence of aggressive fiscal policy to turn the recession around," said Barnardt.

Spending for the April-August period was up 20% on the previous year. Although this is ahead of the budgeted 16.5%, economists said the seasonal pattern of spending suggested it was still on line to meet the fiscal year near the original targets.

Barnardt predicted the recession would last for another six to 12 months, and said the timing might not be right to cut government spending dramatically in the next Budget.

His view was that the undercollection of VAT was largely a reflection of the recession, although other economists believe government may have overestimated the tax base.

The latest revenue breakdown for the fiscal year to July shows VAT income running at almost 18% below last year's GST take—compared with a budgeted rise of 15% (after transfer to self-governing states).

Customs and Excise and the petrol levy income rose by about 35% in the April-August period, against a budgeted rise of 28.4%.

This buoyancy is helping to alleviate the pressure on the fiscus.
Land tax ‘inevitable’

CAPE TOWN — A land tax would be inevitable in the new SA, Arthur Andersen senior tax partner Pierre du Toit said at a Saxon meeting yesterday.

“No regime in future will be able to resist the pressures for a tax on land,” he said, highlighting the long history of dispossession by whites of black land in SA.

However, du Toit was confident that an ANC government would introduce land tax to generate revenue and not for the wrong reason of redistributing wealth.

There was much to be said for the right kind of land tax. It could be a source of considerable revenue, would not act as a constraint on the economy and could promote productivity if it was levied on the notional productive value of the land.

Du Toit was optimistic that there would not be dramatic changes to taxation. The promised reduction of tax rates would not continue but neither would there be excessive increases in tax rates. There would be wealth taxes, but they would not be crippling ones.

He said there had been an accelerated conversion between government and the ANC towards a social democracy in which the market would be left to deal with production, while redistribution would be achieved through expenditure.

A future tax system would emerge out of the need to balance the infinite aspirations and needs of the people with the limited economic resources.
Forum sticks to VAT demand

PRETORIA — Groups probing the causes of escalating food prices would continue to put pressure on government to scrap VAT on basic foods. Pick 'n Pay chairman Raymond Ackerman said yesterday.

He said the groups were due to report back to a plenary meeting in mid-November after three months of “intensive investigations”.

The forum’s aim was not to produce paper but to identify problems causing pressure on prices and how best to relieve the pressures, Ackerman said.

A major aim of the forum was still to persuade government to abolish VAT on basic foods. With unemployment still on the rise and disposable incomes shrinking, this had become increasingly vital.

One of the task groups was taking a close-look at control boards and the part they played, if any, in food price escalation.

“We also want to ensure those that are heading for privatisation are properly privatised and that they will not merely fall into the hands of the big boys and leave consumers out in the cold.”

Another group was investigating the effect of import duties on food prices and whether these could be adjusted or abolished where they could be shown to have an inflationary impact on prices. Also being probed was the part manufacturers, wholesalers and retailers played in the buildup of prices.

“We want to make sure our own houses are in order.”
The power of Inland Revenue to accept compromise positions in its administration of tax laws is becoming increasingly pertinent. I refer here not to rulings, in terms of statutory discretion, but to the common situation where a taxpayer discusses a contentious point of tax law with Revenue officials and they agree on its interpretation, or on how it would apply in a given case. In this context a recent Cape Provincial decision comes as a timely reminder of the limited significance of such arrangements.

In Namex (Pty) Ltd v CIR — 1992 (2) SA 761 — the Receiver sought to recover full taxes despite the fact that its claim was contended to have been included in a Companies Act S311 compromise agreement. Without deciding on the validity of those arrangements, where a third party makes a compromise with the company’s creditors, the court concludes that, in any event, the Receiver would not have the power to accept such an arrangement, and that the fisc would therefore not be bound by the agreement.

This decision, contradicts a general practice to the contrary. It is significant in its reconfirmation, by implication, that an official cannot bargain away the State’s right to taxes.

Under current tax law, the Receiver has limited capacity to use its discretion in making common-sense arrangements, of the sort that one might find between private parties. Apart from explicit discretion, like doubtful debt allowances, there is the capacity, through estimated assessments, to come to an arrangement if pertinent facts are uncertain. There is, however, no statutory counterpart where the law is uncertain.

Ruling issued

Many a ruling issued over the years which constitutes an agreement as to the manner in which a point of law will be interpreted, or even how the law will be applied to an undisputed set of facts, has no statutorily binding value whatsoever. The Receiver cannot be prevented from re-opening the issue.

Our administrative law is undergoing change. Old obiter dictum pronouncements that the power to settle doubtful issues is incidental to the power to collect tax (refer City of Cape Town v Claremont Union College — 1934 AD 450) may be hauled off the shelf. Or new concepts, such as the doctrine of legitimate expectation, may grow into empowering the fisc to strike deals, for example in order to avoid expensive litigation. But we are not there yet.

At the same time there is much to be said for creating a carefully circumscribed capacity to make binding rulings on contentious points of law. This will be essential if the intended self-assessment for companies is to be introduced.

However, mindful of the ever increasing sophistication and aggression in our tax administration, and the changes which over the next 10 years may flow from political dynamics, taxpayers are well-advised to re-search the law, plan their affairs accordingly and then fight without compromise for the protection of their rights under the law.

Deals, and I refer only to bona fide ones, may still have a strategic value in the right circumstances, but to rely on them as if they were law can turn them into deadly traps.
Shifting gears

Employees driving small cars can now avoid the deduction of PAYE on reimbursable travel allowances by restructing the arrangement with their employers. Those driving large cars, however, will still be better off — even after PAYE — if they receive a reimbursable allowance which compensates fully for motoring costs. This follows from the wording of a recent amendment to the Income Tax Act.

Writing in the August Tax Letter of KPMG Aitken & Peat, tax partner Pat McGurk says the amendment has changed the definition of "remuneration." A reimbursable travel allowance has not (since 1985) been regarded as remuneration if:

- It is based on the actual distance travelled by the recipient;
- Paid at not more than a rate determined by the Finance Minister;
- Paid for a maximum distance of 6 000 km/year; and
- The recipient has no other form of travel allowance from his employer.

In any other case, remuneration would include 25% of the travel allowance which would be subject to PAYE deductions.

The 1992 amendment says travel in excess of 6 000 km/year will also be excluded from the PAYE deduction if the reimbursive allowance is based on actual distance travelled and does not exceed the stipulated rate. This will be the case even if the employee receives a monthly travel allowance.

The stipulated rate is 70c/km for vehicles worth R25 000 or less and 100c/km if the value exceeds R25 000. However, McGurk says these rates are far below the actual current costs of motoring, which stand at around 93c/km for a car of up to 1 500 cc. For a car of engine capacity of 2,51 or more, a reasonable rate would be about R1,44/km.

So, if the employee driving a large car is reimbursed at economic rates, he will not be permitted by the amended definition to take advantage of the concession. He will still, however, have an improved cash flow, despite the PAYE deduction. The deduction would be no more than 16c/km (1.44 times 25%, or 36c, times 43%, giving about 15.48c).

The allowance will still be reflected on the employee’s IRP5 and he will have to justify it when he submits his tax return — by claiming expenses either actual or based on Revenue tables for car costs to offset the allowance received. He will then be able to pocket the balance of R1,28.

The concession will benefit employees driving a small car, as almost all new cars today cost more than R25 000 and therefore qualify for the R1/km rate.

Employers should therefore make a careful calculation in the light of these factors before making any adjustment to reimbursable travel allowances.
Keys breathes life into economic forum plans

Weekly Mail Reporter

THERE'S still life in the National Economic Forum (NEF), despite the government's deferment of its decision on participation. A flurry of activity is expected in the next few days following Finance Minister Derek Keys' return from the International Monetary Fund conference in Washington. Keys has indicated that on his return he will "urgently" seek meetings with the Congress of South African Trade Unions, whose proposed PAYE boycott sparked the government delay on the NEF.

Meetings between Keys and business representatives are also scheduled. Only after these will the cabinet make its decision.

Keys' press secretary, Lesley Lambert, stressed that the deferment of the decision has not affected the functioning of the government's team, which was still available for NEF meetings.

The signs are that the NEF will be back on track once Keys and Cosatu iron out their differences over the PAYE issue. A possible solution being mooted is that Cosatu will continue paying lip service to its PAYE boycott, while urging Keys to press the cabinet into a swift transition to interim rule. Once a transitional government was in place, the boycott would be dropped.

There is considerable scepticism, even among unionists, about Cosatu's capacity to wage a campaign. Without the co-operation of big business — which is adamant it will not break the law — the boycott would be stillborn. Cosatu would have to lead the way by withholding PAYE, exposing both it and its affiliates to prosecution.
In tax returns children a poster
This and That

LEIGH HASSALL

You're kids and ours. We'll see!
Tax amendments boost for exports

Exporting is a post-sanctions environment.
yet to materialise
VAT miracle is
One year on, the

Greta Steyn

(320)

Photo: Tertius Pickard

South Africa's economy is still struggling to recover from the shocks of the global financial crisis. The government's attempts to stimulate the economy through fiscal and monetary policy have been met with mixed results. The country's high unemployment rate remains a major concern, with many businesses struggling to stay afloat. The VAT miracle, which was expected to bring much-needed relief to the economy, has yet to materialise. The government's efforts to simplify the VAT system and reduce compliance costs have been hampered by technical difficulties and resistance from industry. As a result, businesses continue to face a daunting tax burden, and the VAT miracle remains elusive.

The government has also struggled to implement its agenda for economic transformation, which includes measures to tackle inequality and promote black economic empowerment. Despite some progress, progress has been slow, and many people feel left behind. The economic challenges faced by South Africa are complex, and there is no easy solution. The government needs to focus on creating a more conducive business environment and fostering innovation and entrepreneurship to drive economic growth and create jobs.

In the meantime, businesses need to adapt to the changing economic landscape and find innovative ways to remain competitive. This may mean reinventing their business models, investing in new technologies, and exploring new markets. It is a challenging time, but South Africa has a history of resilience and resilience, and the country's people are known for their perseverance. With the right policies and support, the VAT miracle may yet materialise, and South Africa's economy can recover from the impact of the global financial crisis.
Govt reluctant to zero-rate basic foods

GOVERNMENT is signalling it does not want to zero-rate all basic foods — exactly a year after the implementation of VAT.

In a statement marking the first anniversary of the tax, Deputy Finance Minister Theo Alant emphasised the need to keep the tax free from exemptions.

He did not refer to Finance Minister Derek Keys's agreement to look into the possibility of zero-rating basic foods, but said VAT worked best with the minimum of exemptions and zero-ratings.

He also addressed criticism that government had miscalculated the VAT base. He noted VAT collections for the first 16 months of its implementation were R1bn less than GST collections over the same period.

But the out-turn was satisfactory, he said, in light of the continuing recession and the accompanying decline in consumer spending.

However, finance sources said government had underestimated the extent of revenue lost through abolishing tax on capital and intermediate goods. Economists predict VAT receipts could end the fiscal year R1bn below budget.

*See Page 12*
**Exporting in a Post-Sanctions Environment**

Exports have been given a shot in the arm by among other things, new credits and insurance facilities negotiated by the government. The improved economic climate is already reflected in increased export volumes.

Most countries' statutory trade sanctions against South Africa have been suspended, and there are some exceptions to trade sanctions imposed by various governments. The majority of these countries have now lifted their sanctions against South Africa, and this has led to a significant increase in exports.

In some cases, the sanctions have been lifted completely, while in others, they have been reduced to a certain extent. The lifting of sanctions has led to increased trade with these countries, and this is expected to continue in the future.

In conclusion, the lifting of trade sanctions against South Africa has had a positive impact on exports, and this is likely to continue in the future.
Plan to ‘blockade’ stores over food prices

By Zingisa Mkhuma
Consumer Reporter

The VAT Co-ordinating Committee (VCC) said yesterday it would embark on a “blockade” of major stores on October 13 to fight rising food prices.

The VCC was responding to Central Statistical Services figures showing that food prices between August 1991 and August this year had increased by more than 30 percent. It reiterated its call for zero-rating of VAT on basic food.

The VCC — formed as a coalition of organisations opposed to VAT on basic foodstuffs, and an initiative of Cosatu — said it had earmarked October 13 to focus on food inflation and VAT on basic foods.

The campaign, called “Asinamali”, would include pickets and marches to supermarkets and to the offices of the Receiver of Revenue.

The labour federation’s members would be mobilised to buy bread and milk at prices “set” by the VCC. The price of a litre of milk would be R1,15 — it costs R2,40 at most outlets. The VCC said it still had to “set” the price of a loaf of bread.

Cosatu spokesman Neil Coleman said the Government had failed to do anything meaningful to arrest rising food prices.

Housewives’ League president Jean Tatham said the 10 Food Forum working groups were investigating ways to deal with food inflation.

Food price inflation in upward spiral — Page 21
Let taxman assist when you relocate

OPTING for the howling gales of Cape Town or the cloying humidity of Durban? If you're relocating with your company, make sure you move the tax-efficient way.

The taxman is unusually generous in allowing certain of the employee's relocation expenses to be paid by his company. Nor does he regard such personal expenses paid as a fringe benefit to the employee, and so the amounts escape free of tax.

Bearing this in mind, the employee should negotiate a tax-efficient salary package with his employer concerning his new position. The ideal situation is where the company pays as many of the relocation expenses as are allowed by the Income Tax Act to be included as part of his annual salary package.

The Act allows the company to pay for the transportation costs of the employee, family and pets to their new destination and the removal costs of his household contents.

Certain other costs in the sale of the employee's previous residence may be allowed to be paid by the company at the discretion of the taxman; for example, cancellation of bond fees and agent's fees on the sale of the property. However, where the taxman draws the line is at the loss incurred on the sale of the previous residence.

If the employee takes his time over choosing a new place of residence, the company may bear the rental costs of the temporary accommodation up to

MOVING is an emotional and expensive business, but you can exercise some control over the latter with planning, reports LEIGH HASSALL.

183 days after the date of transfer.

The taxman is particularly generous in exempting from tax the employee's settling-in expenses of his new permanent place of residence. To the delight of your home decorator, the cost of new curtains will be allowed to be paid by the company. The taxman will also allow the company to pay for new school uniforms for your children.

In practice this settling-in allowance should not exceed 1.5 times the married employee's and 0.75 times the single employee's monthly salary.

Unbearable beauty

The bond registration, transfer duty and legal fees of your new residence are accepted by Revenue to be exempt from tax. The costs borne by the company will be tax deductible in their hands, provided the costs borne or reimbursed have been made in terms of an employment contract.

All this effort being made by the taxman to make relocating to the unbearable beauty of Table Mountain or the foot-scorching beaches of the South Coast a little easier to bear.
NEVER FEAR: Its role in our future revenue harvest likely to be small

Wealth tax need not be frightening

W E A L T H taxes will have a role to play in future fiscal policy, and while there is some scope to increase these taxes, their role will remain a small one, says Marius van Blerk, chairman of the SA Fiscal Think Tank.

His comments are likely to soothe the frayed nerves of local investors, mainly those who jump every time the words "wealth taxes" are used.

The term "wealth tax" generally includes the following categories:

Gifts, death

- Annual net wealth tax, and capital transfer taxes such as gift tax and death tax. South Africa already has the latter two taxes.

Internationally, in the highly developed OECD countries, there is a trend away from wealth taxes because their collection has not proved to be cost-efficient.

Van Blerk cites the example where in 1965 property tax (which includes wealth tax and taxes on property transfers) in OECD countries averaged 2 percent of gross domestic product while this figure had dropped to 1.8 percent by 1985.

He says a similar trend has developed in South Africa. In 1975 property taxes at a general government level amounted to about 1.8 percent of GDP and by 1985 this had dropped to 1.3 percent.

Van Blerk notes that while South Africa is following the trend of reduced reliance on property taxes, South Africa levies less property tax than the OECD average. However, at a central government level, South Africa levies more property tax than the non-OECD countries.

Thus, as South Africa's economy continues to develop, there will be some capacity to increase the contribution of property taxes.

Does the decline in the importance of property taxes mean that they should be abandoned? The answer is no, says Van Blerk, because, with regard to the existing wealth taxes, there already exists an infrastructure to collect the tax. These taxes are then reasonably efficient as there is little extra collection cost.

However, this does not hold true with the introduction of new wealth taxes, particularly annual net-wealth taxes. Such taxes have been found to be inefficient in that they require excessive administration costs and generate disproportionately negative perceptions in relation to the revenue they subsequently generate.

Declining

Van Blerk notes that while property taxes are generally declining in importance, it is clear that the more highly developed economies are more successful in using these taxes as a source of revenue than their less developed counterparts.

Accordingly, as the South African economy becomes more developed it will be in a better position to extract property taxes.
Call for tax breaks

ENTREPRENEURS are the unsung "heroes" of our economy and need more state support and better tax breaks, according to Dr Ben Vosloo, managing director of the Small Business Development Corporation.

He said Small Business Week 1992 would focus attention on the key role of entrepreneurial activity in small and medium-sized enterprise (SME). This role was the cost-effective creation of jobs and spreading of wealth.

SMEs had played a prominent role in the "impressive economic performance" of certain countries in South East Asia and the West. This had caught the attention of business leaders, policy makers and academic analysts in many countries, he said.

"Many governments have tried to encourage the development of SMEs in their countries with both indirect and direct assistance measures — such as tax incentive schemes," said Vosloo.

He explained that SMEs in South Africa paid tax at a marginal rate of 48 percent, but similar enterprises in Britain paid 25 percent on profits of up to R1,25 million.

"So in South Africa, a developing country, we have the absurd situation in which our SMEs pay tax at more than double the level of our counterparts in a developed country.

"Given that it is now common knowledge that the impetus for wealth and job creation has shifted from big business to SMEs, it is essential that government abandons its bias in favour of large businesses," he said.

"A more prosperous South Africa cannot be built by focusing supportive initiatives almost exclusively on the big business sector." *Lynda Loxton*
Borrowing to make up R30bn shortfall

Keys rejects tax increase

The Government has ruled out any increases in taxes — direct or indirect — before the next Budget.

Amid growing concern about the Government’s cash crisis — tax collections are way below target — Finance Minister Derek Keys says taxpayers will not be called on to help solve the revenue problem through new taxes.

However, the fuel price is to be raised.

Mineral and Energy Affairs Minister George Bartlett confirmed on Friday that fuel would cost more — but not because of a levy. Mr Bartlett says the Government is considering an increased price. He will not say how much more it may cost.

Wealth

Fuel prices will have to rise because the stabilisation fund — or state — is short of money.

Motorists have been underpaying about 14.8c/l for petrol since July, but a source says an increase like this is unlikely because it would add about a percentage point to the inflation rate. A fuel-industry source says any increases this year are likely to be staggered to minimise the effect on inflation.

Mr Keys warned in an interview that a rise in VAT could be considered at the start of the next fiscal year.

Higher fuel taxes and the introduction of capital gains and wealth taxes were seen by economists as distinct possibilities because of the budget crisis.

They estimate that revenue could undershoot expenditure by at least R29 billion, twice the budgeted deficit.

This shortfall — equivalent to about 8% of gross domestic product — is more than double the 2.5% guideline set by the International Monetary Fund.

Mr Keys is concerned about the way the economy is staggering under the weight of the recession.

"But now is not an occasion for an increase in taxes because the deficit is growing."

The Government will instead continue to borrow from the market to fund the shortfall.

"If we don't borrow, the extra load would have to fall on you and me," Mr Keys says a drop in interest rates, as and when it happens, will stimulate the economy. It could also help to revive confidence.

But Reserve Bank Governor Chris Stals doused hopes of an imminent cut in rates on Friday. He implied that if a drop in rates were considered, they would only come about if inflation dropped below 14%. The August consumer price index was 14.3%.

Dr Stals says SA’s economic collapse is cause for concern, "but we cannot solve that by creating more money."

The World Bank warns that a budget deficit of above 4% of GDP could lead to lower investment spending and hamper chances of a successful political transition.

An informal discussion paper by the World Bank says a deficit of 4% of GDP is manageable.

The paper was completed in May before revenue shortfalls led to projections of an 8% deficit.

But authors Brian Kahn, Abdel Senhadji and Michael Walton warn that the fiscal situation may already be worse than it seems.

"Sooner or later the Government will have to pay for losses or shortfalls of lower level of government and homeland administrations (as well as the underfinancing of the state pension fund)."

Money

They say a permanent increase in the deficit — above 4% — "is likely to be in direct conflict with an investment recovery (especially private investment required for growth)."

The authors say budget deficits must be financed from borrowing the excess savings of the private sector, by borrowing from abroad or by printing money.

Excessive domestic borrowing causes rising interest rates with negative implications for investment. Excessive foreign borrowing results in unsustainable current account deficits and printing money is inflationary.

SA could comfortably move from being a capital exporter to a moderate importer of money in the 1990s.
By Magnus Heystek

The shocking news from the Reserve Bank that Gross Domestic Fixed Investment — basically an investment in future job creation — has dropped to less than one percent of Gross Domestic Product should, hopefully, focus the mind of politicians on what is happening to the economy.

Without large-scale investments now, the capacity of the economy to provide jobs is severely diminished.

As it is, the economy is absorbing virtually no new entrants into the labour market.

That is why it is now necessary to bring home the point that South Africa needs a vibrant and growing economy.

Most political parties are in agreement as far as economic objectives are concerned. How to get there is a different matter.

This is what the Blueprint for Prosperity Conference is all about. The conference takes place on October 8 at the Johannesburg Sun and will discuss the various economic and fiscal strategies needed to secure a higher growth rate.

This is the first time such a conference has been held in South Africa and has already been dubbed as an "economic Codesa".

For scenario planners at large companies, the conference is vital.

It will provide in one day all the economic and fiscal policies advocated by major political and business groupings in SA.

Questions to be thrashed out include:

What kind of tax changes will an ANC government introduce?

Could SA have a plethora of new taxes, including wealth taxes and even a redistribution of wealth?

How will this affect your business?

Speakers include Dr Zac de Beer (leader of the Democratic Party), Cyril Ramaphosa (secretary-general, African National Congress), Dr Stef Naudé (director-general, Department of Trade and Industry), Kehla Mtombi (managing director, African Sun) and Michael Kados (chairman, Tax Advisory Committee). Archie Nkonyene (vice-president of Nacoco), Professor Siyabonga Shabalala (Department of Business Management, University of the Transkei), Professor Dennis Davis (Professor of Law, Centre for Applied Legal Studies, University of the Witwatersrand).

Bookings for this convention can be made through Cordev Market, telephone (011) 483-3214/5. The fee is R250 per person.
Campaign to boycott PAYE

DURBAN.—A national campaign to boycott PAYE tax is to be launched by the Congress of South African Trade Unions (Cosatu), it was confirmed yesterday.

All Cosatu regions throughout the country and their allies within the ANC/SACP/Cosatu alliance are believed to have been fully briefed on the campaign and were gearing for its implementation.

Cosatu spokesman Mr Neil Coleman said all congress movement aligned organisations and other interested parties would start refusing to pay PAYE to the government as "organisations" from November 1.

He pointed out that Cosatu believed that the state still wanted to proceed with its "unilateral restructuring process of the country's economy without proper consultation with peoples' organisations."

Cosatu recently warned that the government's sudden withdrawal from the national economic forum was a clear recipe for turning the economy into a battlefield.

Mr Coleman said the second phase of the PAYE boycott is planned from December 1, when employers should stop paying tax deductions to the government and instead pay the money into a fund for peace and democracy.
Employers, workers will pay more

Govt urged to tax pension contributions

PENSION fund contributions will no longer be fully tax deductible and taxpayers will pay more to the Receiver if government accepts proposals in the Jacobs report on financial services.

The report, released today, recommends that only two-thirds of an individual’s pension fund contributions should be deducted from income for tax purposes, and only 80% of an employer’s contributions.

It recommends that some tax be paid on current pension contributions instead of being delayed until pension benefits are ultimately paid.

Finance special adviser Japie Jacobs said in an interview the tax on pensions would be shared by employers and employees. Employees would pay tax on a third of their contributions at the marginal tax rate. Companies would pay the company tax rate on 20% of their contributions to pension funds on behalf of employees.

“Government has been losing R1bn a year because of deferred tax on pensions. We are recommending a new system that will reduce the loss to the fiscus,” Jacobs said. He could not, however, quantify how much tax the new dispensation would yield. He added it would be phased in and a new approach to the taxation of the eventual payout of benefits would have to be devised.

The change in the treatment of taxable income could push some individuals into higher marginal tax brackets. Jacobs, however, did not believe the new dispensation would prompt people to stop contributing to pension funds.

The report does not extend the new tax dispensation to provident funds, but said in a note this would have to be examined.

Jacobs noted that there would be no changes to taxation of lump sums and there would be no taxation of capital gains.

Other aspects of the report include the widely expected recommendation of the “four funds” approach to taxing life assurers. Asked whether the life assurers would pay more or less tax in terms of the new approach, Jacobs said some companies would pay more and others less. The report suggested that the “four funds” approach be phased in over three years.

A recommendation in the report that could reignite competition between banks and building societies is the scrapping of the Sixth Schedule of the Income Tax Act. This means policies will no longer have a minimum element of life cover and the minimum terms of policies will be reduced.

Pensions from 10 years to five.

Another recommendation in the Jacobs report that could spark debate is that there should be only one regulating authority for all financial services. At present, banks are regulated by a Registrar based in the Reserve Bank while life assurers fall under the Financial Services Board. Jacobs said there were still some grey areas that would have to be tackled before the two could be married.

The recommendation of one regulatory authority stemmed from the principle that risk management should be approached in a functional rather than institutional way. Jacobs said an important focus of the report was prudential control and ensuring that the public was aware of who carried the risk. A new approach had been devised for the treatment of principals and agents in investment transactions.

The report also recommended that lending of financial services be subject to licensing, risk management, and prudential regulation. Jacobs said companies would have to be regulated to ensure that norms were met.

LINDA ENGLISH reports draft legislation is being prepared to give effect to the 1999 parliamentary session to the recommendations of the Jacobs report on the promotion of equal competition for funds between deposit-taking and contractual savings institutions.

Finance Deputy Minister Theo Alass said the draft amendment Bills would be released for comment in due course. He said the Jacobs report was obtained from the secretary of the Financial Services Board, Private Bag X228, Pretoria 0001.
The Government is considering proposals that could result in individuals paying tax on their pension fund contributions for the first time.

The Jacobs report on financial services, which was released today, recommends that only two-thirds of individuals' contributions to pension funds should be tax deductible and not the full amount as is the case at present.

At the same time, 20 percent of pension fund contributions by companies could attract tax.

The report also recommends the scrapping of the "Sixth Schedule" for life insurers, which would allow the groups to offer products with no element of life cover and reduce the term on policies to five years.
Pension fund tax move
‘socially irresponsible’

By Sven Linsche

The Jacobs Committee’s shock proposal to scrap the full tax-deductibility of pension fund contributions has been described as "socially irresponsible and a short-sighted attempt to shore up the Government’s short-term cash-flow problems".

The Jacobs report on financial services, released yesterday, recommends that blanket tax deductions on pension fund contributions by individuals and companies be phased out.

Other key proposals include the establishment of one regulating authority for all financial services and scrapping the Sixth Schedule of the Income Tax Act.

It is expected that the amended legislation to give effect to these proposals will be passed during the 1993 session of Parliament.

Tax analysts say the report should not be equated with impending legislation in that its contents are only recommendations published for comment by interested parties.

However, the key proposal, if accepted, will force individuals to pay tax on one-third of their contributions to pension funds.

At present, the full pension fund contribution is tax-deductible. The burden will be worsened if it pushes taxpayers into higher tax brackets.

The committee’s key proposals

- Employees would have to pay tax on one-third of their pension fund contributions.
- Employers would have to pay tax on 24 percent of their contributions to pension funds at the company tax rate of 38 percent.
- Benefits at retirement from all fund sources would be limited to a reasonable amount.
- Replacing the sixth schedule of the Income Tax Act with legislation which would tax-exempt life insurance investments with no life cover and a term in excess of five years.
- A “four-front” approach to the tax base of life insurers, allowing life companies to run separate funds for tax purposes.
- All providers of financial services to the public would be required to register in terms of a proposed Financial Services Act, creating one regulatory body for the industry.

Twenty percent of pension fund contributions from employers could also attract tax at the prevailing company tax rates.

Independent pensions broker Patrick Anderson says it is a measure of the Government’s desperate need to tax every available source that it is prepared to sacrifice the previously sacrosanct area of retirement provision, Des Parker reports.

Mr Anderson believes the plan runs counter to all advice to the Government on pension funding over the years.

The proposal would also cut across ANC policy, which is that tax should be levied on the life assurance sector, rather than on the man in the street.

Tony Davey, Southern Life’s general manager, legal and tax services, says implementation of the proposals would provide the insurance industry with additional cash flows.

“There is also a socio-economic perspective, which is that the full current tax relief on contributions favours the higher income groups, which effectively results in the state granting disproportionate incentives to those who arguably need it least,” Mr Davey says.

The second drastic recommendation is scrapping the Sixth Schedule of the Income Tax Act, a proposal that has been welcomed by the Life Offices Association (LOA).

Currently, investments with life companies have to be for a minimum of ten years and must have a certain level of life cover to escape tax liability.

The life cover requirement is now set to fall away from any investment of longer than five years, if the recommendation is accepted.

The report makes important recommendations on the tax base for long-term insurers, proposing a four-fund approach.

According to the deputy director of the LOA, Jury Wessels, the industry as a whole will pay less tax if the four-fund approach is adopted, although this will differ from company to company.

Life insurers which focus more on individual life products will generally pay less than those which offer retirement and pension fund products, he says.

Furthermore, if accepted, the proposals will result in one regulating body for the entire financial services industry to replace the Registrar for Banks (banks) and the Financial Services Board (life insurers).

The committee, which was headed by the special adviser to the Department of Finance, Dr Japie Jacobs, was appointed to investigate the factors affecting equal competition between banks and life companies.
Pension fund tax proposals slated

By Sven Lünsche

Shock proposals to scrap the present full tax exemption on pension fund contributions have come under fire from political and financial commentators.

The Jacobs report on financial services, released yesterday, recommends that only two-thirds of individuals' contributions to pension 'funds' should be tax deductible. Twenty percent of company pension fund contributions could also attract tax.

Japie Jacobs, special adviser to the Finance Minister, also recommends scrapping the "Sixth Schedule", allowing life companies to offer products with no element of life cover and to reduce minimum policy terms to five years.

The proposal also cuts across ANC policy, which is that tax be levied on the life assurance sector rather than on the public.

Independent pensions broker, Patrick Anderton, described the proposal as an attempt "to shore up the Government's short-term cash-flow problems".

Democratic Party pensions spokesman Brian Goodall said: "It is surprising that steps are now being taken to discourage South Africa's major form of contractual savings -- pension fund contribution."

Pension tax move "socially irresponsible"
Warning on pension proposals

Jacobs plan ‘will worsen tax burden’

TAX experts warned yesterday that companies would be forced to shoulder more of the tax burden if recommendations in the Jacobs report on financial services were implemented.

They also said any tax benefits accruing to individuals under the new proposals would be wiped out by inflation.

In terms of the recommendations, 40% of an employer’s pension fund contributions would be deducted from income for tax purposes and two-thirds of an individual’s contributions.

The report also recommended that some tax be paid on current pension contributions instead of being delayed until pension benefits were ultimately paid.

Arthur Andersen tax expert Pierre du Toit said the tax to be paid by employers had not been paid before and would be a new burden on companies.

He added that, for individuals, inflation could erode any tax benefits granted when the eventual payout took place.

“Once government starts milking the retirement cow, there is a danger it might never stop,” Du Toit said.

He was especially concerned by the reference to the treatment of pension fund “build-ups”. The report said consideration should be given to placing an upper limit on the investment returns that would be tax-free. Du Toit said it was of great concern if this meant government was considering taxing asset appreciation.

“This would represent a substantial change in philosophy and serious debate is required,” he said.

Tax expert Costa Dairis said the move to tax pensions was like “attacking motherhood and apple pie” because it might be politically easier than raising the VAT rate.

He said all taxes were eventually paid by the consumer and it would be simpler just to increase the VAT rate. He foresaw that the increase in taxable income would cause salaries to rise as people would want to be compensated for the increased tax payments — and inflation would follow.

It was possible that the eventual payout would be taxed as a saving on which income had been earned.

Other consultants said there were likely to be tax concessions when the pension payout was made, but felt there was a need for more clarity on the issue.

Southern Life tax expert A H Davey said any changes to the tax dispensation would be acceptable only if they gave concessions on the end benefits side — equivalent to what it took on the contribution side.

Du Toit said even if the concessions were equivalent, more tax would still be paid.

Deloitte & Touche’s Willem Cronje said it was no sound policy to tamper with a rule such as the tax-free nature of pensions. Government lacked credibility and people would worry that the tax-free portion would be drawn into the net in future.

The move to tax pensions contributed by business would generate uncertainty.

A spokesman for the life assurance industry said it would lobby for public sector

Pension

Pension funds to receive the same tax treatment recommended by the report for private sector funds.

Life Offices Association director Jurie Wessels said in Cape Town that the industry felt strongly that the public sector funds — which enjoyed huge advantages over the private sector — should be treated in an equal manner.

Not only did the inequalities distort the market and the patterns of employment, but they also meant that the private sector pension industry would have to bear a greater tax burden than would be necessary if the public sector was also taxed on a similar basis.

The pension fund industry was not thoroughly consulted on these proposals which were apparently included at a fairly late

From Page 1

‘It confirms our view that contractual saving does not interfere with discretionary saving. These forms of saving supplement each other — there is a need and place for both.’

Regarding the application of contractual savings, the report agrees that it is not the function of the mobilisers of these funds to act as entrepreneurs who establish new factories and mines. These are trust funds to be invested in the best possible way to the benefit of policy owners.”

See Page 8

Comment: Page 10
Govt urged not to tax pensions

THE proposal to tax pension fund contributions was regressive and people should not be discouraged from providing for their retirement, the Democratic Party said yesterday.

Mr Brian Goodall was reacting to the shock recommendation of the Jacobs Committee that pension fund contributions no longer be fully tax deductible.

Taxpayers will pay more to the Receiver of Revenue if the government accepts the committee proposals.

"It is also hoped that the same rules will apply to both the public and the private sector. "Lump sum payouts to the private sector are taxable, lump sum payouts to the public sector are not, despite recommendations by the Margo Commission that all should be treated equally," Mr Goodall said.

A spokesman for the life industry said it would lobby for public sector pension funds to receive the same tax treatment recommended by the report for private sector funds.

In terms of the Jacobs Committee recommendations, 80% of employer's pension fund contributions would be deducted from income for tax purposes and two-thirds of an individual's contributions.

Tax expert Mr Costa DiVaris said the move to tax pensions was like "attacking motherhood and apple pie" because it might be politically easier than raising the VAT rate.

He said all taxes were eventually paid by the consumer and it would be simpler, and in line with stated tax policies, just to put up the VAT rate. He foresaw that the increase in taxable income would cause salaries to rise as people would want to be compensated for the increased tax payments — and inflation would follow.

Arthur Anderson's tax expert Mr Pierre du Toit said expressed concern over the reference to the treatment of pension fund "build-ups". The Jacobs' report said that consideration should be given to place an upper limit on the investment returns that would be tax free. Mr Du Toit said it was of great concern if this meant government was considering taxing asset appreciation.

"This would represent a substantial change in philosophy and serious debate is required," he said.

Southern Life tax expert Mr A H Davey said any changes to the tax dispensation would only be acceptable if it gave concessions on the end benefits side — equivalent to what it takes on the contribution side. — Own Correspondent, Political Staff
Capital transfer tax likely, expert says

JOHANNESBURG. — The likely introduction of a capital transfer tax would raise significantly more revenue than the current estate duty, and would lend more legitimacy to South Africa's tax structure, said Southern Life's Martin Sweet today.

Mr Sweet, assistant general manager of legal and tax services, told an economic conference here that a new capital transfer tax was more likely than the introduction of a capital gains tax to finance more social expenditure.

It would also create more marketing opportunities for the life assurance industry.

"One could expect a new capital transfer tax to raise significantly more revenue than our present estate duty." 

"Such a tax would lend more legitimacy to our tax structure.

"If a capital transfer tax is introduced, new marketing opportunities will arise in the life assurance industry, to meet the new liquidity requirements brought about by such a tax."

He said the country had one of the most generous forms of estate duty in the world. — Sapa.
Greater certainty and consistency is needed in SA’s tax system to facilitate business planning and decisions, says the SA Chamber of Business (Sacob).

In its annual report it says: “The last year provided various instances of uncertainty and vacillation, such as the last-minute changes in the exclusion of the VAT zero-rating of certain foods. A plea is made for greater certainty and consistency, especially in the stamp duty area.”

Asked if, considering a Budget deficit of more than 6% of GDP, he expected the authorities to scrap stamp duties, Sacob tax committee chairman Bob Wood said: “In view of the small revenue yield from the R2 stamp duty on agreements or similar documents, we believe the duty should be repealed as it is a severe administrative burden on the private sector and on the Receiver of Revenue in policing it.”

Stamp duties currently yield about 1.1% of gross inland revenue. The committee continues to oppose the imposition of a capital gains tax as it believes it would tax capital as such, not gains, and would discriminate against small business. Research on, and speedy implementation of a system of group taxation is also recommended in the report.
Company Tax Burden: New Jacobs Report

The support these multinationals' profits into the country by providing tax incentives and other benefits that make it attractive for them to invest. However, the benefits for domestic businesses are limited compared to the advantages enjoyed by multinationals. The report highlights the need for reforms to ensure a fair and equitable tax system.
Private Pensions - Threats of Future Rush for Evidence

LINDA ENSOR

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Challenge of First and Third Worlds

GAVIN DU VENAGE

MEETING First and Third World needs of this country is the biggest challenge for fiscal planning, says tax advisory committee chairman Michael Katz.

Katz told Blueprint conference delegates yesterday the danger existed of creating a structure that favoured the one over the other.

The old adage of "the more you earn, the more you pay" no longer formed part of the conventional wisdom in tax structures.

The thinking now was that "redistribution is better achieved on an expansion of business than on raising taxes". Lower taxes encouraged investment, but this could disappoint the Third World element, and the resulting instability would inhibit growth. On the other hand, an over-bearing tax system could dry up revenue.

Katz discounted a tax on dividends. This, in effect, would be a double tax, and would encourage business to finance through debt.

"This tax system makes debt attractive, and will lead to badly structured companies" he said. Katz also discounted the value of a fringe benefit tax. Smaller concerns could not afford these costs on their vehicles.

Central planning ‘stifled economy’

DECADES of centralised and interventionist planning with a flabby and inefficient bureaucracy, and not the political impasse, was the reason for the country's stagnant economy, Inkatha national chairman Frank Mdlalose said yesterday.

Speaking at the Blueprint for Prosperity conference in Johannesburg, sponsored by Southern Life and the Star, he said SA had to look beyond cyclical downturns, recessions and the political impasse to find solutions to the economic and tax problems.

"An economy which remained heavily regulated and inward-looking and which was being held back by an oversized and inefficient bureaucracy was the real issue at hand," he said.

The economy had failed to provide encouragement to the productive and had instead sheltered the inefficient and punished the entrepreneur.

Mdlalose said it was vital that the country identified the role of other economic actors such as labour and business carefully in trying to find the solutions.
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**Note:** The above table provides a detailed breakdown of revenue collected by the South African Treasury during the period 1 April 1992 to 31 August 1992, categorized under various heads of revenue. The figures are presented in South African rands (ZAR).
Cosatu tax revolt could be called off

COSATU is poised to suspend its anti-PAYE campaign. This could open the door to getting the stalled national economic forum back on track.

Cosatu said at its central executive committee meeting last week that it would consider whether to suspend the campaign in the light of political developments.

Union and ANC sources say it is certain to drop the planned boycott as a result of recent agreements between the ANC and government.

The anti-tax campaign was the major reason government refused to go ahead with the forum's formal launch last month.

Finance Minister Derek Keys said government would not take part while parties to the forum supported illegal actions.

Employer organisation Sacola was also reluctant to be involved with the forum while Cosatu promoted a tax boycott.

Cosatu's Jay Naidoo told the Blueprint Prosperity conference yesterday that although Keys promised a consultative approach, "it is not clear whether he can overcome the constraints of government mindset" to avoid government unilaterally deciding on economic issues. The key to unlocking the economy from its downward spiral was effective government participation in socio-economic forums.

Cosatu sees such forums developing into democratic institutions dealing with key issues.
response to pressure from these stores the Central Statistical Service published separate data for inflation at smaller and larger

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CSS's Du Toit says the figures are representative: "The list of outlets from which we compiled the data is pretty clear-cut. You won't find anyone you wouldn't expect to find on the list of chain stores." Inflation reached the top end of expectations in the 12 months to August, at 14.3%, after a relatively big month-on-month increase of 1.1% (seasonally adjusted 0.9%). It was the second highest monthly increase this year—the largest was in April when VAT was extended to cover more items and the index rose 1.3%.

But the 12-month rise in the consumer price index was below July's 14.6% and the lowest level since March last year, according to the CSS. The decline in the official inflation rate owes much to last year's high base—large increases occurred in the second half of 1991.

Pick 'n Pay food director Sean Summers says he is puzzled by the figure for meat: "Our meat prices today are cheaper than they were a year ago—and that’s what some of the consumer bodies tell us." But Hoon says individual butchers are generally cheaper than the chains because they sell in bulk and don't package meat: "Customers can get better discounts for large amounts." Other chains say it's difficult to explain the anomalies between the types of retailers, since the way CSS categorises items is very different from the way the stores do. Shoprite Checkers say all its information is forwarded to the Food Logistics Forum, which will release its findings late next month.

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Tax court to decide on film partnerships

By Leigh Hassall

The Transvaal Income Tax Special Court meets today for a hearing that is likely to have a material effect on the pockets of more than 44,000 taxpayers.

The case is the first appeal brought by taxpayers who invested in the popular film partnership ventures of the mid-1980s.

A number of points in dispute apply also to other film partnerships and the outcome will determine Inland Revenue's attitude to the thousands of taxpayers who invested in similar ventures.

The special court will hear the case for allowing the appropriate tax deductions to the companies and individual taxpayers who invested in about 180 film partnerships.

Many investors entered the partnerships on the basis of written rulings issued for the Commissioner of Inland Revenue approving the availability of the appropriate tax concessions to the partnership investors.

At assessment time, the CIR went back on the rulings and disallowed the tax concessions to some taxpayers.

Other taxpayers have simply not been assessed for up to seven years.

It is common knowledge that there is a huge backlog of assessments at the Revenue offices.

Experts predict a lengthy court hearing - estimates range from six weeks to six months - and judgment can be expected only one or two months after its completion.
No taking it back

The tax take from VAT's first 10 months is lower, even in money of the day, than the GST receipts for a comparable period — R14,363bn against R15,178bn. If an adjustment is made for inflation, the comparison looks even worse.

All sorts of unwarranted inferences are being drawn: in particular, that VAT “has failed.” This is nonsense and overlooks the effects of a severe recession and consequences of setting the initial rate too low for political reasons.

Modern thinking, based on experience, holds that taxes on consumption are a vital part of the fiscal mix, especially in an inflationary environment. The revenue they generate makes it possible to reduce taxes on income to levels that provide strong incentives to create wealth. Investment capital will not flow to countries that levy higher rates of tax than the newly established international norm.

SA selected GST when a general tax on consumption was introduced, partly in the belief that VAT was too complex administratively for a country with strong Third-World elements. In the end, GST was gutted by too many exemptions, and some inherent weaknesses were exposed.

The transition to VAT was made at the most inopportune time — politically — that could be imagined. The outcome was economically deleterious compromise. Yet VAT is in place and no prospective government of whatever complexity is going to be able to do without it. VAT is a good tax. Though it can be evaded, it is far more difficult to beat than GST. It has proved its worth around the world, in countries rich and poor, educated and uneducated.

The radical Left, inevitably, has seized on opposition to VAT as part of its political stock in trade, and this posture will remain. One of the Left’s main objections is that it appears to increase the cost of food for the poor.

But some important points need to be made about VAT on foodstuffs. First, Cosatu’s vociferous constituency does not actually include the really poor, who operate in the informal economy or who are simply unemployed. If they are to receive substantial social benefits, the wherewithal will have to come in part from indirect taxes.

Second, an important proportion of all types of foodstuffs is purchased by the middle classes and the affluent. Further moves to zero-rate more food items will white-ant the tax base all over again, and must be resisted strenuously, on strong moral grounds.

Lastly, SA must face the unpleasant fact that the initial VAT rate was set too low and will probably have to rise. Government, this or any other one, will have to live with the political discomfort, knowing that VAT is a sound and necessary tax, a permanent part of the fiscal structure.
A comparison of 10 months' VAT takings with GST figures for a comparable period shows that setting the rate at 10% was a gamble that failed. Raw data indicates that VAT took in R14,36bn against GST's R15,18bn. For the comparison to be meaningful the inflation rate should be stripped from the figures. With inflation at 13% the VAT take would have been R12,49bn in constant terms. This is a decline of 17,7% on GST figures.

We are still, however, not comparing like with like because gross domestic expenditure has dropped by about 2%. Had it been static, the VAT take would have been R12,74bn. This would have reflected a decline of 16,1%.

To complete this hypothetical exercise, suppose government had stuck to its original intention to apply VAT at 12%. Then the take, on a constant economy and in constant money, would have been R15,29bn! Marginally more than GST for the earlier period. This crude reckoning confirms the advance calculation that VAT at 12% would be equivalent to GST at 13%. (The exercise ignores one further complication — that the additional two percentage points would have further discouraged consumption — but this is impossible to quantify.)

What to do about the shortfall in revenue at this stage of the financial year is only part of government's general misery about public finance. We could be facing a deficit of more than 8% of GDP. Even allowing for savage pruning of expenditure, some additional sources of revenue are called for in the next Budget.

As an interim measure, more excise on petrol would be the least administratively and politically awkward tax to impose, even though it would have to be piled on to an increase of about 14c/l needed anyway to balance the slate according to in-bond landed cost calculations.
CHANGES to the taxation of retirement funds suggested by the Jacobs report applied equally to pension funds, provident funds and retirement annuities, Inland Revenue's Ian Meiklejohn said yesterday.

Meiklejohn was on the committee chaired by Finance Ministry special advisor Japie Jacobs which investigated the relationship between life assurers and banks and building societies.

He said the report's reference to "retirement funds" included provident, pension funds and retirement annuities. All three were based on similar principles, in that contributions were pre-tax, the build-up was tax-free, and benefits fully taxed.

Fedlife GM Dick Otto said it was unclear how the suggested taxation on one-third of an employee's retirement contributions would apply to retirement annuities.

Meiklejohn believed there was a need for the maximum 15% deduction of taxable income allowed for retirement annuities to be increased. There was no intention to increase the maximum limits of R1 750 and R3 500 on RA contributions.

The uniform treatment suggested for pension and provident funds was welcomed yesterday by Sanlam employee benefits GM Francois Marais. He said this would benefit provident funds.

Meanwhile, Old Mutual has strongly rejected the suggested taxation of retirement fund contributions, saying it would begin to destroy the retirement system and irreparably harm the contractual savings capacity of the country at a crucial time.

Old Mutual employee benefits GM Garth Griffin said the suggested changes would lead very quickly to the reduction of pension fund contributions.

The suggested taxation of employer and employee contributions would make it more tax effective for employers to stop contributing to pension funds and increase cash payments to staff.

Banks yesterday welcomed the possible opportunity to provide insurance-related products, as recommended in the report.

Standard Bank senior GM Dennis Mattfield said the report would not change the banking industry much, but allowing banks to enter the insurance market through subsidiaries presented possibilities.

However, banks needed clarity, he said.

The proposal to form one financial regulatory board was also greeted with optimism. The report recommends that a financial regulation policy board should replace the offices of the Registrar of Deposit-taking Institutions and the executive officer of the Financial Services Board.
Coastal revisions and VAT campaign

Labour

THE WEEKLY MAIL, October 19, 1992
Banks still unhappy

The Government's search for ways to level the playing fields between life assurers and banks appears to have failed.

The banks have been noticeably silent since the release of the Jacobs probe into equal competition in the financial markets. Sources suggest that some are unhappy with the recommendations and still believe they are disadvantaged on savings issues.

The life offices charge that the Jacobs recommendations have sparked uncertainty over the future tax on retirement savings, threatening the retirement structure.

Strapped

Some assureds claim that the plan to tax employer and employee contributions to retirement funds — they include pension and provident funds and retirement annuities — is a veiled attempt to raise funds for the cash-strapped fiscus. 

But the Government maintains that it will get little benefit if the tax recommendations are adopted.

State actuary Piet Robbertse says a study is underway to estimate the potential effect on the fiscus. He estimates that in some cases, the Receiver of Revenue will gain less tax and in other cases more.

Southern Life deputy general manager

Tony Davey suggests that by limiting deductions on pension contributions, taxpayers' income would be larger, leading to higher tax payments, and improved government cash flow.

Old Mutual general manager Garth Griffin says if the Government is indeed looking at ways to accelerate its tax take, creativity will be needed to avoid damaging both the flow of savings and the extent to which people are encouraged to provide for their old age.

Fedlife general manager Dick Otto says one of the reasons for the Jacobs committee stemmed from banks' belief that life assureds were receiving unfair tax advantages.

"But I am not sure that the life industry, under the suggested four funds approach, will yield more tax. What will happen is that their tax position will be more defensible and they will remain as competitive as ever."

Meanwhile the Institute of Life and Pension Advisors (ILPA) has questioned why Jacobs has focused on pensions when the Government-appointed Mouton Commission is still sitting. ILPA spokesman Abir Meiring says the commission is due to report to the Government next month.
Switch to provident funds foreseen

By Derek Tommey

South Africans earning R5 000 a month could pay an extra R51 in tax if the Jacobs pension recommendation are accepted, says Francois Marais, general manager of group benefits at Sanlam.

Dr Japie Jacobs, special financial adviser to the Minister of Finance, has recommended that one third of an individual's pension fund contributions should be subject to income tax. At present pension fund contributions are fully tax deductible.

Marais says the marginal tax rate of a married person with an annual income of R68 000 is 41 percent.

Income

If he contributes 7.5 percent of his income to his pension fund he would pay R375 a month.

If the Jacobs recommendations are accepted, he will pay an extra R51 in tax a month, or R615 a year — which is about one percent of his income.

Marais says that the adoption of the Jacobs recommendations would speed the switch by firms to providing provident funds in place of pension funds.

At present, an employer's contributions to provident or pension funds are tax exempt.

However, Jacobs is recommending that 30 percent of an employer's contributions to a pension fund should be taxable, while making no recommendation on the taxing of provident fund contributions.

This will favour provident funds over pension funds.

A member's contributions to a provident fund are fully taxable. But taxing pension fund contributions would reduce the advantages for employees that a pension fund has over a provident fund.

Marais says employers are already moving away from pension funds to provident funds because of misgivings about the open-ended liability of a pension fund payout based on final salary in times of high inflation and low investment growth.

Members of a provident fund receive retirement benefits in full in cash.
THE Jacobs commission's proposal to tax pension contributions was an irresponsible attempt to solve government's cash flow dilemma, Federation of SA Labour Unions president Johan du Plessis said at the weekend. (80)

Du Plessis warned that workers' opposition to VAT would look like a Sunday school picnic once trade unions co-ordinated their opposition to the proposed tax.
Protests over VAT and food prices begin today

By More Milana

The African National Congress will hold demonstrations and occupy major food chain stores nationwide to launch "Asinamali", a campaign to fight VAT and the recent price increases of basic foodstuffs.

ANC national campaigns organiser Mandla Dlamini said yesterday that today's demonstrations would include blockades of payout points and the occupation of major food chain stores.

"We want the Government and the food-controlling boards to know that people cannot afford the high food prices. We also want the Government to stop restructuring the economy without consulting the people," said Dlamini.

He said the campaign would continue until these problems had been addressed.

Pretoria police spokesman Lieutenant Brahm du Preez said although the police respected the rights of organisations to protest, the police would take action if the rights of individuals or companies were violated.
Keys hints at VAT hike next year

FINANCE Minister Derek Keys hinted yesterday government would raise the VAT rate next year but would soften the blow with relief on basic foodstuffs.

Asked in an interview in Pretoria whether there was a chance of the VAT rate being raised, he said: "There has to be. That is why I pointed out that I was in negotiations with the VAT committee on the definition of basic foodstuffs. There is only one reason why one would be doing that."

Asked whether that meant basic foodstuffs would be zero-rated, Keys said he did not want to say too much about it but he is quite happy with the way the negotiations are going.

The Cosatu-led VAT Co-ordinating Committee has asked government to zero-rate basic foods. The committee fears VAT will be increased to 18% in the next Budget. Economists believe a rate of at least 12% is inevitable given government's revenue crisis.

Keys said budgeting for revenue from VAT had been difficult because it was a "new tax". With VAT having been in place for a year now, government was better-equipped to make future projections.

The main reason for lower-than-expected revenue was the weak economy. The economy had been assumed to grow in nominal terms by 15% (a real increase of one percent) and was growing only by a nominal 11%. Adjusted for inflation, the economy would shrink by 2-3% this year.

As for whether SA was overtaxed, he said: "For the level of government spending we have got, we are undertaxed. Look at the deficit. If we want to be more lightly taxed, we need a smaller government."

Government's debt was not yet a problem but "if we went on adding to the debt as we did this year it would certainly become a problem". SA had been incorrectly characterised as a country with low government debt.

"The planned cuts in consumption spending meant attention would have to be given to the way in which key areas such as nursing, teaching and police were run. The programme to cut consumption spending would not, however, affect social spending such as pensions."

Although he could not discuss any details on the economic model before November, he emphasised that cutting government spending was only one element of government's thinking on the economy. The need to increase investment in productive capacity required that measures be taken to make it more attractive to invest.

"Investment was important because there were only two sources of growth for an economy -- higher productivity and investment in new productive capacity. SA had virtually no new additions to its productive capacity at the current level of investment."

The economic forecast was being hampered by Cosatu's mass action campaign, but dialogue was continuing, Keys said.

"On drought aid from the IMF, he noted the finance was not at concessional rates. SA had agreed to review the situation after next year's Budget "when we can give (the IMF) a clear idea of what our policy is"."

Greta Steyn
Fuel levy fast becoming
major state revenue earner

By Sven Linseke

The fuel levy is rapidly emerging as one of the major revenue items for the state at a time when income from VAT is falling well below budgeted estimates.

For the first five months of the current 1992/3 fiscal year (April to August) R2.76 billion was collected from the fuel levy, almost 30 percent more than in the comparable period in fiscal 1991/2.

VAT revenue of R6.42 billion over the same period was 14.6 percent below the R7.51 billion collected from GST in the first five months of the 1991/2 fiscal year, according to figures released by the Central Statistical Services.

A fuel tax of 54.9c/litre is levied on every litre of petrol sold.

While the levy was not raised in conjunction with the recent 7c hike in petrol prices, earlier increases during the year ensured rising revenue from this source.

The poor income from VAT, however, which officials attribute to the poor state of the economy, has resulted in overall revenue increasing by only 1.3 percent to R28.8 billion from R28.54 billion in 1991/2.

The Government had budgeted for a 13.2 percent rise in revenue to R34 billion for the full fiscal year.

The revenue collected in the first five months amounted to only 33 percent of the budgeted figure, compared with 37 percent at the same stage last year.

The revenue of other major revenue items, income tax collections rose 4.3 percent to R16.11 billion (R15.44 billion); excise duties were up 28.2 percent to R1.63 billion (R1.27 billion); and customs duties two percent higher at R1.2 billion (R1.18 billion).

The slowdown in the level of imports reduced revenue from import surcharges by 0.1 percent to R614.2 million (R614.6 million).

During the first five months of the fiscal year state spending surged by 20.2 percent from R35.36 billion to R42.51 billion, boosted by a rise in expenditure to R10.17 billion in August, compared with average levels of R7 billion in the preceding months.

The major expenditure items for the first five months were: Foreign Affairs, including assistance to homelands R2.47 billion (1991/2: R2.12 billion); Finance R7.82 billion (R6.83 billion); Trade and Industry R1.71 billion (R887 million); Police R2.52 billion (R2.25 billion); Defence R3.88 billion (R3.80 billion).

While economists are optimistic that spending can be curtailed to meet the budgeted level of just over R100 billion for the full year, the shortfall in revenue is leading to a serious overrun in the deficit before borrowing.

Finance Minister Derek Keys had budgeted for a deficit of R15.93 billion for the full fiscal year — with only five months gone the deficit at R15.67 billion has already reached that level.

If this trend continues, the deficit could surge to R20 billion. While this is unlikely, Keys has stated that the deficit for the full fiscal year could rise to R25 billion, or six percent of estimated Gross Domestic Product.

This is well above the budgeted 4.5 percent and double the internationally accepted level of three percent of GDP.
Retirement tax not 'a recommendation'

CAPE TOWN — Members of retirement funds need not fear a new tax assault on their pension contributions as a result of the Jacobs Report, says Sanlam.

Such fears according to Sanlam are the result of a wrong interpretation of the report.

Senior General Manager George Rudman emphasised in a statement yesterday that the Jacobs Committee had made no specific recommendations on the taxation of retirement funds.

He said the report in fact cautioned against "the possibility of incorrect perceptions" and expressly stated that the views recorded in this section of the report were divergent and not necessarily representative, or a consensus.

One of the suggestions made by those consulted by the committee was that employees should pay tax on one third of their pension contributions, and that employers should pay tax on one fifth of their contributions.

At present member contributions to pension funds are deductible for tax purposes, to a maximum of 7.5 percent of the member's salary — while contributions to provident funds are fully taxed.

In practice the tax is deferred to the time when the pension is paid out. Pensioners may take a third of their pensions as a tax-free lump sum, to a maximum of R120,000, but they are fully taxed on the balance which is usually paid out as a monthly pension.

The Jacobs Committee submitted that, instead of taxing a portion of the tax-free lump sum (as recommended by the Margo Commission), it would be better to keep it tax-free and rather tax a portion of the contribution.

However, this was not a recommendation, Mr Rudman said, and the committee did warn that the macro-economic consequences had to be considered, including the possibility that people could reduce their pension contributions to offset the higher taxes. — Sapa.
Petrol levy to the rescue as VAT fails to deliver the goods

Business Staff

THE fuel levy is rapidly emerging as one of the major revenue items for the State at a time when income from VAT is falling well below budgeted estimates.

For the first five months of the current 1991/92 fiscal year (April to August) R2.76 billion was collected from the fuel levy, almost 50 percent more than in the comparable period in fiscal 1990/91.

VAT revenue of R6.42 billion over the same period was 14.6 percent below the R7.51 billion collected from GST in the first five months of the 1990/91 fiscal year, according to figures released by the Central Statistical Services.

A fuel tax of 54.9c/litre is levied on every litre of petrol sold.

While the levy was not raised in conjunction with the recent 7c hike in petrol prices, earlier increases during the year ensured rising revenue from this source.

The poor income from VAT, however, which officials attribute to the poor state of the economy, has resulted in overall revenue increasing by only 1.5 percent to R23.1 billion from R22.9 billion in 1991/92.

The government had budgeted for a 15.2 percent rise in revenue to R84 billion for the full fiscal year.

The revenue collected in the first five months amounted to only 33 percent of the budgeted figure, compared with 37 percent at the same stage last year.

Of the other major revenue items, income tax collections rose 4.3 percent to R16.11 billion (R15.44 billion), excise duties were up 20.2 percent to R1.63 billion (R1.27 billion) and customs duties two percent higher at R1.2 billion (R1.18 billion).

The slowdown in the level of imports reduced revenue from import surcharges by 0.1 percent to R614.2 million (R614.8 million).

During the first five months of the fiscal year State spending surged by 20.2 percent from R35.36 billion to R42.51 billion, boosted by a rise in expenditure to R10.17 billion in August, compared with average levels of R7 billion in the preceding months.

The major expenditure items for the first five months were:

- Foreign Affairs, including assistance to homelands R2.47 billion (1991/92: R2.62 billion).
- Finance R7.53 billion (R8.83 billion).
- Trade and Industry R11.31 billion (R8.87 million).
- Police R2.52 billion (R2.25 billion).
- Defence R3.53 billion (R2.96 billion).

While economists are optimistic that spending can be curtailed to meet the budgeted level of just over R109 billion for the full year, the shortfall in revenue is leading to a serious overrun in the deficit before borrowing.

Finance Minister Derek Keys had budgeted for a deficit of R11.53 billion for the full fiscal year — with only five months gone the deficit at R15.67 billion has already reached that level.

If this trend continues, the deficit could surge to R36 billion. While this is unlikely, Mr Keys has stated that the deficit for the full fiscal year could rise to R28 billion, or six percent of estimated gross domestic product (GDP).

This is well above the budgeted 4.5 percent and double the internationally accepted level of three percent of GDP.
Pension contribution tax 'an excellent idea'

LINDA ENSOR

CAPE TOWN — The Jacobs report's suggestion that one-third of pension fund contributions be taxed has been described as "excellent" by the trade union-linked Labour Research Service (LRS).

The LRS argued yesterday for 100% of pension fund contributions to be taxed to remove government subsidisation of the pension benefits of a privileged minority.

"The tax break on pension contributions is a tax break for high and middle-income members of pension funds only — the relatively privileged segment of our population. Pension funds and retirement annuity funds are increasingly used by wealthy individuals for tax planning purposes — not for... pension. These are the very people who don't need tax breaks!"

The LRS said the deductions allowed on pension fund contributions provided a tax break for those who earned enough to pay tax; helped high-income earners more than low-income earners; meant overall tax rates, including VAT, had to be higher to compensate for revenue lost to the fiscus; and carried no benefit for provident fund members or the unemployed.

LRS committee member Mark Anderson pointed out that a married person earning R2 000 a month would pay only R4 or R5 more in tax a month if the Jacobs proposal was adopted. The lower the wage, the less the cost. Provident fund members would pay no more.

He added that the wealthy had no need for government subsidies to provide for their old age, and said the removal of the tax break would be fine with the current trend towards tax neutrality."
Ackerman happy about VAT plans

CAPE TOWN — Pick 'n' Pay chairman Raymond Ackerman yesterday welcomed indications that Finance Minister Derek Keys would ease the VAT burden on basic foodstuffs next year.

Ackerman suggested there be three levels of VAT — a zero rate for basic foodstuffs, a rate for basic commodities and a higher rate for luxury items.

He believed VAT on non-food goods would probably have to be increased to 12% to make up for zero-rating basic foodstuffs.

He said it was vital to give relief to the poor.

The enormous poverty and unemployment, in SA was "apparent" in that during the past six to eight months gross sales of bread had declined 5% in volume.

Maize meal sales had also dropped.

Ackerman believed the meeting the Food Forum had held with Keys probably contributed to the change in government thinking on the VAT issue.

The forum represents food manufacturers and retailers as well as consumer bodies.

He said a feedback session to hear the report of various Food Forum task forces investigating such issues as labour productivity and flexibility and the effect of agricultural control boards on food prices would be held in Johannesburg towards the end of November.
VAT: 'Exempt More foods'

Staff Reporter

The only alternative to an increase in VAT, with relief on basic foodstuffs, was to lower the percentage increase and tax all foodstuffs. Housewives' League vice-president Mrs Sheila Baillie said this week.

She suggested the state increase the number of zero-rated foodstuffs to include items such as 'vegetables and meat'.
MEDICAL INSURANCE

Fees plus VAT are intolerable

A Business Times SURVEY

PRICE INDICES

MEDICINES, SERVICES, CPI, MEDICAL AID CONTRIBUTIONS

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Source: Medical Association of SA

THE findings of the Medical Association of SA (Masa) investigation into health-care and expenditure patterns for the period 1975 to 1991 make interesting reading.

Clearly refuted is the myth that South Africans are pill-poppers — we are not greater pill-swallowers now than we were in 1975.

There was no evidence of over-servicing in the macro-statistics and inflation in medical services was below the national average as expressed by the consumer price index for most of the period.

DANGER

The most worrying aspect of the report is the clear inability of medical aid schemes to keep their annual subscriptions to members in line with inflation in the health sector.

Escalating membership fees, together with the imposition of VAT on medical services, are contributing to an intolerable health-cost burden on the man in the street.

"There is a real danger that medical schemes are pricing themselves out of their existing markets and that, consequently, the health-cost burden will shift to the state and hence the taxpayer," according to Masa's investigation.

"The analysis suggests that the proposed changes to the Medical Schemes Acts will be inadequate to deal with underlying and basic structural problems which the authorities still need to identify."

The investigation found that the high cost of medicines is due largely to the rapid rise in value of the rand against hard currencies. This rapid rise in value of the rand against hard currencies was 32% greater than inflation, whereas the cost of membership to a medical aid scheme grew at a rate 86% higher than inflation.

DEMAND

The investigation queries the wisdom of imposing VAT on medical expenditure.

Higher prices create resistance, private sector demand falls off, only to create pent-up demand for the same goods and services on a subsidised (free) basis from the public sector — eventually paid for by the taxpayer.

It concludes that the structural problems underlying SA's private health care industry — existing medical aids — need to be analysed comprehensively, including such factors as the quality of management expertise in the health-care delivery system.
The recent rise in the price of petrol will have a minimal effect on the inflation rate. Official calculations are that the additional 7c/l on petrol will directly increase inflation by only 0.184 percentage points (petrol's direct weighting in the CPI is 3.18%). The indirect effect is estimated to be 0.32 percentage points within the six months following.

Brokers Frankel Max Pollak Vinderine economist Mike Brown agrees with these estimates.

It is important to see the petrol price rise in its proper perspective so that inflation is not fuelled once again by expectations that become self-fulfilling. The damage that perceptions can do, despite the reality, has been vividly demonstrated in the past two years.

In the third quarter of 1990, the outlook for inflation was encouraging. Consumer prices rose 13.8% compared with the corresponding quarter of the previous year, down from a peak of 15% in the first quarter. Government spending was set to fall in real terms — for the first time in at least a decade. Twelve-month growth in the broad monetary aggregate, M3, had fallen from a peak of 23.67% in January to 13.01% by September and was due to fall to a low of 10.37% in October.

The downward trend in inflation was halted by a rise in the oil price, to over US$40 a barrel, ahead of the Gulf War. In the event, the war lasted only a few weeks and oil prices fell with the outbreak in January 1991. But the effect on expectations remained and was quickly compounded by other developments.

One was the distortion which technical changes produced in money supply figures; at their face value they indicated a leap in inflation prospects. The other was the anti-VAT campaign that gathered momentum over 1991.

The role of expectations was illustrated in the rising cost of food — ahead of a changeover to VAT which was to be levied on a much wider range of food than GST. Food inflation rose from 15.4% in January 1991 to 19.7% in September. This preceded the six percentage point rise in food inflation in October — the month VAT was introduced. It can be explained only by pre-emptive rises imposed by producers and retailers and the receptive mood of consumers.

Hopefully everyone concerned will have learnt a valuable lesson. Government bungled the introduction of VAT through inadequate packaging. But now, says Brown, there appears to be better co-ordination among government departments and more sensitivity to a wide range of lobbies, particularly black consumers, to whom transport costs are an important component of expenditure. Hence the careful phasing (in see box below) of increases to meet under-recoveries.

But more pressure may come if the oil price does not fall. A further increase in fuel prices — possibly announced in next year's Budget — will then become unavoidable because of the squeeze on revenue collections.

Azar Jammime, of Econometrix, says: "The spinoff effect will add more to that, especially if the increases apply to diesel which affects transport and production costs." Diesel's direct weighting in the CPI is small (0.03%), but has a strong influence on the producer price index.

Another variable relates to potential changes in VAT legislation. Theoretically, a zero-rating of a wider range of foodstuffs could offset the impact of higher rates on other goods. But, says Jammime, there is no guarantee food retailers will lower prices accordingly, if at all.

But economists remain optimistic about inflation over coming months. Sanlam economist Johan Louw says other positive disinflationary factors will come into play, particularly lower interest rates which would ease the burden on mortgage payers, for instance. Says Louw: "We expect inflation of 11%-12% next year, with fuel prices preventing it going lower."
Taxation system ensuring an efficient Ten measures to
Government's 92 budget deficit
Little hope of corporate tax concessions

Michael Rains, political correspondent

1992 budget must contain tax cuts, says report.

There is little hope of a tax cut in the current budget, warns a leading business group, the Smith AffoR Company.

'The report stresses the importance of business confidence and the need for tax relief,' says a leading business group, the Smith AffoR Company.

'The report stresses the importance of business confidence and the need for tax relief,' says a leading business group, the Smith AffoR Company.

Without any significant cuts in the budget, the economy, says the report, "will suffer."

The report also highlights the need for tax cuts, "to stimulate business confidence and investment."
Land tax ‘could net R500m’

A GOVERNMENT committee has proposed a land tax that could yield R500m in revenue and a mineral levy that could raise R400m for local government, according to a confidential report.

The report was drawn up by the Committee of Investigation into Intergovernmental Fiscal Relations, which was chaired by Finance director-general Gerhard Coezer. The proposals were circulated among the provinces to promote the idea of devolving revenue and spending power to lower levels of government.

Coezer said yesterday the report was a discussion document and not formal government policy. He said the report highlighted the problem of concentrating spending and taxation power in the hands of central government.

“We believe a large number of functions can be performed more efficiently at the lower levels of government. That is why ways must be found to raise revenue at the lower tiers,” he said.

New sources of taxation at the local and regional level would need to be investigated, the report said. A “limited tax on agricultural land” could be used to finance road infrastructure in rural areas.

Property taxes would have to be overhauled urgently and a levy on property taxes could accompany a land tax. Property taxes were the most important source of tax revenue for local government.

On the mineral levy, the report argued that mining activities represented the gradual depletion of natural resources. Revenue raised could be used to finance the environmental and infrastructural costs resulting from mining activities. This revenue would probably have to replace...

To Page 2

Land tax from Page 1

government’s existing mining leases.

The report said the new taxes should not increase the total tax burden in the economy. “Any new taxes introduced at the regional and local level should therefore be accompanied by a reduction in the central government’s tax burden. This will help to ensure that any expenditure saving by the central government from the devolution of functions is not simply gobbled up by new central government expenditures.”

According to the report, it was possible to reduce central government spending as a percentage of total government spending to about 40% from the present 60%. This would be the same percentage as local government expenditure, with the middle tier of government spending radically less.

Strong local government would, however, have to be accompanied by mechanisms to ensure fiscal responsibility and accountability. There would also have to be a joint tax collection body that would raise revenue that would be shared.

The committee was appointed by Cabinet about two years ago with representatives from the state departments involved in regional and local government and constitutional planning.
The last exaction

Over the past 20 years the advantage in disposable incomes in Western society has passed from the young to the elderly. Partly this is the outcome of demographics but a major cause has been the perceived need of caring societies to encourage citizens to make provision for their old age.

More latterly, this trend gathered pace as it became clear that governments were unable to provide out of the public purse the social benefits to which the elderly aspired or to which society believed growing infirmity entitled them.

The elderly can become very expensive. An American economist sympathetic to the provision of social sustenance for the elderly has calculated that close to 80% of medical expenditure on individuals in the US is spent in the last six months of their lives.

Therefore, if only to keep the burden of the aged on the fiscus at manageable levels, it is prudent to encourage as many people as possible to make provision for their old age. Those in the twilight of their years are also the most vulnerable to the bullying and coercive administrations that all governments of the Left have spawned.

So to be both prudent and to avoid callousness, those who are prepared to forgo instant consumption for future security should be given every encouragement, regardless of whether they save through pension or provident funds or some other means.

Any taxation policy that aims to soak the rich is destructive of the economy as a whole and all those who share in it. But to regard pensioners, because of their relative affluence compared to the young, as the "rich" to be "soaked" to finance houses for those capable of being economically active, is financially absurd, morally wrong and callous in the extreme.
Stumbling over the playing fields

A far-reaching examination of institutional cash flows has provoked anxiety

Fm 16/10/92

Spare a thought for Jacie Jacobs, special adviser to Finance Minister Derek Keys. He stands aghast at the row he has stoked up over the limitation of tax benefits on some pension provisions and the taxation of some pension benefits. His own support for the proposition — if it can be called support — is limited and tentative.

Jacobs is not a man of circumspection or tact. He is candid to the point of bluntness. And he has addressed pension provisions — a matter charged with the vested interest of all save the exceedingly wealthy — with the political finesse of a Blue Bull at a gate.

He has not learnt the lessons of Financial Institutions Registrar Wynand Louw, who tried to urge what was sensible legislation on pensions transferability — and instead ended up by sparking a retrogressive fashion for provident funds. Nor the lesson of vanished Finance Minister Barend du Plessis, who thought that the innate economic logic of Value Added Tax (VAT) would ensure its smooth introduction. Need we mention Lady Thatcher and her poll tax?

The unfortunate political fact is that if you open the door to taxing pensions, however slightly, the chances are that any government strapped for cash will push it to the ultimate.

Jacobs is disturbed by the way his report on overhauling the financial services industry has been received. With reason — for it seems much of the published comment so far has emanated from those who have not read the report, let alone considered it. Jacobs says he is much more interested in whether the tax base can be broadened and made more equitable.

He is persuaded, however, that there should be some limitation (or capping) of the pension benefits created by State incentives to saving. That view has sympathy among the Life Offices Association (LOA), provided State pension schemes are administered and regulated in the same way as private funds.

There can be little doubt that Jacobs was set a curious task by his previous Minister, who extended his investigation into equitable competition (or lack of it) between competing financial institutions for institutionalised savings to include the examination of a pension tax within the context of reforming financial services. Neither he nor State Actuary Piet Robbertse back the idea of the Australian-type pension tax.

There seems little likelihood of so sensitive an issue going to parliament without the support of extra-parliamentary groups. Jacobs says Cosatu, for example, has not responded to letters he sent inviting suggestions, though unofficially he believes the union movement may support an examination of the tax flow from retirement schemes.

In his report, Jacobs makes his reservations about pensions tax clear: "Since the matter is very complex in its practical scope and consequences, it requires further discussion before a final decision is taken. In the light of the sensitivity of the matter and the possibility of incorrect perceptions arising, the matter has to be dealt with in a circumscript way and discussions should involve as many interested parties as possible."

The trouble is, the variant of the Australian model discussed in his report provides for portions of contributions to be caught in the tax net. It is discussed at length in words which indicate some degree of approval — so Jacobs cannot simply shrug off the flak he has taken in the last week.

The Australian variant would have employers paying tax on 20% of their contributions to pension funds and employees paying tax on one-third of their own contributions. That happens to hit at the heart of tax law, which says that expenditure is fully deductible if used to produce income.

Newspapers have been inundated with faxes from life assurance protesters about aspects of the pensions tax. The two major life offices supported the examination of the Australian variant because they felt that if there had to be an improved tax flow, this model was better than most. Jacobs used as a sounding board George Rudman of Sanlam and Old Mutual's chief actuary, Theo Hartwig.

Jacobs also interacted with the Mouton Committee, which has been studying pension proposals for three years; it was decided any tax options should come not from Mouton but from Jacobs. The secretary of the Mouton Committee is an Old Mutual GM.

Yet one of the first criticisms of Jacobs came from Garth Griffin, who heads Old Mutual's employer benefits division: "The Jacobs Report's suggestions to tax pension fund contributions could sow the seeds of the destruction of SA's retirement system."

He warned that the suggestions would lead quickly to a reduction of pension fund contributions and the contractual savings capacity of the country would be seriously harmed. Though Griffin acknowledges the report contained suggestions — not nascent legislation — "they are serious enough to raise alarm about the potential harm they could do to the industry in the event of the government adopting them."

Rudman went on a different tack, stating forcibly that members of retirement funds need have no fear of a "new tax assault" and added that such fears are the result of a wrong interpretation of the report. Rudman also draws attention to some key phrases in the report which expressly caution against incorrect perceptions and states that the views expressed in that chapter of the report were divergent, not necessarily a consensus.

To lay the pensions ghost, before examining the true value of Jacobs's report, it's helpful to recall the following sequence of events:

- In 1987, the banks and building societies became vociferous about the diversion of savings from their sector to the contractual areas offered by the life assurance.
- Two years ago, Jacobs was asked to investigate and report on the so-called "level playing fields" between financial institutions and assess whether the life assured had any unfair legislative benefits.
- In an addendum to the Budget in 1991, Jacobs found that, broadly, there was no evidence that existing legislative provision favoured the flow of funds to assurance. Rather, the culprit was inflation, which made discretionary (bank/building society) saving unattractive.
- The scope of the Jacobs's investigation broadened, necessarily. It became impossible to deal with one sector without considering the interests of others and also those of the fiscus. Among the Acts of parliament which needed review were the Insurance Act of 1943, the Income Tax Act, the Harmful Business Practices Act, the Companies Act and several others with overlapping and contradictory intentions. These, according to Jacobs, were so constructed that it was possible for an operator of financial services to arbitrage them — to select which Act was most suitable for his particular operation.

There have also been, for the past two years, two separate regulatory bodies, one for deposit-taking institutions, the other controlling insurers and unit trusts (the FSB);
- Barend du Plessis had for some years been eyeing the pensions industry as a potential source of funds for the fiscus. He argued that the fiscus drew little benefit from the...
industry because employer/employee contributions were tax-deductible; the build-up of capital in the fund was not taxed; the one-third commutation of up to R120 000 was not taxed; and the tax on most annuities arising from the two-thirds remainder was almost invisible.

In his 1992 Budget, Du Plessis suggested that a way to tax the flow of pension contributions should be found, without harming the retirement industry; and

There was some official scurrying to find out how pensions were taxed elsewhere in the world. Robertson, who, as State Actuary, has to be concerned with the viability of funds, convened a meeting which involved the life assureds and the Actuarial Society. The options considered were numerous and only the Australian variant made any sort of economic sense, though it did not get general support.

The attitude of the life offices and the Retirement Institute was, in general, that a tax flow should be created — but there was no unanimity about methodology. The ANC and Cosatu were not invited to that meeting.

From there, things seem to have gone downhill, with no official contact with extra-parliamentary groups and the inclusion in the Jacobs Report of a “recommendation” which was surgically implanted rather than allowed to mature naturally. If one takes the suggestion seriously, it involves taxing a proportion of the amounts employer and employee contribute to retirement funds.

Some industry sources argue that if such a tax were introduced, it would merely accelerate the cash flow into government’s coffers, rather than government waiting for the tiny amounts it gleams from people on pension.

Another view is that a pensions tax-flow would be counter-productive. The natural reaction of members would be to demand compensatory rises in their salaries and in the contributions made by their employers. And if Griffin’s assessment is correct and the suggestion contains seeds of destruction for the retirement industry, there will eventually be a further burden on the State in the form of minimal benefits for the destitute.

Nor would it be a wise move to introduce the tax only in pension funds and retirement annuities, which are seen as retirement plans for the privileged. If tax provisions were not also applied to provident funds — seen as the favoured savings vehicle of the black trade unions — pension funds could simply convert their status. Jacobs insists any tax should be applied equally to all retirement funding.

Jacobs is patently irritated that the focus on the pensions issue has diverted attention from the true substance of the report. Chapters in the report deal at length with the need to stop arbitraging between Acts, by introducing a Financial Services Regulation Board — possibly replacing or merging the DTI office and the FSB — and creating suitable amendments to the Companies Act so that it becomes clear where all principals, agents and intermediaries are licensed.

The issues of risk management and of principal/agent relationships are explored in depth. “It’s got a lot of consumer protection built in,” Jacobs asserts.

In places, Jacobs refers back to the initial debate: whether the playing fields between financial services organisations are level. He seems to conclude that they are as level as legislators can make them — but the ideal playing surface is an impossible dream.

He also deals at length with the abolition of the sixth schedule of the Income Tax Act and the introduction of the four-fund approach for money committed as contractual savings to the life offices and retirement industry. The two matters are in some ways seen to be linked. By removing the sixth schedule, the life offices will have freedom to offer more products which are only savings-linked and which do not need to contain a minimal amount of life cover.

Hand in hand goes a proposal that the amount of tax paid by life offices on behalf of the policyholders for whom they are trustees, goes from the marginal rate of 43% to 30%. That comes as a slight surprise because most of the vociferous life office spokesmen had been hoping, at best, for the rate to drop to 32%. Jacobs says many formulae were submitted and he is by no means certain the 30% level he mentions will be the final result.

In the case of the four funds, these would comprise one, taxed at company rates, for a life office’s free reserves or shareholders’ funds; a tax-free fund for retirement savings (assuming the debate on that never again surfaces); a fund for life policyholders’ money where income accruals are taxed at the presumed 30% rate; and a different fund for policies owned by companies or other forms of businesses, taxed at the full company rate. By introducing the fourth fund, the fiscus rides itself of the nagging problem that businessmen can arbitrage by investing in policies at the presumed 30% tax rate money which would otherwise attract company tax.

Jacobs also examined the question of capital gains tax on the life offices’ unrealised assets. He says at this stage he is firmly against it, not least because of its negative effect on capital formation.

Overall, the committee has produced a thoughtful insight into the financial services sector. Its views will not please everyone and it is possible not every recommendation or suggestion will pass into law, though Jacobs says some preliminary drafting has occurred where there is unlikely to be much resistance.
We need medicine not witchcraft

The provision allowing for a safe haven for disposal of listed shares (S9B of the Income Tax Act) was generally welcomed at its birth. For one thing it was hoped that, by allowing for greater certainty as to the tax treatment of share transactions, the sluggish activity on our stock exchange may be improved.

However, the first round required a share to have been held for 10 years before one could elect capital treatment. This period was so long as potentially to have the opposite effect, or at best to be irrelevant, and the required holding period has since been reduced to five years. (There is a strong rumour it is again going to be reduced — to two years.)

But the provision had a greater defect than the period. Interpretation of its ambiguity and internal grammatical conflict required a mental athleticism which drove many a taxpayer to intellectual anabolic steroids. For example, for the provision to be rational the word share(s) has to be read at times as referring to an individual share (certificate number xyz), at times as referring to a counter (eg De Beers or Rembrandt) and at times as implying a taxpayer’s entire shareholding.

One of the major contentions that arose from this was whether a taxpayer’s election for capital treatment of a share binds him as regards all his other shares for all time, which is the way the directorate sees the matter. It is understood that the directorate is about to resolve this problem through a practice note.

Two issues arise. First, the way to fix inadequate legislation is not through practice notes but through proper amendments; that is the difference between witchcraft and medicine. And, while we’re at it, other ambiguities may be fixed, including the degree of retrospectivity of the re-election, following the reduction of the qualifying period from 10 to five years.

Secondly, consideration must again be given to the principle of universal and infinite application of the election — it is ludicrous that the holding company of a massive conglomerate, by selling one share of R1, must be bound in respect of all other shares for all time, regardless of the fact that these may be worth billions.

The worst part of this is that it either denies the reality of one entity or taxpayer legitimately holding both investment and speculative shares, or introduces artificiality in the realisation patterns of those holdings. The understandable fear that taxpayers may base their elections on whether their shares have achieved gains or losses can largely be met by requiring the S9B election to be made at the time a share is acquired — a sort of “put your money where your mouth is” at the front end.

Meanwhile all share disposals must be carefully considered in the light of these developments. At the same time, groups should consider that even now they do have one counter weapon at least; separate companies within a group can elect independently. Thanks to our outdated system of non-group tax, some control can still be engineered, without witchcraft.
Land tax plan to yield R500m for local govt
Govt cuts may swell taxes

By AUDREY D'ANGELO
Business Editor

TAXPAYERS may have to foot the bill for generous pensions and "golden handshakes" when 20000 public sector jobs are cut next year.

Actuaries believe that the cost of cutting the jobs is likely to be passed on to the public in the next budget.

"Extra money to pay off the public servants could be raised through the Budget in ways that do not have to be accounted for," a Southern Life actuary said last night.

In the short term, taxpayers may have to dig deeper into their pockets — but actuaries say huge savings will be effected by reducing the size of the civil service.

In theory the cost of early retirement benefits could be met by R40 billion built up by the Public Investment Commission (PIC) from government and public servants' contributions to the state pension funds, costing the taxpayer nothing.

However, the actuaries say that taking the money from the PIC's funds would leave a shortfall for public servants retiring in years to come.

State pension funds are already in deficit.

Actuaries say that lump sums paid to retiring public servants are not taxed.

"The cost of retrenching or early retirement will depend on the packages offered," a senior Sanlam executive said.

"If the benefit is more than has been accumulated in the retirement fund on the individual's behalf, the difference will have to be found from somewhere — the taxpayer."
VAT set to rise: Foods may be 'zero'  

JOHANNESBURG. — Finance Minister Mr Derek Keys hinted yesterday that the government would raise the VAT rate next year but would soften the blow with relief on basic foodstuffs. 

Asked in an interview in Pretoria whether there was a chance of the VAT rate being raised, he said: "There has to be. That is why I pointed out that I was in negotiations with the VAT committee on the definition of basic foodstuffs. There is only one reason why one would be doing that." 

Asked whether that meant basic foodstuffs would be zero-rated, Mr Keys said he did not want to say too much about it, "but I am quite happy with the way the negotiations are going." 

The Co-ordinated VAT Coordinating Committee has asked the government to zero-rate basic foods. Economists believe that a VAT rate of at least 15% is inevitable, given the government's revenue crisis.  

See Page 10
THE Trade and Industry Department would recommend that Section 37E of the Income Tax Act—which provides incentives to invest—remain in force longer if government was unable to lower the company tax rate next year, a spokesman said yesterday.

He was commenting on the policy implications of a discussion document on industrial and trade policy drawn up by department director-general Stef Naude.

The document has been given to Finance Minister Derek Keyes as input for his economic model, due for release next month.

The report noted the following factors were needed for improving the investment climate: lowering of corporate tax rates, combating inflation, improving savings, maintaining exchange rate stability, lifting import surcharges, stabilising labour costs and providing incentives.

Naude's spokesman said lowering company tax rates would be the preferred option, but if this was not affordable for fiscal reasons, 37E would have to be retained beyond its expiry date of September next year.

The translation of the discussion document into policy would depend on factors such as the affordability of incentives, the ability to train and retrain the labour force, technological capacity and the links between different aspects such as improved competitiveness and tariff reform.

He said the General Export Incentive Scheme (GEIS) would be revised once GATT negotiations were complete and government could be certain it could keep GEIS going after 1996. The report said a revised GEIS might be made applicable to industries due for tariff reform.

On GATT, the report said a reclassification of SA as a developing country had become essential. GATT placed an obligation on developed countries to grant trade preferences to developing countries. "In terms of existing criteria, SA should experience little difficulty with a reclassification of its economic status."

The report noted preferential interest rates could be used to support other incentives for manufactured exports. Large minerals beneficiation projects that could qualify were under investigation.

Also under investigation was the extension of the export marketing assistance scheme to ease entry into new markets. On export markets, the report said the department was considering a trade agreement with Japan and would soon conclude a trade agreement with Israel.

The report noted SA would have to look at alternatives to the present customs union agreement. The "massive" and growing payments to SA's partners had rendered the agreement unaffordable. In the 1991/1992 fiscal year R2,85bn was paid to these countries, which grew to R3bn this year. SA retained 65% of the pool to which it contributed more than 90%. The second problem with the union was the diverging industrial policies regarding protection and differences in the levels of industrial development. Also under consideration were the merits of Export Processing Zones.
Cosatu postpones and offers to drop anti-PAYE campaign

COSATU has postponed its anti-PAYE campaign and will drop it altogether if government “practically implements agreements to submit itself to the democratic process”.

The campaign was due to begin next month.

The trade federation also decided to conditionally re-enter the restructuring National Manpower Commission (NMC).

But it will continue with rolling mass action through campaigns focusing on:

- Full worker rights for farm, domestic, public sector and homeland workers, including the right to strike;
- Free political activity in homeland and the democratization of the SABC.

DIRK HARTFORD

- High food prices, removal of VAT on basic goods and opposition to an increase in VAT;
- Action against retrenchments and violence.

Cosatu will meet Manpower Minister Leon Wessels early in November and he will “be expected to give a satisfactory response on outstanding issues”.

Cosatu feels government has taken a political decision to block its efforts to negotiate agreements on the labour market and economic forum.

The fact that agreements reached on rights for farm and domestic workers have not been implemented has angered Cosatu. The federation has also been angered by government’s “unilateral attempts to implement new legislation for public sector workers”.

Cosatu’s decisions, made at the weekend by its central executive committee, must be seen in the context of its strategic perspective of the “shifting challenges facing the trade union movement during the transition to democracy”.

The postponing of the anti-PAYE campaign, for example, has been linked to the record of understanding between government and the ANC. “But it also reiterates governments major obstacle to supporting the formation of the national economic forum.”

Sources said government was not keen on a formally structured forum with plenary sessions and statements of intent. Government would prefer a looser and more informal forum for economic discussion.

Cosatu will not accept this and wants the forum to include a power to deliver. It is adopting a carrot-and-stick approach, reserving the right to take action while trying to engage in negotiations.

The federation has also announced that a number of new unions had been affiliated to Cosatu conditionally on the understanding they merged with existing Cosatu unions in the same sector.
13% next year

VAT set to be

Increase will allow zero-rating of basic food, says Finance chief

13% that VAT should be an "ab

Director General Mr Gerhard

VAT. We must stop hanging

ANC Spokesman Mr Gill

The Angie Correspondent

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VAT's Ms Particles de

been announced in the budget

Pretoria, - An increase in

the headline caused by VAT.

next year to at least 13 percen

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Peers of an increase, which will

now virtually certain

cent" and possibly 15 percent, is

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Finance Minister Mr. Derek Keys has also hinted at an increase next year.

Mr. Croesen told the Afrikaanse Huiswoud, "The current VAT rate is at an all-time high."

The Director-General said today that a rate of 15 percent would allow exemptions on basic foods to be reintroduced.

He acknowledged that higher VAT would cause a lot of pain in poorer communities, therefore, it was essential that the government also provide poverty relief programmes and the amounts available for them be significantly increased. The current level is at 15 percent, but the government has hinted at an increase next year.
Poverty relief ‘must be revamped’

Raise VAT rate to 13%, Croeser urges

The VAT rate should be raised to an "absolute minimum" of 13%, and there had been speculation that it could be lifted to 15%, Finance director-general Gerhard Croeser said yesterday.

He said 13% was "break-even", and noted if VAT was pegged at this level it would merely be putting it on a par with GST.

Speaking at the Afrikaanse Handelsinstituut conference in Johannesburg, Croeser emphasised that the effects of a tax increase on disadvantaged communities would have to be addressed. The problem with raising the VAT rate was that there was no adequate poverty safety net.

"Our poverty aid programme has failed. We still have to work at putting a proper system in place," he said.

The Cosatu-led VAT Co-Ordinating Committee (VCC) said yesterday any increase in the VAT rate should come about only after a complete reconsideration of the VAT system, in negotiation with the VCC and other major economic stakeholders. An increase in VAT could not be traded off against zero-rating of some foods.

VCC statement was in response to Finance Minister Derek Keys who last week indicated a zero-rating of foods could accompany an increase in the VAT rate in next year's Budget.

"The VCC is not prepared to wait for next year's Budget to see zero-rating of foods. This must take place now. The poverty relief programme to protect the poor against the effects of VAT is now universally recognised to be a disaster."

The VCC was arranging a date to discuss zero-rating and related issues with Keys.

The committee had proposed that a list of basic foods be zero-rated, including fresh vegetables, fruit, eggs, white meat and fish. It accused government of relying on "ad hoc measures without negotiation".

Croeser was asked why there was not a greater effort to involve groups such as Cosatu and the ANC in economic decision-making. He replied that efforts to do so had failed because these organisations did not want to be involved in formulating policies while the real power of decision-making still lay with government.

An "economic Codres" was urgently needed to negotiate economic policies on an equal footing.

He believed a long-term economic restructuring plan would have to take account of the effects on disadvantaged communities.

Sapa reports that Old Mutual chief operating officer Gerhard van Niekerk told the conference SA's future economic success hinged on the degree the country could achieve an outward-looking economy and international competitiveness.

© Picture: News24
Case made for VAT of 13%  

Own Correspondent

JOHANNESBURG. — The VAT rate should be raised to an "absolute minimum" of 13%, and there had been speculation that it could be lifted to 15%, Finance Director-General Mr Gerhard Croeser said yesterday.

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An "economic Codeexa" was urgently needed to negotiate economic policies on an equal footing. The present structure of the economic forum was not appropriate.

- National People's Party-MP for Clare Estate, Natal, Mr M. Manjall Mohanlall, has asked the Finance Ministry to consider zero-rating rice.
The Minister of Finance

The personal income tax assessed 1966/67.

The minister of finance has determined the income tax for the year 1966-67.

Notice

1. Any person or business who receives any notice of income tax assessment must pay the tax within 30 days from the date of the notice.

2. Any person who fails to pay the tax within the specified period may be liable to penalties.

3. Any person who disputes the amount of the tax assessment may appeal to the court within 30 days from the date of the notice.

4. Any person who disputes the assessment must file an objection with the minister of finance within 30 days from the date of the notice.

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The table above shows the taxable income and tax due for various income brackets in Virginia. The tax is calculated based on the taxable income group, with higher income groups having higher tax rates. The total tax due is calculated by applying the appropriate tax rate to the taxable income and summing the results across all income brackets.

The table includes the following columns:
- Taxable Income Group
- Taxable Income
- Tax

The taxable income is calculated as a percentage of the income bracket, and the tax due is based on this calculation. The table provides a clear and organized way to understand the tax implications for different income levels.

Additionally, there is a note that highlights the importance of accurately calculating taxable income and ensuring proper tax filing to avoid penalties and fines.

The diagram provides a visual representation of the tax brackets and helps in understanding the tax implications at a glance.
NOTE

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No provision in the Rate of Interest Act, 1955, applicable to the

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THE MINISTER OF FINANCE

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The Minister of Mineral and Energy

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The Minister of Mineral and Energy

WINDSOVER 21 OCTOBER 1992

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Leave VAT rate, cut back your spending, govt told.

GOVERNMENT should not try to make up the shortfall in VAT revenue by increasing its rate but must slash state spending instead, economists say.

They were reacting to Finance director-general Gerhard Cloete saying on Tuesday that government would be forced to increase VAT to at least 13%.

Economist Tony Twine said instead of attempting to raise VAT revenues by 30% of the current take, government would do better by trimming its expenditure by an equivalent amount.

Ironically, he said government's revenue could fall even further if it increased the VAT rate. Consumers would cut back on their spending.

Standard Bank chief economist Nico Cryphonka said it was more imperative for government to cut spending.

"Our calculations show that to keep on an even keel, they would have to reduce expenditure by 5%. But, I'm not sure they have the guts to do that."

Cryphonka said this inefficiency as well as the publication of apartheid-era government departments needed to be rooted out.

Finance Minister Derek Keys has said the number of public servants would be reduced by about 30,000 next year as part of his attempt to cut government spending by 5%. — Sapa.
Keys meets major players

WHETHER the proposed national economic forum gets off the ground or not depends on today’s critical meeting between Finance Minister Derek Keys and delegations from labour and business.

It is the first tripartite meeting since government blocked plans in September to launch the forum because of Cosatu’s promotion of a PAYE boycott and mass action.

Today’s meeting is between the proposed forum’s process committee and Keys and his advisers. Jacob director-general Raymond Parsons, Chamber of Mines president Bobby Godsell and Cosatu general secretary Jay Naidoo are part of the process committee.

Naidoo said the meeting — which would address issues blocking the formation of the forum — was critical. "It will determine whether co-operation or confrontation is on the agenda in the medium term. We want constructive cooperation and we hope that is where the meeting will take us," he said.

Although he rejected the link between Cosatu’s anti-PAYE campaign and government’s refusal to endorse launching the forum, Naidoo said the postponement of the boycott should make agreement easier.

Business sources also described the meeting as critical. It was imperative the forum got off the ground as soon as possible.

To Page 2

Keys (010) 221-1919

ble on the basis of pursuing economic growth.

If the forum failed to get the go-ahead, it was possible business could discuss proceeding with bilateral discussions with the trade unions on issues the forum was meant to address.

Cosatu is pushing for the full participation of government as it believes this is the only way to get the talks to "deliver".

Keys had said that once parties to the forum were committed to speedy economic growth, to not taking action that harmed each other and to obeying the law, government would be ready to participate.

He said yesterday issues that needed to be addressed included:

- Ways to minimise unrealistic expectations;
- The reintroduction of normal commercial relations between financial institutions and house buyers;
- The stopping of other boycott actions; and
- The raising of agricultural productivity on high potential land.

Keys said other issues that could be addressed were agricultural exports, tourism, financing of big and small business, achieving national consensus on investment and long-term growth and promoting an entrepreneurial climate.

Keys said the formation of the forum would create confidence and be an important step forwards.

He warned, however, that it would take a great deal of negotiation to get there.
'VAT increase will be fought'

Recent indications by Finance Minister Mr Derek Keys that he might increase Value Added Tax (VAT) by between 13 and 15 percent in the next budget has mobilised anti-VAT forces for yet another fight over this controversial tax.

The Co-ordinating Committee of Vat (VCC) this week said it was against any VAT increase and would not be mollified by any attempt to soften the blow of higher VAT by zero-rating food.

"An increase in the VAT rate cannot be traded off against zero-rating of some foods," said VCC in a statement.

"It is not acceptable for the minister to treat VAT as a closed system. As long as the government allows and encourages corruption and mismanagement on a huge scale, and encourages bureaucrats and politicians and teachers and others to line their pockets as much as possible before the system changes, the VCC cannot consider trade-offs."

VCC repeated demands that:

- Basic foods be zero-rated. This should include fresh vegetables, fruit, eggs, white-meat and fish.
- Water, electricity, medicines and medical services be zero-rated.
- Better provision for small businesses, which are experiencing several difficulties with the VAT system.

"The VCC is not prepared to wait for next year's budget to see zero-rating of foods. This must take place now. The poverty relief programme, which the government claimed would protect the poor against the effects of VAT, is now universally recognised to be a disaster."
Jacobs Report: Tax uncertainty already hitting pensions
The implementation of the Jacobs Committee recommendation that only two-thirds of an individual's pension fund contribution be tax-deductible had serious implications for retired people, the South African Council for the Aged said yesterday.

It was "perturbed" that an additional tax burden would discourage people from making financial provision for retirement and would result in a larger number of people not being able to retire independently, SACA director, Mr SCA Eckley, said in a statement.
New taxes predicted under a future govt

SEVERAL new taxes — including taxes on capital gains, transfer pricing and land — could be expected under a future government, Price Waterhouse Meyerman tax manager Pieter Malan said yesterday.

Speaking at a corporate financial officers’ conference in Johannesburg, Malan forecast an increase in the VAT rate, "probably disguised in the form of a multi-rate tax", and the introduction of a minimum tax on companies.

Another area where tax legislation could be expected was in the control of transfer pricing, he said.

"Transfer pricing is a wonderful way to manipulate taxes payable by multinational companies. Apart from exchange control regulations and the general anti-avoidance provisions in the Income Tax Act, there is no legislation in SA to control transfer pricing."

Malan said a capital gains tax was unavoidable, and even though preparation of enabling legislation would be lengthy and complicated, it did not mean the tax could not be introduced suddenly and without warning.

He said such a tax would be fair, equita-

ble and "politically justifiable to the majority of the people".

"Why should only income of a revenue nature be taxed, while income of a capital nature is spared, especially in a country where the vast majority do not have capital assets due to their extreme poverty?"

Malan said the range of assets subject to a capital gains tax would be "as wide as possible and will include personal rights", indexing — to allow for inflation — would probably be available, while provision would be made for the deduction of capital losses from capital gains.

Although the introduction of a land tax was not being considered as a national tax, Malan said a form of land tax might be levied by regional authorities.

He warned of the many problems associated with the implementation of such a tax. "Just valuation criteria will have to be established and associated debts will have to be taken into account. The yield on agricultural land will naturally also have to be considered," he said.
VAT is likely to be increased to 14% in the next Budget, fuelling inflation — and reducing expected growth in gross domestic product (GDP) by one percentage point — the authoritative Stellenbosch Bureau for Economic Research (BER) suggests.

In their short-term forecast for the SA economy, BER economists point out that the Government had accumulated a deficit before borrowing of R137bn by August.

"Should this trend continue during the remainder of the fiscal year, then the deficit will climb to more than 10% of gross domestic product (GDP).

"The reason for this is twofold — revenue is running way below budget whilst expenditure is again showing signs of outstripping the amount budgeted for.

"Only 25.6% of the R84.7bn of revenue which has been budgeted for has been raised, whilst 43.4% of the total expenditure budgeted for has already been spent.

"Government officials are going out of their way to explain that it would be wrong to project the figures of the first five months up to the end of the fiscal year. However the danger signs are there for all to observe."

The BER considers "it might have been preferable to finance the anticipated 1993/4 Budget solely by way of loans but the Government seems to be of the opinion that it needs to look at additional revenue sources."

The Government might minimise the political risk of raising VAT by agreeing to zero rate basic foodstuffs. But nothing could be done to minimise the inflationary impact of this.

The immediate effect of raising VAT would be to cause prices to increase. Instead of inflation increasing "at a relatively moderate pace of 11.5% during 1993", an effective 13.5% rise in VAT would cause inflation to average 13.8% for 1993.

"The sharpest increase is likely to occur in the second quarter. We suggest an annualised figure of 15% for that quarter."
Government's spending under attack

DURBAN — Speakers at the convention attacked the excessive levels of government spending yesterday.

Government's estimated expenditure (at all levels) of 30% of GDP came under fire during debate on motions on taxation, and fiscal and monetary policy.

Introducing the taxation motion, the Johannesburg Chamber of Commerce's Mike Cato said the country could no longer afford to waste its tax revenues on exorbitant and inefficient government spending.

A representative of the Border chamber, introducing the other motion, said the conflict between strict monetary policy and lax fiscal restraint was a prime cause of high inflation.

However, Finance Department director-general Gerhard Croesen attributed rising government expenditure to the poor performance of the economy.

Although he admitted high government spending was a problem, Croesen said a 4% to 5% real reduction in state expenditure could have severe consequences in an economy going through a long recession.

The motion on taxation, calling for slashed government spending, was passed unanimously.

The motion on fiscal and monetary policy and its effects on the economy were referred to Sabc's economic committee for further analysis. — Sapa.
MEDIA STATEMENT

PAYE: THE IMPORTANCE OF CORRECT AND UPDATED PERSONAL PARTICULARS FOR THE DEDUCTION OF EMPLOYEES TAX

It would appear that many employees are still not aware of the importance of furnishing details of their personal particulars on the prescribed IRP 2 form—PAYE: Personal Particulars of Employee—to their employers for purposes of the deduction of employees tax from their remuneration. This form (IRP 2) must be filled in and lodged with their employers on taking up employment and also when any change to these personal particulars occurs.

Employees tax on remuneration paid on a daily, weekly or monthly basis, as well as the final determination of SITE at the end of the tax year or tax period, is calculated and deducted by the employer in accordance with the particulars declared on the IRP 2 form.

An urgent appeal is therefore made to employees to firstly ensure that, on taking up employment, they submit an IRP 2 form to their employers. Employees who are presently in service, but failed to submit IRP 2 forms to their employers when they originally took up employment, are requested to now furnish their employers with such forms. The Income Tax Act determines that any employee who neglects to furnish his employer with an IRP 2 form must be taxed at the highest rate, viz at the rate applicable to an unmarried person in respect of a male and at the rate applicable to a married woman in respect of a female. If by the end of the tax year or tax period an IRP 2 form has not been furnished to the employer, the tax so deducted is final and such employee will not be entitled to a redetermination of his tax deductions.

Secondly, employees who had previously submitted their IRP 2 forms but whose personal circumstances have since changed, must submit amended IRP 2 forms to their employers in order that any changed circumstances can be taken into account in determining the amount of employees tax to be deducted.

To sum up, an IRP 2 form must be submitted by employees under the following circumstances:

- When an employee takes up employment with a specific employer for the first time.
- Where an employee failed to submit an IRP 2 form on taking up employment.

MEDIAVERKLARING

LBS: DIE BELANGRIJKHEID VAN KORREKTE EN BYGEWERKTE PERSOONLIKE BESONDERHEDE VIR DIE AFTREKKING VAN WERKNEMERSBELASTING

Dit wil voorkom asof baie werknemers steeds nie die belangrikheid bese van die verskaffing van besonderhede van hul persoonlike omstandigheid hede aan hul werkgewers op voorgeskreve vorm IRP 2—LBS: Persoonlike Besonderhede van Werknemer—vir doeleindes van die aftrekkings van werknemersbelasting van besoldiging nie. Hierdie vorm (IRP 2) moet by diensaanvaarding en weer wanneer persoonlike besonderhede verander, aan die werkgever verstrek word.

Werknemersbelasting op besoldiging betaal op 'n daaglikse, weeklike of maandelikse grondslag, sowel as die finale vaststelling van SIBW aan die einde van 'n belastingjaar of -tydperk, word deur die werkgever bereken en afgetrek in ooreenstemming met die inligting wat op die vorm IRP 2 voorsien word.

Daar word dus 'n ernstige beroep op werknemers gedoen om eerstens te verseker dat hulle met diensaanvaarding 'n vorm IRP 2 aan hul werkgewers verstrek. Die werknemers wat reeds in diens is, maar wat nie die vorm IRP 2 met diensaanvaarding aan hul werkgewers verstrek het nie, word versoek om hul werkgewers nou van die vorm te voorsien. Indien 'n vorm IRP 2 nie ingediend word nie, bepaal die Inkomstebelastingwetdat die werknemer belas moet word teen die hoogste skaal, naamlik teen die skaal van toepassing op 'n ongetroude persoon vir 'n man en teen die skaal van toepassing op 'n getroue vrou vir 'n vrou. Indien daar teen die einde van die belastingjaar of -tydperk nog nie 'n vorm IRP 2 ingediend is nie, is die belasting so afgetrek finaal en sodanige werknemer sal nie geregist wees op 'n herberekening van belasting afgetrek nie.

Tweedens moet werknemers wat wel voorheen 'n vorm IRP 2 ingediend het maar waar so persoonlike omstandighede intussen verander het, 'n nuwe vorm IRP 2 by hul werkgewers indien sodat die veranderde omstandighede in ag geneem kan word by die vaststelling van die bedrag aan werknemersbelasting wat afgetrek moet word.

Opsommend moet vorms IRP 2 dus onder die volgende omstandighede ingediend word:

- Wanneer 'n werknemer vir die eerste keer by 'n spesifieke werkgever diens aanvaar.
- Indien 'n werknemer nagelaat het om by diensaanvaarding 'n vorm IRP 2 in te dien.
Where one or more of the following personal particulars has changed since submission of the last IRP 2 form:

- A change in the employee’s marital status takes place,
- An increase or decrease in the number of children in respect of whom the employee is entitled to a rebate,
- On reaching the age of 63 or 65 years, and
- A change in name.

Enquiries in this connection may be directed to any departmental Receiver of Revenue where IRP 2 forms are also obtainable if stocks are not available from employers.

Issued by: The Commissioner for Inland Revenue, Pretoria.

Contact person: Mr Des Goosen (012) 315-5762.

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No. 3025
30 October 1992

13 PER CENT INTERNAL REGISTERED STOCK, 2009/10/11: CERTIFICATE No. 15847 FOR R288 200 ISSUED IN FAVOUR OF Dr LILY CELIA WOLPOWITZ

Application having been made to the Department of Finance for a duplicate of the above-mentioned certificate, the original having been lost or mislaid, notice is hereby given that unless the original certificate is produced at the Department of Finance, Private Bag X115, Pretoria, within four weeks from the date of publication of this notice, a duplicate as applied for, will be issued.

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No. 3045
30 October 1992

16 PER CENT LOAN LEVY, 1994: CERTIFICATE No. 1698 FOR R47 200 ISSUED IN FAVOUR OF DOF MANUFACTURING (PTY) LTD

Application having been made to the Department of Finance for a duplicate of the above-mentioned certificate, the original having been lost or mislaid, notice is hereby given that unless the original certificate is produced at the Department of Finance, Private Bag X115, Pretoria, within four weeks from the date of publication of this notice, a duplicate as applied for, will be issued.

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DEPARTMENT OF FOREIGN AFFAIRS
No. 3000
30 October 1992

RECOGNITION GRANTED AS CONSUL-GENERAL

It is hereby notified that Mr Ion Tudor Edu has, with effect from 25 September 1992, been granted recognition as Consul-General of Romania in Cape Town, with the Province of the Cape of Good Hope as his area of jurisdiction.

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INDIEN EEN OF MEER VAN DIE VOLGENDE PERSONLIKE OMSTANDIGHEDES VERANDER HET:

- 'n Verandering in die werknemer se huwelikstatus plaasvind,
- 'n Vermeerdering of vermindering in die aantal kinders ten opsigte waarvan die werknemer op 'n korting geregtig is,
- By bereiking van die ouderdom van 63 of 65 jaar, en
- 'n Naamverandering.

Navrae in hierdie verband kan geryd word aan enige departementele Ontvanger van Inkomste waar voorraad van vorme IRP 2 ook verkry kan word indien voorraad nie by werkgewers beskikbaar is nie.

Uitgereik deur: Die Kommissaris van Binnelandse Inkomste, Pretoria.


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No. 3025
30 Oktober 1992

13 PERCENT BINNELANDSE GEREGEREERDE, EFFEKE 2009/10/11: SERTIFIKAAT No. 15847 VJR R288 200 UITGEREIK TEN GUNSTE VAN "DR LILY CELIA WOLPOWITZ"

Aangesien daar by die Departement van Finansies aansoek gedoen is om 'n duplikaat van bovermelde sertifikaat wat verloot of verlê is, word hierby bekendgemaak dat tansy die oorspronklike sertifikaat binne vier weke na die datum van publikasie van hierdie kennisgewing by die Departement van Finansies, Privaatsak X115, Pretoria, ingelewer word, die verlangde duplikaat uitgereik sal word.

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No. 3045
30 Oktober 1992

16 PERCENT LENINGSHEFFING, 1994: SERTIFIKAAT No. 1698 VIR R47 200 UITGEREIK TEN GUNSTE VAN "DOF MANUFACTURING (PTY) LTD"

Aangesien daar by die Departement van Finansies aansoek gedoen is om 'n duplikaat van bovermelde sertifikaat wat verloot of verlê is, word hierby bekendgemaakt dat tansy die oorspronklike sertifikaat binne vier weke na die datum van publikasie van hierdie kennisgewing by die Departement van Finansies, Privaatsak X115, Pretoria, ingelewer word, die verlangde duplikaat uitgereik sal word.

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DEPARTEMENT VAN BUITELANDSE SAKE
No. 3000
30 Oktober 1992

ERKENNING VERLEEN AS KONSUL-Generaal

Hierby word bekendgemaak dat aan mnr. Ion Tudor Edu met ingang van 25 September 1992 erkenning verleen is as Konsul-generaal van Roemenië in Kaapstad, met die provinsie die Kaap die Goeie Hoop as sy regsgebied.
INFLATION, as measured by the increase in the CPI, fell further than expected to 13.5% in September from 14.3% in August, CSS figures released yesterday show.

The main reason was a reduction in housing costs because of the September mortgage rate cut. Housing makes up more than 20% of the CPI basket.

Food inflation moderated on an annual basis, with CSS reporting an annual rate of increase of 27.5% in September (28.5%).

Economists predicted inflation would fall by a further full percentage point in October when the introduction of VAT ceased to distort the figures.

Sanlam economist Johan Louw said the September figures had already benefited from the VAT factor as prices were raised substantially in September last year in expectation of VAT. CSS said inflation excluding VAT stood at 12%. A rise in the VAT rate and an increase in the fuel levy were expected next year and would exert upward pressure. Economists cautioned against too much excitement over the fall in inflation in September.

Although inflation was a key indicator for monetary policy, a fall in the growth of inflation could not be interpreted as a reason to cut interest rates on its own, they said. The month-on-month increase in the CPI was 0.7%. Had housing costs remained stable instead of falling, the rise in the CPI between August and September would have been 1% — an annualised 12.7%.

For the low, middle and high income groups, the respective inflation rates for September were 14.8%, 14.4% and 12.6%.
NEW HOPE FOR ECONOMIC FORUM

The national economic forum, including representatives of business, labour and government, could be launched this week. The Cabinet was due to discuss the matter on Wednesday.

Feeling in business circles is that government is now close to approving the forum, which, though only an advisory body, could take on effective powers of veto against unilateral policy decisions.

Recession strengthens the view that the Cabinet will give the go-ahead. Since it is all too evident that no economic stakeholder can, on its own, address economic malaise, the forum could play an important role. It will boost confidence among potential foreign investors, local businessmen and workers and be the first tripartite attempt to tackle economic issues.

Moves by business and organised labour — primarily Cosatu — to launch an economic forum resulted in their first formal meeting on January 21. They put together a draft agreement at the end of March.

However, the idea seemed scuppered when, late last month, government rejected the planned launch of the forum by November because of Cosatu’s mass action plans — in particular, its planned tax boycott. It had a point: you can’t conduct economic civil war while simultaneously seeking co-operative economic relations.

On October 22, Finance Minister Derek Keys launched into a long harrangue against a Cosatu delegation (led by deputy general secretary Sam Shikowa) on this score. It was not clear whether this reflected lack of political skill or a deliberate attempt to sink the forum. Things did, however, calm down by the end of that critical meeting.

The forum will have two working groups. One will tackle immediate, short-term issues, such as poverty alleviation, retrenchments, VAT, tax policy and budget matters. Cosatu seems keen on this group. The other will examine longer-term, macro-economic issues, which business seems keener on.

A process committee will integrate the work of the two groups and decide on plenary meetings. It will also formulate guidelines for other parties to make submissions to the forum.

The Consultative Business Movement will serve as interim secretariat. If the forum gets the nod, it hopes to produce results within months, says a spokesman.
taxes stay high
old mutual economist Dave Mohr says a 'sustained' deficit around 8.5 percent or more 'could' have dangerous implications. tax cuts next year are unlikely, and certain taxes may well be raised.
VAT likely to rise to 14 percent...

The Bureau for Economic Research (BER) predicts a four percentage point increase in the Value-Added Tax rate in next year's Budget. (2023)

The BER suggests the political risk of raising VAT will be minimised by the zero-rating of basic foodstuffs, but its inflationary impact remains. It says the increase can raise at best R8.4 billion and more likely R6.4 billion.
Cosatu warns of second VAT strike

By Diane Coetzee

MILLIONS of workers may again embark on a general strike if the government raises Value Added Tax from 10 to 15 percent next March.

Cosatu spokesperson Mr Neil Coleman said on Tuesday that the government had once more made a decision which would affect the lives of millions of people without any prior consultation with democratic organisations.

This was unacceptable to Cosatu and its affiliates, he added.

In a statement on October 20, the director general of the Department of Finance, Mr Gerhard Corser, announced that VAT would be increased to at least 13 percent — and possibly 15 percent — when the budget was announced in March.

Corser told the Afrikaanse Handelsinstituut Congress in Johannesburg that 13 percent was break-even point and would allow exemptions on basic foodstuffs to be reintroduced.

Poverty relief programmes would have to be significantly increased, he said.

Referring to the announcement, Coleman said that if the increase went ahead, the government could expect the “same reaction” as that which took place November last year. At that time millions of people took part in a general strike to protest against the introduction of VAT.

"Cosatu and its affiliates will oppose the raise as strongly as before.”

Coleman said government’s attempts to trade-off zero-rated foodstuffs against the increase was unacceptable. This was especially in view of the fact that the price of food had increased by 30 percent over the past year — an increase predicted by consumer organisations in September 1991.

He said the government should not give with one hand and take with another.

"Besides, we are not asking for foodstuffs alone to be zero-rated. We want a wide range of basic commodities — including clothing, food and medical supplies — to be given a differential rate, as happens in many other countries.”

VAT could not be looked at in isolation.

Revenue was inextricably linked to expenditure, so the government’s wasteful expenditure on apartheid structures and the pillaging of money through corruption had to be attended too.

The tax could not be applied in a “slap dash manner”, Coleman added.

"There must be real negotiation on differential rates, and on what is regarded as a necessity or a luxury.”

Referring to Corser’s statements on poverty relief, Coleman said it was "interesting that the government is admitting what we have been saying all along — that there is no poverty relief programme to speak of in this country.”

"But we cannot wait for the government to correct this while people are starving.

"We need immediate zero-rating on food and an increase in pensions.

"If this is not forthcoming and the government goes ahead with its unilateral hike in VAT, it can expect the same opposition it faced in November last year,” said Coleman.

Beware, child molester at large

By Edwina Booyzen

POLICE are appealing to parents and teachers to warn children not to walk in isolated areas, after the discovery of a boy’s body on Tuesday.

Jacobus Louw, 10, of Mitchells Plain, was found by children in the sand dunes at Mundy Beach.

He had apparently been sexually molested and strangled with his socks.

Jacobus, a standard one pupil at the Beaconview Primary school, was last seen on Kapteinshulp station on Tuesday afternoon.
Zero-rating ‘could push up VAT’

ZERO-rating of basic foodstuffs would reduce revenue by between R1bn and R2bn — implying the VAT rate would have to be raised sharply to compensate, Econometrix senior economist Azar Jammie said at the weekend.

This pointed to a VAT rate increase on durable goods to between 15% and 20%.

The thrust of tax increases in the next fiscal year would be on indirect taxes — particularly VAT. Z

As a one percentage point hike in the VAT rate would raise about R2bn in extra revenue, Jammie said the authorities would probably favour this form of tax increase to address the budget deficit.

A rise in the fuel levy could also be expected.

He cautioned that the effects a hike in VAT could have in dampening sales — and thus depressing VAT revenues — could not be quantified accurately.

If the tax was increased by three percentage points, as suggested by Finance director-general Gerhard Groener, about R2bn in extra revenue could be collected.

Jammie pointed out that the R2bn which would be taken out of the economy would match the effect a one percentage point cut in interest rates would have in returning money to the system.

A one-point cut in interest rates was thus needed to neutralise the effect of a VAT rate hike of the same magnitude.

For every 10c/l increase in the petrol levy, the authorities could expect to collect an extra R1bn, Jammie said.

In comparison, additional excise duties on cigarettes, beer and soft drinks would pull in only another R20bn to R40bn.

As about 30% of goods and services in the CPI were subject to VAT, a one-point increase in the tax would have the potential to lift inflation by a once-off 0.8%.
Billions paid in too much tax?

Own Correspondent

JOHANNESBURG. — Too much tax — amounting to billions of rand — may have been paid into state coffers if an investigation into tax overpayment by Cosatu members is representative of all SITE payers.

This is because these tax payers provided incorrect information regarding their personal circumstances.

Mr David Heyman, chief executive of Workers Tax Consultants, says an estimated 850 000 Cosatu members have paid roughly R720 million too much in SITE tax since it was introduced in 1989.

No provision is made for rebates regarding SITE tax. Also, the onus is on employees to provide the correct information regarding their personal circumstances to their employers for tax deduction purposes, he said.

Everyone earning R50 000 or less annually is a SITE tax payer for the 1992 tax year.

Of the 4.6m salaried tax payers, 300 000 are taxed on a PAYE basis, which allows refunds, and 3.6m are SITE payers.

Mr Heyman said the main reasons for these problems are that workers — often illiterate — were not aware they had to fill in IRP2 forms and many did not know they had to advise their employers if they had children or were married.

Single mothers and illegitimate children, for example, qualify for a tax deduction, but employees often did not know this.

Also, employers had not properly informed employees of their obligations under the Income Tax Act and in many instances filled in the forms on behalf of their workers without the proper information, he said.

Mr Heyman claimed employers seemed to be reluctant to help solve the problem because obtaining the correct information posed a huge administrative problem.

However, Commissioner for Inland Revenue Mr Johan Hattingh said he was looking into the problem.

Mr Heyman said Mr Hattingh conceded that the situation was “morally wrong”.

But Mr Hattingh pointed out — in a letter to Mr Heyman — that the entire SITE system was based on employees providing correct information “and to deviate from this would lead to a serious erosion of the system and jeopardise its existence”.

ANC ‘won’t honour govt land deals’ — Page 12

PHOTO Leaders urged to halt
Workers to seek millions in tax refunds

MILLIONS of employees paying the flat-rate standard income tax on employees (SITE) could have overpaid billions of rands because they did not provide their employers with correct information about themselves.

A Cosatu investigation has shown that about 60% of its members had overpaid SITE, which is not recoverable. If the overpayments are representative of all 3.8-million employees paying SITE, the total could run into billions.

Workers earning less than the threshold at which they have to submit tax returns are taxed at a flat rate of 50%. The payments, unlike PAYE deductions, are not refundable in the case of overpayment.

Workers Tax Consultants CEO David Heyman said an estimated 650,000 workers in Cosatu had paid roughly R728m too much in SITE since it was introduced in 1989.

Overpayments have no legal grounds for claiming refunds as SITE makes no provision for rebates. And the legal onus is on employees to provide correct information on their personal circumstances to employers for tax deduction purposes.

However, Inland Revenue Commissioner Johan Hattingh said he was investigating the problem to see what could be done.

Hattingh said Heyman had conceded to him that the situation was "morally wrong". But Hattingh had pointed out — in a letter to Heyman — that the entire SITE system was based on employees providing correct information "and to deviate from this principle can and will lead to a serious erosion of the SITE system and jeopardise its very existence".

The peace secretariat has also been involved in trying to facilitate a solution to the problem. Secretariat spokesman Corrie Bezuidenhout said there would be more meetings, including between Cosatu and the Receiver.

A Cosatu spokesman said that whatever the legality of the issue, it was clearly morally wrong. Cosatu was determined that all workers who had overpaid should be compensated.

Heyman's company has been involved in a year-long investigation into SITE overpayments at 12 Cosatu affiliates representing 1.1-million workers.

He said overpayment occurred in most of the thousands of cases investigated.

So far, overpayments have been most marked in the SAP, Trangate, Telkom and Eskom, said Heyman.

...In most instances employees had been taxed as single-persons when they should...

From Page 2

Heyman said the main cause of the problem was that workers — often illiterate — were not aware they had to fill out IRP forms. Many did not know they had to advise employers if they had children; were married. Single mothers and illegitimate children, for example, qualified for tax deductions, but employees often didn't know this.

And employers had not properly formed employees of their obligations under the Income Tax Act and in many instances filled in the forms on behalf of workers without the proper information.

Heyman claimed employers seemed to be reluctant to help solve the problem because obtaining the correct information posed a huge administrative problem.
Billions windfall

Overpaid SITE tax may be refunded

By AUDREY D’ANGELO
Business Editor

MILLIONS of families all over the country will find themselves better off if the government refunds billions of rands that have been overpaid in standard income tax on employees (SITE).

The extra money could give a badly needed boost to the economy, resulting in more jobs.

But it would increase the growing shortfall between revenue from taxes and government expenditure, and result in higher taxes later.

Cosatu, after an investigation, claims that about 60% of its members have overpaid an estimated R720 million since SITE was introduced in 1989.

In most cases they had been taxed as single people when in fact they had children to support.

If the overpayments are representative of all the 3.8 million employees paying SITE, the total could run into billions.

SITE was introduced as a flat-rate tax for workers below the threshold at which they have to fill in tax returns. To cut down on work for the Inland Revenue department it was stressed, at the time the tax was introduced, that no refunds could be made.

Inland Revenue Commissioner Mr John Hattingh was quoted yesterday as saying that the necessary adjustments could be made, possibly resulting in refunds, if people had mistakenly been taxed as single people in the current year because they had failed to give full information to their employers.

Mr Hattingh said that where the employer had made a mistake, the employee was entitled to refunds for past years.

Tax consultant Mr Colin Wolfsohn, a partner in Kelser Feinstein, said yesterday: “Thousands of people are over-paying tax, either because their employers have not kept up to date with current tax tables or because people do not give them full information.”

“For instance, a man who marries a woman with two children is immediately entitled to pay tax as a married man with dependent children.”

“Provision exists in law for refunds, even of SITE, if the employee tells his employer before the end of the tax year.”

Mr Wolfsohn said the Department of Inland Revenue had been “very reasonable” about giving refunds in cases of overpayment.
ANC in call for extra tax measures

GRETSTEVY

THE ANC yesterday called on the government to implement a number of tax measures as soon as possible to alleviate the present revenue crisis.

The organisation also called for fiscal discipline, saying fiscal policy had played a role in combating inflation.

At a presentation for businessmen arranged by stockbrokers Senekal Mouton & Kilchoff in Johannesburg yesterday, ANC deputy economic planning head Trevor Manuel said about R2.5bn could be raised by creatively exploring available tax instruments.

Taxing dividends would have added about R600m in the current fiscal year. "If this was found to be an impediment to investment, the move could be reconsidered. But the revenue base is small and that is a factor that has to be taken into account," he said.

A further area of concern was that all interest paid to nonresidents, including SA emigrants, was tax exempt. The inclusion of emigrants in the exemption was not necessary as the intention had been to encourage foreign investment in SA. Taxing emigrant earners of interest could add up to R600m.

"Other sources of revenue were the tax-based film, livestock and plantation schemes. If Revenue immediately settled the cases pending on film tax schemes,"

--Te Page 2--

Tax

rather than waiting for the courts, as much as R600m could be raised at once.

The ANC had also become aware of the erosion of capital transfer tax, with the revenue from this source in effect not being collected. Government had let it slip "as a sop to the agricultural sector" in a political pay-off. However, a further R300m-R400m could be raised if the tax was collected properly.

On spending, Manuel said a democratic government would be under extreme pressure to spend excessively, but this would have to be resisted. Present spending levels were not too high.

A detailed analysis of current spending was needed to establish the efficiency of the way in which money was spent. As an example, he mentioned health spending, where levels were adequate but infant mortality and life expectancy rates indicated money was not being spent correctly. It was necessary to look beyond figures to what the spending was achieving.

He criticised government for cutting spending on education while continuing to spend on homeland governments.

Manual criticised the practice of financing consumption spending with loans, saying it was "the first problem" that had to be addressed. Government had violated a fundamental principle in allowing debt to rise to 65% of GDP as a result of current—not capital—spending.
PENSIONS

Jacobs lives

Pensions tax, discussed in the Japie Jacobs report last month, is very much a live issue. After the furor that followed the report from Jacobs, special economic adviser to the Finance Minister, there were some in the retirement industry who hoped the matter would be swept under a carpet. Yet at a meeting of the Tax Advisory Committee (TAC) last week, it was made clear that government’s need for money is so pressing that the retirement industry cannot expect to escape.

But Jacobs’s so-called proposal, a variant on a variant of an Australian model for a pensions tax, may not be the eventually favoured method. Discussions continue to take place among actuaries from the private sector and the TAC.

On Tuesday, State actuary Piet Robbertse discussed some of the options — in highly algebraic terms — at a closed meeting of the Actuarial Society of SA. Robbertse mentioned various tax schemes, ranging from the existing system where tax applies only on the withdrawal benefits, to a tax on the build-up of assets in a fund, alternatively making part of the contributions to a fund non-tax-de-

ECONOMY & FINANCE

ductible. The latter, which emerged in the Jacobs proposal, attacks the heart of tax practice, since employer contributions to pensions are obviously expended in the production of income.

Robbertse’s address merely confirms that while the issue of a pensions tax is very much alive, there is still room for debate on the practicalities. Old Mutual, among others, has indicated it feels a method can be evolved which does not materially damage the retirement industry.

The oddity is that the debate has commenced without the publication of the Mouton Committee investigation into the retirement industry. This committee has been sitting on and off for four years and was charged with inspecting retirement programmes around the world and coming up with the most suitable answers for SA.

Its report is at last at the government printer and Finance Minister Derek Keys should get his copy within a few days. Jacobs indicated to the FM that Mouton had virtually handed to his own committee the task of establishing pension tax principles and Mouton would probably have little to say on the issue. But it’s hard to see how the work of the two committees can be separated. When Keys decides to release the tome into which Mouton’s work has grown, it may be possible to see the logic.
WORKERS Tax Consultants CE David Heyman yesterday accused Inland Revenue commissioner Johan Hattingh of trying "to pull the wool over the public's eyes" by saying that overpayment of SITE in the present year could be refunded.

He said there was already provision for this in the law and the real problem was overpayment in previous years.

Heyman, whose company is investigating tens of thousands of SITE overpayments by Cosatu members, estimates that up to 600 000 workers could have overpaid R720m in previous years.

He said the law also provided for repayment in previous years if it could be shown the employee had provided the correct information but the employer made a mistake when submitting the employee's SITE tax. He believed it was in any event almost impossible to prove this.

"It is absolutely reprehensible that the commissioner uses provisions already in the law as solutions to the crisis of SITE tax overpayment," Heyman said.

However, Heyman argued that a precedent for repayment for previous years had already been set. He said the commissioner had already given a directive to allow refunds to Transnet employees for the 1991 and 1992 tax years.

Meanwhile, Telkom has undertaken to try to process 67 000 forms by the end of the present tax year to make sure the personal information on its employees is correct, Heyman said.

All employers were reportedly sent a notice last month from the Finance Department reminding them of the importance of correct and updated personal particulars for tax deduction.

SITE tax is not a flat rate tax of 25% as was erroneously reported in Business Day yesterday. SITE tax, like other PAYE tax, is calculated on each individual's salary and is adjustable on a sliding scale. It is dependent on the marital status and number of children of the taxpayer.
Jacobs explains delays in pension fund report

CAPE TOWN — Special economic adviser Jasper Jacobs said yesterday "the extreme delicacy" of the issue of taxing pension funds had led to repeated delays in finalising his report on the industry.

Speaking at the opening of Sanlam's financial advisory service in Bellville, Jacobs said suggestions on the taxation of pension funds, published last month, had been formulated a year ago but had been delayed owing to the fear of repercussions, including fears of labour unrest.

Jacobs said that while people should be encouraged by means of tax incentives to make their own provision for retirement, the question was how large the deductions for private pension funds should be.

"There exist various possibilities in terms of which the existing tax incentives for retirement provision can be reduced. It does not mean the total scrapping of them," Jacobs said.

Two considerations had to be borne in mind when investigating the taxation of pension funds, Jacobs said, namely the consequences on the competition between different categories of financial institutions in terms of the flow of funds, and the extent to which the fiscal authorities could afford the incentives.

The latter consideration was especially important in a country with an uneven income distribution, Jacobs said.
Cosatu on warpath over SITE payments

THE furor around overpayment of SITE by hundreds of thousands of employees grew yesterday as Cosatu warned of a "collision course" with government if overtaxed employees were not refunded.

Cosatu said in a statement that a combination of employer negligence and workers' ignorance of tax laws had led to a national scandal which would make the VAT conflict seem like a lovers' tiff if workers were not repaid.

Cosatu was investigating the legal liability of the receiver and employers. It said employers who failed to obtain a declaration from a worker were responsible for the situation.

"Cosatu will ensure that all methods are investigated to secure compensation for workers who have been victims of legalized theft," the statement said.

Meanwhile Cape Town-based Tax Professionals' Lizelle Boshoff said she had successfully applied for refunds for thousands of SITE taxpayers at offices of the Receiver of Revenue in Cape Town, Witbank and Johannesburg.

It was not possible to get the Receiver to confirm this yesterday at offices in Witbank and Cape Town were already closed.

Workers Tax Consultants' CEO David Heyman said he, too, had had some success in getting rebates for SITE taxpayers at the Witbank office.

But Commissioner for Inland Revenue

From Page 1

Johan Hattingh has said any rebates granted other than for the current tax year, were "errors".

And Heyman said that even though there were already precedents — as at Transnet — where the commissioner had given a directive that refunds be paid — the commissioner had refused further directives for refunds in other sectors.

Heyman said also that giving refunds to "single" people, where tax had been incorrectly levied, was not the solution to the problem.

"The vast majority of cases where employees have been overtaxed applies to married people, or people with children."
Excess tax showdown threatens

ALIDE DASNOIS
Business staff

THE SITE issue blew up into a full-scale row this week, with Cosatu warning of a collision with the government if millions of workers are not refunded excess tax paid.

Cosatu claims millions of low-paid workers have had excessive SITE (Standard Income Tax on Employees) deducted from their wages, and that its members alone are owed up to R1 billion and possibly more.

But, Inland Revenue Commissioner Mr Johan Hattingh is adamant: Only excess tax paid during the current year can be refunded.

According to Cosatu in a statement issued this week: "A combination of employer negligence and worker ignorance of tax laws has been deliberately exploited by the Receiver of Revenue to fleece low-paid workers on a large scale."

Under the SITE system introduced in 1989, employees earning less than R50 000 a year are not obliged to fill in annual income tax returns. Tax is deducted by employers on the basis of information supplied by the employees themselves.

But, union spokesmen and tax experts point out that tax categories are not always clear to workers and the onus should be on employers to make sure the information entered is correct.

"It is possible that many people don't know in which category they are taxed," says Mr Jacques Marnewicke of Sanlam.

Income tax laws categorise taxpayers as single, married and married women. People with dependent children who qualify for rebates are automatically taxed as "married persons", married or not.

But, not all taxpayers know this. A union spokesman points out: "If an employer asks a single mother whether she is married, she'll say no.

"If nobody explains to her, how is she to know she's a married person in terms of the law?"

Mr Marnewicke agrees. "The categories could be very confusing."

"Another problem arises when people are taxed as single persons when, in fact, they are married under customary law. The Income Tax Act recognises customary law marriages, but not all employees — or employers — are aware of this," he says.

"Employers have at least a moral obligation to inform employees — particularly illiterate employees — of the implications."

If the employee does not fill in an IRP2 form, the employer must deduct tax from his or her wages at the maximum rate, applicable to an "unmarried person", in the case of men, and to a "married woman", in the case of women.

To page 3
Stowaways in group of Angolan refugees

BY SHARON CHETTY

TWO stowaways, five cats and one dog were among the 261 international refugees airlifted from Angola on Friday.

The two Angolan stowaways were part of the group the Department of Foreign Affairs had arranged passage for and will be sent back.

After two months of uncertainty since the country's elections and a week of intensive clashes between the Angolan government and the rebel Unita movement,消息 of the stowaways being rescued from the bush will be welcomed by the government.消息 of the Angolan refugees being rescued from the bush will be welcomed by the government.

Visas

A beaming Mr Piki Butha was on hand to welcome the mainly business people and embassy staff on the two mercy flights.消息 of the Angolan refugees being rescued from the bush will be welcomed by the government.

They arrived with only essentials.消息 of the Angolan refugees being rescued from the bush will be welcomed by the government.

In addition to 8A citizens, the refugee group comprised Angolans, Zambians, Namibians, Czechoslovakians, Germans, Belgians, Sri Lankans, Russians, Lebanese, Zaireans, Portuguese, Israelis and Australian nationals.

State refuses to refund tax millions to workers

THE government is refusing to pay back millions of rand in tax which had been overpaid by hundreds of thousands of low-paid workers over the past three years amid charges that it had benefited from "legalised theft".消息 of the Angolan refugees being rescued from the bush will be welcomed by the government.

On Friday the government cancelled the tax overpayment which was a result of a Court of Appeal ruling that refused to refund full workers who had overpaid the Receiver of Revenue on SSTI tax.消息 of the Angolan refugees being rescued from the bush will be welcomed by the government.

Mr Hattingh had announced on Tuesday that workers in this category would be refunded.消息 of the Angolan refugees being rescued from the bush will be welcomed by the government.

By KURT SWART

Upset over the SIEZ overpayment, a group of Coms workers followed a Coms investigation into the taxation system which revealed that 850 000 workers had been overtaxed for three years.

The amount lost from workers' pay packets was estimated at R172.5m.消息 of the Angolan refugees being rescued from the bush will be welcomed by the government.

Thousands of workers outside the Coms fold could also have been affected.

Mistake

Mr Hattingh said that if in the current year the information supplied by the employer was correctly adjusted by the employer, "this instance a refund can be made".消息 of the Angolan refugees being rescued from the bush will be welcomed by the government.

"If the employer made a mistake a refund can be made. That is the law of the moment. But a refund cannot be made for previous years if the information supplied was not correct," Mr Hattingh said.

He had further meetings with representatives of employers to discuss the issue.
Tax chief:
No SITE refunds

Own Correspondent

JOHANNESBURG. — Employees cannot legally be refunded for SITE tax overpayments other than for those in the present tax year, according to Commissioner of Inland Revenue Mr Johan Hattingh.

Mr Hattingh, who was involved in drafting the SITE tax law, will meet Workers Tax Consultants chief executive Mr David Heyman tomorrow to discuss solutions to the overpayments made by hundreds of thousands of workers.

In a letter to Mr Heyman in September, Mr Hattingh said — "moral issues aside" — the legal provision that employees furnish correct information on IRP2 forms was "the very cornerstone on which the SITE system is based".

He said any deviation from this principle "can and will lead to a serious erosion of the SITE system and jeopardise its very existence".

Mr Heyman asked in a statement how it was possible for a senior government official to write a "morally wrong law" and get it passed by parliament.

He also pointed out that the commissioner — in a press statement in April 1989 — said employers were required to rectify overdeductions of SITE. If they failed to do so, "any taxpayer who does not have to submit a return may approach his Receiver of Revenue for a refund," he said.

Mr Heyman's tax team are handling numerous cases for state and parastatal employees. Also, overpayments have been uncovered by employees of a wide range of companies — including Woolworths, Checkers, AECI, SABC, Nampak, OK Bazaars, Wits University, Dorbyl and the Old Mutual.
Tax commissioner to discuss SITE issue

INLAND Revenue commissioner Johan Hattingh will meet Workers' Tax Consultants CE David Heyman tomorrow to discuss possible solutions to overpayments of SITE tax affecting hundreds of thousands of workers.

Hattingh, who was involved in drafting the SITE tax law, says as the law stands employees cannot be repaid for overpayments other than in the present tax year.

The overpayments arose when notification of changes in employees' marital status and numbers of children were not submitted.

In a letter to Heyman in September, Hattingh said that "moral issues aside" — the legal provision that the employee furnish correct information on IRP5 forms was "the very cornerstone on which the SITE system is based".

DIRK HARTFORD

He said any deviation from this principle "will lead to a serious erosion of the SITE system and jeopardise its very existence".

Heyman said that the commissioner — in an April 1990 statement — said employers were required to rectify overdeductions of SITE. If they failed to do so, "any taxpayer who does not have to submit a return may approach his Receiver of Revenue for a refund," he said.

Heyman asked in a statement how it was possible that a senior government official could write a "morally wrong law" and get it passed by Parliament.

Overpayments have been uncovered among employees of a wide range of companies — including Woolworths, Checkers, AECI, SABC, Nampak, OK Bazaars, Wits University, Doryb and Old Mutual.
Bank's Meijer urges lower income tax

By AUDREY D'ANGELO
Business Editor

INCOME tax should be lower as an incentive to work harder, and bracket creep should be eliminated by making allowance for inflation when setting tax rates, deputy Reserve Bank Governor Jaap Meijer said yesterday.

He also suggested compulsory loan levies, to postpone a rise in consumption expenditure, and the payment of "negative income tax" to the lowest-income workers instead of subsidising goods or services.

Speaking at the Stellenbosch Bureau for Economic Research conference at Somerset West, Meijer said: "Our governments now, and in the transitional stage of the new SA, will have to leave no doubt about their development-mindedness and about their development-orientated character of their fiscal policies.

"The objectives of these policies will have to be spelled out clearly and forcefully."

A greatly stepped up national savings and investment effort would have to be part of a programme for accelerated economic growth and development.

"To that extent future fiscal operations will have to encourage private saving and discourage both private and government expenditure."

This might strike a harsh note for those who expected the new SA to bring about a rapid and dramatic rise in their standard of living.

"Our fellow citizens may well be disillusioned to realise patience, forbearance and continued doing without unless significant future fruits of the development effort can be held out to them with some assurance as their due reward for doing so."

In present conditions, Meijer continued, the government must re-establish confidence in its ability to curb its expenditure, increase its revenues and reassert control over the size of budgetary deficits.

It was necessary for it to demonstrate its powers and competence on these scores "for a much-needed revival of business confidence and for the prevention of a return of self-fulfilling accelerating-inflation expectations."

"For the average, non-specialist, less than fully informed citizen an impression of budgets reputedly in danger of spinning out of control even in our present situation may well spell the beginning of doubts about the sustainability of a well-functioning new South African economy in a just and stable new South African society."

Meijer stressed that "a norm should now be established for the upper limit to the budgetary deficit."

It was accepted that in the light of the Exchequer's severely straitened circumstances in the present tax year and in 1993/94 "a norm determined for 1993/94 almost certainly should not be allowed to serve also as the norm for subsequent years."

Meijer said some redistribution of income and wealth, in addition to such major redistribution as was already taking place, would be unavoidable.

Such redistribution, which must be clearly visible and tangible, might well hold back the economic growth and development effort in its early stages at least.

Discussing tax policy Meijer said "the disincentive effect on work effort of our (inevitably quite heavy) relative tax burden should, of course, be minimised."

People with entrepreneurial or management skills, who might leave SA, would have to be "treated comparatively leniently" for tax purposes.

VAT was probably the best means of raising revenue and encouraging saving rather than spending.

"In the area of domestic consumption expenditure and saving, maximum neutrality of the tax system is not what we are looking for. The national savings effort must be boosted."

"For such purposes a broadly based tax such as VAT, (at least on all non-strictly essential consumer purchases) probably still has no readily available, full and equal substitute."

Meijer said due allowance should be made for inflation in the setting and resetting of all taxes and tax rates "which has not been done in the past."
Tax repayments probed

The Commissioner of Inland Revenue, Mr. John Hattinagh, is to investigate the possibilities of repaying overpayment of Sise tax by millions of workers.

Chief executive of Workers' Tax Consultants, Mr. David Hoyman, who had a meeting with Hattinagh, said they would hold another consultation after a week.

Millions of families all over the country stand to benefit if the Government refunds millions of rand that have been overpaid in Sise tax because they had failed to give full information about themselves.

Southey Reporter
COMMISSIONER for Inland Revenue, Johannes Hattingh, has promised to reconsider his opinion on SITE over the next week. Workers' Tax Consultants' CE David Heyman said yesterday:

"Heyman said he would meet Hattingh again next week for further discussions on problems related to the overpayment of hundreds of millions of rand in SITE by Cosatu members."
Call to substitute personal income tax

CAPE TOWN — Personal income tax for those earning less than about R100 000 a year should be abolished, Stefi Trust MD Mike Flax told the Chartered Institute of Management Accountants (CIMA) last night.

Revenue lost to the fiscus could be replaced by indirect taxation through the restructuring of VAT and instruments such as duties and excises.

This would include the informal sector which now fell outside the tax net.

"If all the billions collected by the government in personal income tax was left in the hands of the people who earned it, the economy would receive such a mammoth kickstart that we would never have to look back," Flax said.
VAT committee, Minister hold talks

FINANCE Minister Derek Keys had discussions with the VAT Co-ordinating Committee in Johannesburg yesterday.

Both parties issued a terse "no comment" afterwards, leading to speculation that no agreement was reached.

Government is believed to be willing to consider zero-rating basic foodstuffs, a central demand of the committee. But it is not prepared to zero-rate basic services such as medicine, water and electricity.

In return for zero-rating basic food, government wants the committee to agree to an overall increase in VAT. The committee is opposed to this.

The meeting — the first between Keys and the committee since June — was attended by representatives of the Finance and Trade and Industry departments and Inland Revenue commissioner Johan Hattingh. The committee's delegates included representatives from the Consumer Council, Housewives' League, SA Council of Churches, ANC and Cosatu.
Time to make sure the last years are golden

A Business Times SURVEY

THE end of the year is a time to look at one's personal finances and a review of retirement plans should be part of this.

SEAN VAN ZYL and BRUCE ALLEN report on issues to bear in mind, particularly in the light of recent changes in legislation and the implications of the Jacobs Committee report.

Providing for the future is complicated by the state of flux, recently exaggerated by the recommendations of the Jacobs Committee, in the retirement business.

Jacobs suggests reducing tax relief for members of retirement funds. If implemented, that would harm middle-class South Africans. A report by the International Monetary Fund describes them as one of the most heavily taxed in the world.

Some sources believe the tax changes could also result in a swing to other long-term investment options. If adopted, the recommendations would remove some of the incentive for employers to make provisions for staff members.

However, not all the Jacobs recommendations are bad news and the proposed abolition of the Sixth Schedule of the Income Tax Act, in particular, stands to have a positive impact.

Arnold Berns, managing director of Berns Block, says: "We all face a point in life where we're going to rely on an income which is earned for us and not by us. We need to build enough capital to generate income capable of maintaining proper living standards."

Given sufficient funds, a comprehensive retirement plan should, in theory, be structured so that the individual is at least able to maintain his or her standard of living. Longer life expectancies and inflation make this difficult to achieve. But First National Trust's Frank Howell says that the earlier savings start the better.

"Only those who have the foresight to plan well in advance of their retirement, and the discipline to follow a structured savings and investments programme, will be financially secure in their retirement years."

But the creation and preservation of assets needs to be supported by careful estate planning. Without it, even the best retirement plan could prove insufficient should a spouse die without leaving a will and strategy which incorporates several investment variables.
Tax relief is on its way for some

THERE is some good news for investors in life-assurance policies.

It looks as if the controversial Sixth Schedule of the Income Tax Act, which governs the taxation of life policies, will be scrapped next year. In addition, the so-called trustee principle is expected to be implemented at the same time.

BOOST

These measures will bring significant savings for policyholders because their funds will be taxed at an average rate instead of the maximum marginal one of 43%.

As things stand, life offices operate a taxed fund for ordinary business and an untaxed fund for pension, provident and retirement annuity fund business. This means that profits declared to policyholders are after tax if they come from the insurer’s taxed fund.

Another problem is that policies said to be “non-standard” in terms of the Sixth Schedule are taxed for a second time.

Southern Life assistant general manager Nigel Scott puts it this way: “In terms of the trustee principle the life office, being custodian of policyholders’ funds, pays tax on their behalf and it is considered pointless to subject the policy proceeds to further tax under the Sixth Schedule.”

“However, as a life office’s tax rate is set at the maximum marginal rate of 43%, it is unfair to apply this rate to policyholders who are in a lower tax bracket.”

Bill Irwin, managing director of Taxcon Services, says this problem will be overcome by life companies implementing four funds for tax purposes.

Of concern to individuals, is the portfolio to be taxed at the average rate applicable to all policyholders. Given that marginal tax rates vary between 17% and 43%, the figure arrived at should be about 32%. That equates to a significant boost to your policy.

The departure of the Sixth Schedule means that the sorting of policies according to the categories “standard”, “deemed standard” and “non-standard” will end.

In practical terms, the benefits payable on death, disability, maturity or surrender will be paid to the policyholder without being taxed in his or her hands.

SLOT

Tony Davey, deputy general manager at Southern Life, points out, however, that legislative amendments will not affect the position of policies typically taken out by an employer on the life of an employee “usually for the purposes of deferred compensation provision or keyman protection”.

Proposed regulations also suggest a reduction in the minimum term of a policy, from 10 years to five years. That suggests life offices will move into the medium-term savings market — a slot which currently does not offer too much in the way of variety.

The requirement that endowment policies incorporate an element of life cover will also fall away.

In addition, companies and close corporations which are now unable to own a standard policy will once again have this investment option open to them.

Looking further ahead, it is probable that the repeal of the Sixth Schedule will increase the range of products on offer. The report of the Jacobs Committee says: “The Sixth Schedule unduly restricts product development in the life-insurance industry as a result of unintended consequences, which are not in the interests of either consumers or the industry.”

Source: Southern Life
COMPLETE RETIREMENT PLANNING

Life offices call for calm on tax

A Business Times SURVEY

The partial taxation of retirement fund contributions recently put forward by the Jacobs Committee could, if implemented, throw the R12-billion a year retirement business on its head, says a source.

The Jacobs Committee's main recommendation of an employee's contribution and 20% of earnings is a deduction of salary (a portion of the mandatory fund contribution amount) which is expected to lead to significant declines in retirement provisions, particularly in respect to pension funds and retirement annuities (RAs).

An increase in the level of contribution could likely bring a bigger social security burden for a new government in years to come.

The insurance business has also questioned whether the Jacobs report was released ahead of the findings of the Monash Commission which was appointed before the implementation of a retirement savings system of the previous government.

SERIOUS

Sources say there had been a hint from the Monash Commission regarding the tax recommendations by Jacobs. The Monash Commission is still in touch with the task, the release of its report is a long way off.

The Life Offices Association, identifying the tax recommendation with the report, said that Jacobs tax only made sense for the LCA.

The LCA says people do not care about the report.

However, a source close to the Financial Services Board (FSB), which supervises the life industry, says the Jacobs recommendations are being taken "very seriously" by the Government. An announcement that the recommendations will be made will be made in the Budget speech on March 31.

The source confirms reports that the recommendations of the tax's main purpose is to raise revenue for the State in the short term. He says the report is not necessary for the life industry, which is tax-exempt.

But consulting firms by the Government want another means of raising tax or the Jacobs Committee's recommendations will be pushed forward.

The life business could be seen to be playing down the significance of the Jacobs recommendations to prevent a premium upward in the market, particularly in view of the annual salary negotiations at the end of the year.

The suggested tax on retirement contributions is expected to generate up to R6-billion a year.

For life offices, which are already under pressure to generate more funds, an additional tax on retirement contributions would mean a loss of R12-billion a year.

For the benefits societies, which are not structured to generate extra funds, the 20% tax on contributions would be a significant hit.

"In our current market where only one in ten people reside with an adequate fund, the last thing we need is a disincentive to save," a source said.

However, the Life Offices Association director, Dr. Sasson says the recommendations are not entirely negative.

"For taxing a third of an employee's contribution applies, the recommendation is that a third of the benefit, or 20% of the maximum retirement provision, should be paid out tax free.

POSITIVE

Mr. Sasson says that the introduction of tax would still apply to the other two-thirds of the benefit.

Mr. Stoborin says that taxing contributions would reduce the capital available for investment and put the future of the pension to the test.

This would more than offset any gains made by avoiding a higher tax on a third of the benefits.

Dr. Sasson warns that the introduction of tax would not affect the tax considerations and the tax on benefits.

"This would more than offset any gains made by avoiding a higher tax on a third of the benefits." A third of the benefits

Dr. Sasson warns that the same tax on employee contributions would not affect the tax considerations and the tax on benefits. The decision would be made by the Government.

Mr. Stoborin also questions whether the reduced tax incentive would discourage retirement funding by employers. Companies would be more inclined to pay staff members higher salaries, which are a 10% tax deduction, instead of contributing to the pension scheme, or which they would have to pay tax of 10% of their contributions.

Southern Life deputy general manager, legal and tax services, Tony Slattery says the tax could also result in employees and employer contributions being diverted to increase salaries to the detriment of retirement funding.

Liberty Life chief executive Duncan Whitlock says that although some of the recommendations in the Jacobs report are positive, such as the scrapping of the first schedule of the Income Tax Act, he hopes that the authorities will ensure the life offices do not bear the proposals and cost of these changes.

"We are totally opposed to any proposal which could disencourage people from saving for their old age."

System, which is generally popular with the recommendations, also stresses the need for thorough consultation.

"Personal retirement provision is important and without the contributions, those that could act as a disincentive," it says.

There is some reservation in the market about "tagging" — it could apply to both benefits and contributions — which is mentioned in the report. The consultation also applies to whether the tax recommendations on pension funds would apply to provident funds.

Mr. Sasson says there are still other issues, such as whether the recommended tax would apply to both private and State provident funds, and whether tax would be imposed on the contributions.

The FSB source says, however, that the recommended tax on contributions would probably apply only to pension funds.

POT

He says the Government would prefer not to "write the pot out" which is largely in favour of providing funds.

It would also be difficult to enforce a tax on contributions to provident funds because, under existing regulations, full employee contributions are already taxed.

However, in most cases, the employer pays the full contribution and the provident fund as part of the salary package so the employee's contribution is fully tax deductible.

If the Jacobs recommendations are implemented along these lines, the life offices expect a significant saving from pensioner provident funds.

The tax move could also cause a rise in the cost of the retirement annuities and endowment policies and unit trusts, particularly with the freezing of tax and other exemptions on contributions which would come about through the scrapping of the Sixth Schedule.
Tax breaks ahead for SA tourism

From CHRIS BATEMAN

LONDON. - New tax incentives to expand and improve the tourism industry in South Africa were being considered by the government, the Minister for Information and Tourism, Dr Oreg Marais, said here yesterday.

Addressing the launch of the South African stand at the World Travel Market expo in Earl's Court, Dr Marais said the tax incentives would be for new developments and refurbishments by industry members.

Another scheme in the pipeline was voluntary registration and grading for all establishments at which guests would pay a daily levy to Satour.

The money would be used by Satour to market tourism. The establishments would in turn receive a marketing and technical incentive package, plus access to Satours marketing platforms in SA and overseas.

Dr Marais said that in the first six months of this year, tourism to SA rose 14% over last year, with over 200,000 overseas arrivals.

With 1.7 million tourists expected by the year 2000 conservation had become vital and the government supported programmes which enabled travellers to “personally assist” threatened environments and poverty-stricken communities. The Natal Parks Board was the first to benefit with R17.5m given by the Industrial Development Corporation to re-develop its hatted camp at Hluhluwe Game Reserve.

The IDC had reserves of R600m for similar financing, he said.
Urgent govt memo on pensions taxation

From GRETA STEYN
JOHANNESBURG. — Government has sent a confidential memo to a wide range of interest groups asking for urgent comment on alternative proposals to increase revenue from pensions taxation.

The Financial Services Board (FSB) has set a deadline of January 5 next year for written submissions on a possible new pensions tax dispensation — fuelling speculation that government wants to act by next year’s Budget.

The memo asks for a written response to five tax scenarios to be made to FSB chief actuary Piet Robbertse. The scenarios, described in detail in the memo, include suggestions other than those made by Finance special adviser Janie Jacobs last month.

The memo indicates that different ways are being considered to place a limit on the size of tax-free contributions to pensions. It requests suggestions on doing away with differences in taxation between pension funds, provident funds and retirement annuity funds to create a “unitary tax on retirement funds”. A further request is for a response to the tax treatment of pension benefits.

The memo was sent to the major institutions and is also understood to have been sent to Cosatu, the ANC and organised commerce. The FSB declined to comment, while Jacobs said his report had indicated “certain recommendations or alternative suggestions” would need further research and investigation.

“This is being done at the moment,” he said. Major players in the pensions industry confirmed they had received the memo, but declined to comment. A source said indications were the urgency reflected the need to raise revenue to finance the equalisation of state pensions for different races.

The five taxation scenarios include the Margo proposal of placing a “cap” on contributions.

Another scenario proposed in the memo suggests that employee contributions allowed to be tax deductible be limited to 7.5% of the salary, or about 50% of the total annual contribution.
VAT provides a boost to 1992 used car sales

(320) EDWARD WEST

VAT has boosted used car registrations, but not enough to beat the recession and lift 1992's retail trade sales above 1991's 285,624 units.

Motor Industries Federation president Errol Richardson forecast 280,000 sales by dealers this year. He said although VAT and the introduction of a longer instalment payment period had helped, used car sales by dealers in 1992 would be much the same as 1991.

Central Statistical Service (CSS) figures showed used car registrations six months after the introduction of VAT in September 1991 averaged 46,774 a month. This was 27.4% higher than the monthly average of 36,398 for the six months prior to VAT.

The average monthly ratio of used to new cars sold climbed to 3,072.1 in the six months after VAT, from 2,125.1 in the six months prior to VAT.

However, Richardson said the CSS's vehicle registration figures were contaminated by the great number of vehicles moving from one dealership to another. [17/11/92]

Nssman spokesmen pointed out that about 50% of used vehicle registrations consisted of those sold privately. Used vehicles sold through dealers attract VAT (on the value added portion) equivalent to about 10% of the selling price. VAT on new vehicles is 10%.

Used vehicles sold privately do not attract VAT.

Econometrix forecasts that trading revenue for the motor industry, will climb a marginal 6.1% to R57.7bn in 1992, compared with R53.57bn in 1991. Trading revenue in 1993 is forecast at R45.39bn.
New trust deed expected to ‘level the playing fields’

THE “playing fields” for property unit trusts and property loan stock companies will be levelled by year-end, enabling the trusts to issue units for acquisition in the same way loan stock companies do, says Frankel, Max Pollak, Vindeline property analyst John Rayner, says.

“This change will be incorporated in a new standardised trust deed, and will enable property unit trusts to compete with other purchasers without delays caused by a three-month rights issue exercise,” he says.

The delays had often resulted in excellent opportunities being lost and would reduce the need for frequent rights issues, which are normally done at a discount to market price.

These issues also distort distribution growth patterns, particularly when the cash raised is not invested immediately and interest rates are higher than property yields.

A different type of property ownership has also evolved, and this technical change will need to be incorporated into the Unit Trust Control Act.

This is scheduled to be presented to Parliament during the 1993 session and will enable property unit trusts to invest in undivided shares in property, sectional title units and leasehold property without having to obtain special prior permission,” Rayner says.

Institutional investors are the major players in the property unit trusts and property loan stock markets, and their exposure has grown to 90.4% from 87.7% to the detriment of the private investor, whose stake has fallen to 9.6% from 10.3%.

The combined capitalisation of the property unit sector and the property loan stock sector is R5.2bn.

The institutional market is also finding it increasingly difficult to locate well-tenanted investment grade properties at an acceptable yield for their portfolios.

“As a result, we expect demand for both property trusts and property loan stock companies to be underpinned by continued allocation of at least 16% — R2bn to R3.5bn — of the institution’s net annual cash flow to direct and indirect property,” he says.

In addition, the privatisation of state pension funds, such as Transnet, will add increased demand for private investment grade properties.

The dilemma of listed property vehicles is that they are influenced by two distinct markets: the physical market and the equity market.

The listed property vehicles did not react positively to the 1% cut in the prime lending rate on April 1 and have only recently started to display a positive reaction to the additional 1% cut on July 6.

Interest rates are expected to fall further over the next 18 months and a re-rating of both sectors towards the traditional 10% historical level is expected.

“This would imply a total nominal return of more than 20% for both sectors over this period,” he says.

Dairy Mall up for sale

By PETER GALLI

SUBSTANTIAL interest has been shown in Pretoria’s R10m Dairy Mall shopping centre, which will be sold by auction on November 28 unless it is sold by private treaty before then.

Auctioneer Hugh Denny of Pam Golding Properties says the agency is talking to four prospective buyers, one of whom already has an 80% bond in place from a major financial institution.

“However, many buyers prefer to wait for the auction to see if they can get the property at a better price. We are hoping for about R10m, but any offers will be submitted,” he says.

The centre has a projected net annual rental of more than R10m and is strategically positioned close to the M1 and the Pretoria main railway station.

“The 2,17ha complex includes eight buildings in good condition, covering 14,405sqm, and a vacant area zoned for a service station, which has rights for a further 2,400sqm.

“There is vast potential for further development or redevelopment, and sectional title plans have been drawn up,” he says.

A detailed proposal from an oil company for the service station is also on offer, which allows for a 25-year lease and a substantial interest-free loan to the developer.

‘Claim back transfer fees’

By ANDREW KRUMM

CONFUSION at some Receiver of Revenue offices has led to certain property purchasers paying too much tax, says Howard Bilbrough, a partner in legal firm Dekker and Tockell.

Bilbrough said many buyers who paid transfer duty on any property purchased between September 1991 and March 1992 should claim it back.

The problem arose when the Finance Department announced in August 1991 that both transfer duty and VAT (at reduced rates) would be levied on property sales during the VAT transition period from October 1, 1991 to March 1992.

But when the VAT Act was amended in November 1991 — retrospective to the end of September — transfer duty legislation remained unchanged, and the public uniform.

Bilbrough said the unchanged legislation meant that where the Receiver levied VAT, it could not claim transfer duty.

“Unfortunately certain local revenue offices failed to grasp this fact, which was set out in an unpublished internal directive,” he said.

As a result, a number of local offices had overzted property buyers who were unaware of the “concessional atmosphere” during the VAT transition period, he said.

“If you paid transfer duty on any sale concluded between the end of September 1991 and March this year, you should not have done so, and can claim it back,” Bilbrough said.

FOR ONE
Inland Revenue to investigate computer claim

was deliberately misled

Probe into covert activities

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BUSINESS DAY, 13 February 1995
Keys plans direct tax cuts

Aim to create more jobs

FROM GRETA STEYN

JOHANNESBURG - Finance Minister Derek Keys plans to reduce direct taxes once government spending has been cut as part of his economic model for SA, according to an interview with him in the RSA Policy Review.

In it, Keys provides some clues on the model, due for release in the next two weeks. He said: "I believe every effort should be made to reduce the comparatively high direct income tax burden. However, progress in this area will depend on the ability to create fiscal scope by way of a reduction in government spending on the one hand and an increase in the contribution of indirect tax on the other." He indicated next year's Budget would implement specific tax reform measures.

Speculation is that a lower company tax rate and a higher VAT rate and fuel levy will form part of tax reform measures.

Cornerstone

On the possibility of introducing wealth taxes, Keys said wealth and land taxes had "unfortunate" consequences, such as capital flight and disincentives to save. Experience in other countries indicated additional wealth taxes would not provide the scope for meaningful reductions in company and income tax rates.

The "cornerstone" principle for growth was sufficient and effective investment in capital goods, and the mobilisation of internal and external sources of investment. The other principles were investment in labour to provide skills and promote employment, macro-economic stability, "responsible" trade liberalisation and the promotion of competition.

He said the creation of new employment was one of the main objectives of the economic model. On unemployment resulting from public sector cutbacks, he was emphatic that the "economic sacrifices" of the model did not cut back, outweighed the "political sacrifices" of taking action.

We have been investing ever-increasing amounts of the national income in areas that yield no investment return, at the expense of fixed investment which generates growth and new job opportunities," he indicated.

On SA's financial resources, he said it was important that contractual savings be invested not only in existing assets, but also in new ventures increasing the capacity of the economy.

IMF

Keys said the SA Customs Union had become expensive and was no longer an appropriate instrument for economic co-operation. It was too early to say whether SA would become part of any treaty signed by the Southern African Development Council, but its predecessor, the SADCC, had never been attractive.

Asked about SA's failure to join the Swiss consortium in the IMF, Keys said SA had been unable to muster "the required internal consensus" to obtain representation. But the country would still be "welcome to join in two years' time."
More fiscal discipline not higher taxes.
Taxpayers urged to protest

Staff Reporter

WIDESPREAD corruption in government departments has caused a credibility crisis between the government and its citizens, who have a right to know how their taxes are spent and who should protest at signs of abuse of their money.

This was said last night by Professor Johan Heyns, vice-moderator of the Ned Gere Kerk and professor in dogmatics and ethics at Pretoria University.

In an interview from his home in Pretoria, Prof Heyns said: "Due to various accusations of corruption continuously being made against the government—which are denied but later found to hold truth—a critical credibility crisis has arisen between the government and its citizens.

"Christians are not entitled to withhold the paying of taxes, but as taxpayers they are surely entitled to know exactly how their money is used. "They should also protest at signs of misappropriation and may hold those responsible accountable for their misdeeds," said Prof Heyns.

"We cannot we trust leaders leading such poor moral existences, and who adhere to unacceptable moral norms," he said.
Tax income ‘drained by public service bill’

PRETORIA — Government’s tax income in the first six months of the current financial year will be just about enough to meet the year’s total pay bill for the country’s 1-million public servants, informed calculations predict.

Inland revenue sources said in the six months to September income and company tax collections amounted to R29,764bn — income tax R21,517bn, GST R3bn, and VAT R7,889bn.

Calculated on Central Statistical Service figures in the second quarter of the year, 365,000 workers in central government departments earned R2,63bn, own affairs departments R1,77bn, 230,000 provincial workers R1,53bn and officials in the six homelands R1,28bn.

On the basis of the official figures and taking into account the 10% increase in public servants’ earnings from July, government’s wage and salary bill for the year for the 1-million workers will amount to about R30bn.

This is slightly less than half of the Finance Minister’s tax expectation for the entire financial year — R50,484bn for income and company tax and R21,019bn for VAT and GST residue — a total of R71,503bn.

However, collections are expected to be significantly less than budget expectations, the sources said.

Economists say the figures underscore the urgency for government to cut back sharply on administrative costs, particularly wages, salaries and benefits.

There is also an obvious need for a cut in the costs of homeland bureaucracies.

A great opportunity, they said, had been created by the decision to do away with own affairs departments and fuse them with general affairs to eliminate duplication and overlapping functions.

So far, however, there were no indications that moves had been made in that direction.

The De Meyer commission report on mismanagement of funds and corruption in Lebowa showed that 2.6-million official hours were wasted in the homeland because of early work stoppages and unrested public holidays.

It was also stressed by the commission that if officials worked for a minimum of 40 hours a week, 1,000 public service posts could be abolished.

Economists said the report indicated the enormous scope for substantial savings in public spending in SA and the homelands.
Keys gives hint of income tax reduction

Business Staff

FINANCE Minister Mr Derek Keys says every effort will be made to reduce income tax.

In an interview published in the latest edition of RSA Policy Review, Mr Keys outlines his thinking on economic issues ahead of next week's release of the long-awaited economic restructuring plan.

But, he says, reductions in income tax will depend on success in cutting government spending and on higher revenues from indirect taxes.

Government policy, says Mr Keys, should alleviate poverty, uplift less developed communities, ensure equal opportunities and create new jobs.

He says economic restructuring will not succeed amid violence, political instability and further setbacks in negotiations.

The private sector will also have to fulfil its role as the main engine for growth, he says.

Asked whether his plan to cut real government spending next year by three percent will lead to higher unemployment, Mr Keys says: "We simply have no choice."
Tax incentive bid for tourism industry

AN investigation into the possibility of greater tax incentives for companies engaged in promoting SA as a tourist destination is under way.

SA Tourism Liaison Council chairman Rupert Lawlor said the council commissioned a probe by business advisory firm Arthur Andersen and Associates.

Lawlor said a greater understanding was needed of what the industry was doing internationally to promote SA as a destination and that recommendations should be prepared on tax incentives to assist those tourism-related companies involved in marketing exercises abroad.

"After all, if tourism is to fulfill predictions that it will be the number one revenue generator in SA by the year 2000, tangible encouragement must be given," he said.

Two incentive schemes were already in place — the general export incentive scheme (GEIS) and the Export Marketing Allowance (EMA).

"GEIS only applies to 'qualifying claimants' who are manufacturers who export directly or manufacturers who export goods using agents or export trading houses," he said.

Exports that qualified for GEIS were goods which had undergone a production process in SA and which had not been specifically excluded.

Lawlor said EMA involved limited assistance offered to certain export initiatives which did not involve the manufacture and sale of goods.

Four schemes were available under EMA. These were primary export marketing research which compensated exporters for marketing costs incurred in establishing export markets; outward selling trade missions aimed at employers or organizations who travelled abroad to initiate and conclude contracts; travel expenses assistance for inward buying trade missions comprising potential importers of SA goods; and exhibition assistance which encouraged the introduction of products to foreign markets.

He hoped a combination of both schemes could be negotiated in order to recognize and encourage innovation and development in the industry.

On completion of the investigation, proposals would be put to the Trade and Industry Department requesting either a special tax incentive or that money be set aside.

The tourism liaison council was formed to encourage growth in SA tourism and to facilitate effective communication between the tourism industry and statutory bodies.
Workers' tax relief urged

JOHANNESBURG. — A group of domestic employers yesterday urged that legislation concerning domestic workers allow for tax relief on wages, food and accommodation.

In the next session of Parliament, the government intends introducing the legislation that will for the first time recognise the rights of farmworkers and domestic employees.

Ms Claire Read, chairwoman of the Domestic Employers' Association, said the organisation would discuss the issue with the Minister of Manpower, Mr Leon Wessels.

She said hours, wages and other conditions of employment should be given only as guidelines.

It should only be made law after "employees and employers are aware of, and fully understand, their rights and responsibilities," she said.

— Sapa
Up fuel tax, urges minister

PRETORIA. — There should be a relative increase in indirect taxation — including the taxing of fuel — as part of healthy tax reforms to promote economic growth, deputy Finance Minister Dr Theo Alani said yesterday.

He said direct taxation currently accounted for 60% of state income, while it should be closer to 40%.

Delivering a lecture at the University of Pretoria on the economic prospects for a democratic South Africa, he said a discussion document would be released soon, outlining a new economic restructuring strategy.

The strategy would centre on the use of "productive investment" and a more effective application of capital and labour resources to achieve long-term economic growth.

CP: Govt to blame for squatters

Dr Alani said the government would like to see a decrease in public sector spending from 21% of GDP to 16% during the next four or five years. There should also be an increase in total fixed investments, from 16% to 26%, during the same period.

This was the level that, according to the International Monetary Fund, was necessary to achieve an economic growth rate of three to four percent.

The goal of adequate living standards for all could not be quickly met.

"The only way it could ultimately be reached would be through the economic empowerment of the individual, whereby he or she would be placed in a position to pursue self-actualisation through the market process."

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Increase indirect tax

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"The only way it could ultimately be reached would be through the economic empowerment of the individual, whereby he or she would be placed in a position to pursue self-actualisation through the market process." — Sapa.
Tax reform ‘is imperative for growth’

PRETORIA — Tax reform as part of an overall effort to stimulate economic growth was imperative, Deputy Finance Minister Theo Alant said last night.

Delivering the Dirk de Vos memorial lecture at Pretoria University, Alant said the relative share of indirect tax — including tax on fuel — would have to be raised, as in other economically successful countries.

The Margo commission had recommended this and government supported it.

Currently, direct tax yielded 60% of state income, the figure should be closer to 40%.

Past efforts to reduce state spending as a percentage of GDP had led to cuts in fixed investment in infrastructure. Against this background virtually all jobs created in the formal sector in the past decade were in the public sector. The target was to shrink the level of consumption expenditure by government in favour of a much higher level of fixed investment in new productive capacity.

“We want to see a turnaround in the current direction of state spending.”

The first requirement was a 21% decrease in expenditure in the public sector to about 16% of GDP during the next four or five years. The second was an increase of between 16% and 20% in total fixed investment — the level, according to the IMF, at which SA could realise a growth rate of 3%-4% a year.

It was obvious that it would take a number of years to achieve an adjustment of this magnitude, “but we must make a start, and the quicker the better”.

A decrease in state expenditure would make a big contribution, but SA would also have to stabilise its internal circumstances — economic and social — before capital investment would flow from abroad.

A new economic restructuring strategy would be made known soon in the form of a discussion document.

Long-term growth through the strengthening and extension of the supply side of the economy had to be a target. Key elements in this were greater stability, higher savings, deregulation and greater international competitiveness.

A balance would have to be found between the demands of the economy and social justice in the year ahead, Alant said.

SA faced an enormous economic challenge — economic sources had to be mobilised for social spending and individuals and businessmen would have to be convinced to save and invest.
PRESS STATEMENT
by the
COMMISSIONER FOR INLAND REVENUE

In the press statement by the Honourable Mr Justice R. J. Goldstone, Chairman of the Commission of Inquiry regarding the Prevention of Public Violence and Intimidation, issued on 16 November 1992, it was stated that according to the files seized by the Commission, Mr Ferdi Barnard had submitted a suggested plan to Military Intelligence for a task force he was to lead. According to a report which was found in the files, it was claimed that the task force had the ability to obtain access to, amongst others, the computers of Inland Revenue and by implication the records of taxpayers.

The impression has subsequently been created that approval for the suggested task team’s access to the records was given by Inland Revenue. I wish to deny this emphatically. Inland Revenue has always placed great store on the confidentiality of records of taxpayers. All persons employed by Inland Revenue have taken an oath of secrecy in terms of section 4 of the Income Tax Act and are subject to severe penalties should information regarding the affairs of taxpayers be disclosed, unless ordered by a competent court. It may be mentioned that Inland Revenue so highly regards the confidentiality of information contained in a taxpayer’s record, that it contests all attempts to obtain information—even attempts through legal process.

18 NOVEMBER 1992
GOVERNMENT NOTICES

ADMINISTRATION: HOUSE OF ASSEMBLY

DEPARTMENT OF EDUCATION AND CULTURE

No. 3225  
27 November 1992

EDUCATION AFFAIRS ACT (HOUSE OF ASSEMBLY), 1988 (ACT No. 70 OF 1988):

CLOSED OF TWO SCHOOLS

It is hereby made known under section 15 of the Interpretation Act, 1957 (Act No. 33 of 1957), that the Minister of Education and Culture, Administration: House of Assembly, has, in terms of section 13 of the Education Affairs Act (House of Assembly), 1988 (Act No. 70 of 1988), approved the closure of the Cullinan Diamant-skool, Cullinan, and the Saamstap-skool, Howick, with effect from 1 January 1993.

DEPARTMENT OF EDUCATION AND CULTURE

No. 3226  
27 November 1992

EDUCATION AFFAIRS ACT (HOUSE OF ASSEMBLY), 1988 (ACT No. 70 OF 1988)

CLOSED OF TWO SCHOOLS

It is hereby made known under section 15 of the Interpretation Act, 1957 (Act No. 33 of 1957), that the Minister of Education and Culture, Administration: House of Assembly, has, in terms of section 13 of the Education Affairs Act (House of Assembly), 1988 (Act No. 70 of 1988), approved the closure of H. S. van der Walt High School, Paarl and Die Vlakte High School, Standerton, with effect from 1 February 1993.

DEPARTMENT OF FINANCE

No. 3213  
27 November 1992

RATE OF INTEREST ON GOVERNMENT LOANS

It is hereby notified that the Minister of Finance and of Trade and Industry has in terms of section 26 (1) of the Exchequer Act, 1975 (Act No. 66 of 1975), fixed the

Uitgereik deur: Die Kantoor van die Kommissaris van Binnelandse Inkomste, Pretoria.

GOEWERMENTSKENNISGEWINGS

ADMINISTRASIE: VOLKSRAAD

DEPARTEMENT VAN ONDERWYS EN KULTUUR

No. 3225  
27 November 1992

WET OP ONDERWYS AANGELEENHETE (VOLKSRAAD), 1988 (WET NO. 70 VAN 1988):

SLUITING VAN TWEE SKOOLE

Daar word hierby kragtens artikel 15 van die Interprestasiewet, 1957 (Wet No. 33 van 1957), bekendgemaak dat die Minister van Onderwys en Kultuur, Administrasie: Volksraad, die sluiting van die Cullinan Diamant-skool, Cullinan en die Saamstap-skool, Howick, met ingang van 1 Januarie 1993, kragtens artikel 13 van die Wet op Onderwysaangeleenthede (Volksraad), 1988 (Wet No. 70 van 1988), goedgekeur het.

DEPARTEMENT VAN ONDERWYS EN KULTUUR

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DEPARTEMENT VAN FINANSIES

No. 3213  
27 November 1992

RENTEOERS VAN TOEPASSING OP STAATSELENINGS

Hierby word bekendgemaak dat die Minister van Finansies en van Handel en Nywerheid ingevolge artikel 26 (1) van die Skatiskiswet, 1975 (Wet No. 66 van 1975),
Forex losses

Confusion over how to account for unrealised foreign exchange gains and losses, for tax purposes, has been reduced by a recent Income Tax Special Court decision.

The question before the court was whether the taxpayer was entitled to claim a deduction under Section 11(a) of the Income Tax Act, for unrealised foreign exchange losses. In terms of the wording of that subsection, did there exist "expenditure or losses" which had been "actually incurred"?

Deloitte & Touche tax manager Vernon Lawrence says the Commissioner did not dispute that there was an "expenditure or loss." But the Income Tax Act says taxpayer

ers are entitled to deduct only expenditures and losses "actually incurred" — tax law is applied on the literal interpretation of the Act. The amount had not been actually incurred — because the losses were notional and conditional upon the exchange rates ruling on the date of repayment.

The court rejected this viewpoint, holding that the losses were neither notional nor conditional, on these grounds:

☐ Losses incurred in respect of amounts borrowed for a revenue purpose are deductible under section 11(a);
☐ Foreign exchange losses which arise from a fluctuation in exchange rates fall within the meaning of expenditure and losses for purposes of that section;

☐ When an amount is owed in a foreign currency and the liability is not contingent, then the expenditure has been actually incurred; and
☐ Exchange rate fluctuations merely result in the amount of the liability being contingent, not in the liability itself being contingent.

Ernst & Young tax partner Ian MacKenzie says the latest decision is in line with a long series of Supreme Court and Appellate Division judgments starting with the Caltex case.

The latest decision does, however, take matters a step further, because previous cases merely considered how to account for the unrealised profit or loss at the end of the tax year during which the transaction itself was entered into (year 1).

The Special Court has now decided that the obligation must also be revalued at the end of each following tax year until the obligation falls due. Then the realised amount must be accounted for under 24B of the Income Tax Act.

That section provides that the taxpayer must account for any balance of any realised gain or loss on repayment of a foreign currency obligation, not already accounted for.

In other words, the profit or loss standing in the books at the end of the previous tax year would have to be adjusted to allow for further currency movements up to the date of repayment.
Tax hikes ‘no way to reduce deficit’

REDUCTION of the fiscal deficit should be achieved by cutting government consumption spending and not through tax hikes, AH chief economist Nick Barnardt said yesterday.

Barnardt said the record government deficit, which threatened to exceed R26bn or 7% of GDP this year, was the single greatest threat to inflation in 1993.

"Ongoing recession and especially its lagged negative impact on tax revenues, implies that the government’s real income at unchanged tax rates is set to fall still further in the next fiscal year. This would result in an even bigger fiscal deficit, even if state spending shows no increase in real terms."

He warned against taking drasti-
Detected compensation packages are viable option
Hope of moderate interest rate fall

By ZILLA EFRAT

The stongest positive contributions to lower inflation at present are low credit extension, the balance of payments surplus, single digit producer-price index inflation and subdued inflationary expectations.

The greatest threat, however, on the inflation front for 1993 is SA's large fiscal deficit. It could exceed R28-billion, or 7% of gross domestic product.

Other unfavourable factors include double-digit increases in wages, salaries and labour costs and the upward pressure on fuel prices.

Mr Barnardt says it will be virtually impossible to drastically reduce the fiscal deficit in a single year.

Any attempt would require such a large tax rise and spending cut that the recession would most probably degenerate into a full-scale depression.

The tax base would shrink further, resulting in an even larger deficit in State revenue.

Mr Barnardt says the recession and its lagged negative impact on tax revenue imply that the State's real income at unchanged tax rates is due to fall further in the next fiscal year.

This will result in an even bigger fiscal deficit, even if State spending should no increase in real terms.

De Beers to shed 20% of staff at SA mines

DE BEERS is to lay off 22% of its workforce in South Africa as a result of the sharp decline in the international diamond market.

Industrial relations manager Steven Lenahan says that at least 3,000 hourly paid and managerial workers will have to leave the company to accept voluntary retirement. The current staff complement is 13,500.

Retrenchments are being discussed with the National Union of Mine Workers (NUM).

Discussions are also taking place with the Mine Workers Business Times Reporter

Union of Namibia about possible retrenchment of some of the 6,000 workers at Consolidated Diamond Mines.

No lay-offs are planned for the 5,500 workers at the Jwaneng and Orapa mines in Botswana.

Mr Lenahan says that although the retrenchments are regretted, "it is a step that had to be taken to ensure the survival of operations".

The first cutbacks will be made at the Kimberley and Premier mines. Discussions are taking place at other mines.

The NUM was successful in negotiating a 10% wage increase on November 6, taking minimum pay to R2,060 a month.

The union initially asked for "an above-inflation" increase and an "agency shop" agreement in which all workers would contribute to a fund to help pay for collective bargaining.

Mr Lenahan says no agreement was reached on the agency matter, but it could be discussed in the future.

Victory for Afbank two

TWO former African Bank employees have won a small victory in their quest to recoup around R28-million forfeited to the SA Reserve Bank.

On Friday the Pretoria Supreme Court ruled that they could amend their claim for the return of this money, but the Bank was awarded costs.

The men - Alan Yeung and Henry Harper - were found guilty of fraud and foreign exchange contraband in 1980 and sentenced to 14 years' jail.

The two men, released in a general amnesty last year, are taking legal steps to claim back a share of R100.4 million in profits they allege they made while working for Afbank from September 1985 to May 1986.

The Bank alleges that the profits were made by contravening exchange control regulations.
President should offer to pay tax — DP

Political Staff

PRESIDENT De Klerk should follow the example of Queen Elizabeth and Prince Charles and offer to pay taxes, says the Democratic Party.

The Queen and the heir to the throne made the offer last week in the wake of the controversy about the British taxpayer having to foot the multi-million pound bill for repairing fire-damaged Windsor Castle.

DP Johannesburg North MP Mr Peter Soal said the tradition of South African state presidents not paying taxes originated with the tradition of the British monarch not paying taxes.

The office of State President was created at the time of the Republic — taking over from the Governor-General, who was the monarch’s representative in South Africa.

"The traditions are linked. If the British monarch is now to pay taxes, so should the South African State President," said Mr Soal. (DT)

He said his suggestion was not aimed at Mr De Klerk personally.

"If he needs more money, his pay should be increased.

"But the principle of the head-of-state being free of tax is not good."
Tax reforms are essential, says a Finance official.

PORT ELIZABETH — A Finance Department official yesterday identified serious shortcomings in SA's direct taxation system and said tax reforms were essential.

The Finance Department's unit for fiscal analysis's W Steyn said more than half of SA's economically active population was not part of the personal income tax system.

This meant that the growing contribution of personal income tax to total tax revenue was being carried by less than 15% of the population.

Steyn said it was estimated that about 30% of remuneration paid to SA employees was not being taxed. This meant there was not a just taxation structure.

Fiscal drag caused the authorities to rely increasingly on the large number of relatively low income bracket taxpayers.

The lower a person's level of income had been during the past decade, she said, the greater their tax increases would have been. Conversely, there had been no increase, and even a decrease, in the tax burden of the relatively high income groups.

Steyn said the interaction between inflation and the current tax structure was "advantageous to the government," but this was an undesirable situation in view of the fact that the tax burden should be shared according to each payer's means.

This constituted a shortcoming in the tax structure, and necessitated reform.

"The tax structure should be adjusted annually to compensate for inflation. This would ensure that the goals and principles of tax policy are observed."

In developing countries, indirect taxation accounted for 60% to 80% of total tax revenue. But in SA this tendency had been reversed, and direct taxation accounted for about 60% against the 40% provided by indirect taxation. — Sapa.
Recent comments by Finance Minister Derek Keys and other officials have raised expectations that his first Budget, now only about 15 weeks away, will mark an important change in tax policy.

The officials have said the next Budget could place more emphasis on raising revenue by increasing indirect tax and less emphasis on personal income tax.

Some of the reasons for this possible policy shift were highlighted yesterday by Winona Steyn of the Department of Finance's Unit for Fiscal Analysis at a National Productivity Institute (NPI) seminar in Port Elizabeth.

The unit is engaged in research and is not responsible in any way for determining policy. At the same time, it is obvious that its input must have a considerable bearing on the decisions of policy-makers.

She said there were serious shortcomings in SA's direct tax system and that reforms were essential.

One of these was that about 30 percent of the money paid to employees was not being taxed.

Another was that the bulk of personal income tax payments were being borne by people in the relatively lower income tax brackets.

Both these disclosures would seem good enough reasons to step up indirect tax in next year's Budget — provided income tax is lowered at the same time.

She said that half of the economically active population was not part of the personal income tax system.

"This means that the growing contribution of personal income tax to total tax revenue is being carried by less than 15 percent of the total population," she said.

This is not new. Figures for tax returns show that this imbalance has existed for many years and it has been accepted that until more people find work, the situation will continue.

More disconcerting is the revelation that about 30 percent of the money paid to employees is not being taxed.

This meant the tax system was not equitable, she said.

She also focused on the existence of fiscal drag, which tax experts have been criticising for many years.

She said fiscal drag had caused the authorities to rely on the large number of relatively lower income taxpayers, adding that the lower a person's level of income had been during the past decade the greater that person's tax increases had been.

Conversely, she said, there had been no increase, and even a decrease, in the tax burden of the relatively higher income groups.

One tends to forget that the maximum rate of personal income tax has been reduced from 50 percent to 45 percent, while the level at which it applies has been steadily raised to its current R80 000.

The result is that people earning substantially above R80 000 have, in fact, been paying less tax.

Those earning less than R80 000 have probably suffered because fiscal drag has lifted them into higher tax brackets.

Steyn said that with the present tax system, inflation was advantageous to the Government.

But it was undesirable because the tax burden should be shared according to means and should be reformed.

Steyn compared the situation in SA with that in other developing countries.

In those countries, indirect tax accounted for 60 to 80 percent of tax revenues. In South Africa, indirect tax contributed only 40 percent of revenue and direct tax 60 percent.

In the light of her remarks it would seem pretty safe to forecast an increase in VAT in next year's Budget — and some reductions in income tax and certainly higher allowances for parents with children in Model C schools.
Tax relief on the way?

Business Staff

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But it was undesirable because the tax burden should be shared according to means and should be reformed.

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South Africa's budget deficit could reach a staggering eight percent by the end of the current fiscal year, requiring drastic measures to extricate the already depleted economy from falling into a debt trap.

Speaking at his last public engagement for 1992 last night, Finance Minister Derek Keys told top businessmen at a function in Johannesburg the rate of growth in the interest for financing the deficit was the highest of all the components of the budget, and that the deficit could surpass education in accounting for the largest portion of next year's Budget.
Employers must educate taxpayers

IN 1989 when the Government introduced the Standard Income Tax on Employees (SITE), the stated motive was that administrative problems would be minimised as SITE employees would not be required to submit tax returns. The political consideration was the State's inability to secure satisfactory tax obedience; many blacks resisted submitting tax returns as they perceived the Government to be illegitimate.

Recent reports that many blacks have been overtaxed through the SITE system could mean that the Government may be facing another tax revolt. This follows massive demonstrations against the introduction of VAT last year. It seems that employees were taxed without their personal particulars being taken into consideration, resulting in millions extra being paid to the Receiver.

An investigation by Cosatu has found that 850 000 of their members had paid R720 million too much in tax since the introduction of SITE.

There is not an objection to paying tax per se but taxpayers are crying out for fair taxation. In other words, a tax system that recognises their economic circumstances.

The SITE controversy also comes at a time when black taxpayers perceive that the Government, amid scandals, is squandering their money.

The Government has argued that it is the responsibility of every individual employee to ensure that he or she provides the employer with correct personal particulars. If the information is incorrect, it is the fault of the employee, the Government argues.

Yet, when the SITE system was introduced, very little was done in terms of educating people. Even some employers are not fully conversant with the requirements of the system.

It seems as if the Government is saying: "We don't care whether the taxpayer is aware of his rights or if we collect more taxes because of their ignorance."

As SITE is practically administered by employers, they should take the responsibility of educating their employees about the system. The Government should encourage such programmes by making them tax-deductible because in the final analysis, legitimacy of the system can only lead to stability in commerce and industry. ☑

Matshere Matshere is an independent tax consultant.
Fund-hoppers get tax caution

UNIT trust investors who switch between funds may be considered by the Receiver of Revenue as active share dealers and be liable for tax, says Syfrex tax specialist Dale Lippstreu.

Unit trusts are regarded as long-term investments by the Receiver, profits from the redemption of units are therefore not regarded as taxable income. Share dealing, on the other hand, involves transactions for short-term gain and profit arising from such transactions are taxable as income.

Lippstreu gives the following guidelines to ensure unit trust investors do not fall foul of the Receiver:
- Do not jump in and out of unit trusts frequently.
- Do not invest money earmarked for a known expense in the hope of making a profit in the interim.

GDM's dividend

BUSINESS Day yesterday incorrectly reported that GDM Finance would pay shareholders a dividend of R5.80 when in fact the interim dividend was 5.8c. We regret the error.
‘Hands off retirement funds’ warning

TOM HOOD

DON'T meddle with retirement funds — this was the warning to the government today by Mr Mike Levett, chairman of a giant insurance company.

Accumulated retirement funds represent a national asset of great worth and any changes in tax treatment of these funds must not take away incentives for retirement provision, he said at Old Mutual’s 147th annual meeting in Pinelands.

Mr Levett said tentative proposals in the recently published Jacobs Committee report to amend treatment of contributions to retirement funds had to be treated with extreme caution.

The committee proposed two months ago that two-thirds of an individual’s contributions to a pension fund should be tax deductible.

Mr Levett said: “Any changes must not take away the incentive from individuals and employers to set aside money in advance for retirement through approved funds.

‘Changes should also address the current preferential tax treatment of state funds relative to private sector funds,”

Mr Levett also said South Africa’s potential was considerable and much could be done right now to begin restructuring of the economy.

“Given appropriate economic and political policies and a satisfactory resolution of the political impasse, the economy could recover quickly, moving back to sustained growth which would alleviate the worst poverty and materially aid the transition to successful democracy.”
Don’t tax pension funds — Levett

He said: "In South Africa, our propensity to save has dropped to an alarmingly low level. The suggested taxation of employer and employee contributions to pension funds would tend to make it more tax-efficient to increase cash payments and reduce contributions to pension schemes. In my view great care should be taken not to cause irreparable harm to the contractual savings capacity of the country."

Mr Levett said Old Mutual, however, welcomed the proposed abolition of the Sixth Schedule to the Income Tax Act as well as the introduction of the "four fund basin" for taxing life insurance business as published in the Jacobs Committee’s report.

The scrapping of the Sixth Schedule would mean the end of very costly administrative systems for life insurers; it would also give them more freedom to develop new and simpler products. Both changes would be to the benefit of policyholders.

Low-cost housing

The report recommends a holistic approach to the regulation of financial services. Mr Levett said the concept was admirable but the application in practice would have to take proper account of business realities. Furthermore, regulation needed to be kept to a minimum and focused on matters such as the solvency of the institutions.

In his chairman's address last year, Mr Levett stressed that life insurers and pension funds were able to provide funds for socially desirable purposes such as low-cost housing, but always subject to the criteria of a market-related return and a commensurate level of security being met. The Jacobs Committee, in considering the socio-economic responsibilities of savings institutions, came to the same conclusion and emphasized that the needs of the members of retirement funds and life insurers had to come first.

There is no doubt about the great need for investment in projects that will create employment, provide housing and generally uplift the economically disadvantaged.

Bridge gap

According to Mr Levett, the projects that do come to hand unfortunately most often do not satisfy the criteria mentioned above and thus do not get the necessary support from financial institutions.

To bridge the gap, the Life Offices’ Association of South Africa recently established an Investment Development Unit to facilitate the financial structuring of major socially desirable projects so that they fulfill the investment criteria of member offices.

“Old Mutual fully supports the LOA in this initiative and looks forward to participating in schemes that come to fruition,” Mr Levett said.
Warning on taxing pensions

Business Editor

Both Mike Levett, chairman of Old Mutual, and Joe Stegmann, chairman of Sasol, warned yesterday that taxing pension contributions would discourage saving and making private provision for retirement.

Discussing the Jacobs Committee report Levett said at Old Mutual's agm: "The tentative proposals to amend the treatment of contributions to retirement funds must be treated with extreme caution."

"The accumulated retirement funds represent a national asset of great value and imply that a significant proportion of the population will not need State assistance in old age."

Stegmann, speaking after Levett, said: "Every effort should be made to encourage people to make adequate provision for their retirement."
Creating a VAT Nightmare

IN MY OPINION

MARTIN WATKINS
SITE PROBLEMS

Blame where it’s due

Employers have been unfairly blamed for overpayments of Site amounting to billions of rand. Union leaders are largely responsible because, as part of a campaign against Paye, they have persuaded workers to boycott documentation related to income tax.

Fisher Hoffman Stride tax partner Anthony Chait (who represents the SA Institute of Chartered Accountants on the Site Liaison Committee) says IRP2 forms provide information about marital status, dependants and fund contributions. If this is not available, the Income Tax Act compels the employer to assume men to be unmarried, with no dependants and under the age of 63. Women workers are assumed to be married.

Inaccuracy and failure to complete the form can seriously prejudice employees. A married man with four dependants earning R15 600 a year will pay R603 too much Site if treated as unmarried without children.

The employer may — any time before the end of the assessment year — correct or update information. The employer must then recalculate the tax liability for that year, using the new information. If correct information is not provided by financial year-end, neither the employer nor Revenue may refund overdeductions.

Cosatu assistant general secretary Sam Shilowa denies the organisation’s campaign against Paye had anything to do with Site. He says neither Cosatu nor any of its affiliates urged members to boycott the IRP2 form. He points out the SA Railways and Harbours Union was able to force Transnet and the Receiver to make refunds to workers for Site overpayments — which he believes shows that at least some employers are responsible for overpayments.

Chait and Coopers Theron du Toit tax partner Koos van Wyk agree Site needs to be reformed. But The Taxpayer editor David Meyerowitz says it would be a step backward to abolish Site as it has operated successfully since 1963.

Van Wyk says the principle of Site (introduced in 1988) is sound — that lower income wage earners (earning under R50 000 a year and without other taxable income) must pay tax under a final deduction system run by their employers. This saves employees submitting tax returns, while Revenue is relieved of much of the cost of administration.

For the system to work effectively and be understood by taxpayers, say Chait and Van Wyk, Site should be based on a flat rate of tax up to the Site limit of R50 000. This would simplify the system for employers and employees.

In return for an end to child rebates, says Chait, the rates could be broadly reduced. Starting from the present minimum income at which tax is payable (R5 000 a year), the rate could be a flat 20% up to perhaps R30 000 or R40 000 a year.

Van Wyk says the Commissioner faces a serious dilemma. Not only does tax law prevent him repaying for past years, to do so would undermine Site’s integrity and cause insurmountable administrative problems.

Chait says the committee — which includes representatives of major interested parties — is doing good work. One achievement is a change in the law permitting employers to send challenged IRP2 forms to Revenue so that they can be evaluated and, if necessary, amended.

Trevor van Heerden, chief director, tax policy development at the office of the Commissioner for Inland Revenue, says preliminary results of the investigation now being carried out do not support the claim that large overdeductions have been made.
Don’t tax pension funds, says Levett

Funds are a national asset

ACCUMULATED retirement funds represent a national asset of great worth to South Africa and any changes in tax treatment of these funds must not remove incentives for retirement provision, says Mike Levett, chairman of Old Mutual.

He urged that the tentative proposals by the Jacobs Committee to amend treatment of contributions to retirement funds should be treated with extreme caution. Any changes in tax treatment of these funds must not take away the incentives for individuals and employers to set aside money in advance for retirement through approved funds.

Changes should also address the current preferential tax treatment of retirement contributions from State funds relative to private sector funds, particularly in respect of lump-sum payments.

Mr Joe Stegmann, chairman of Sasaol, fully endorsed Mr Levett’s note of caution on these proposals during his secondar’s address at Old Mutual’s annual general meeting yesterday. He added that every effort should be made to encourage people to make adequate financial provision for their retirement.

He said: “In South Africa, our propensity to save has dropped to an alarmingly low level. The suggested taxation of employer and employee contributions to pension funds would tend to make it more tax-efficient to increase cash payments and reduce contributions to pension schemes. In my view, great care should be taken not to cause irreparable harm to the retirement savings capacity of the country.”

Mr Levett said Old Mutual, however, welcomed the proposed abolition of the Sixth Schedule to the Income Tax Act as well as the introduction of the “four fund basis” for taxing life insurance business as published in the Jacobs Committee’s report.

The scrapping of the Sixth Schedule would mean the end of very costly administrative systems for life insurers: it would also give them more freedom to develop new and simpler products. Both changes would be to the benefit of policyholders.

The report recommends a holistic approach to the regulation of financial services. Mr Levett said the concept was admirable but the application in practice would have to take proper account of business realities. Furthermore, regulation needed to be kept to a minimum and focused on matters such as the solvency of the institutions.

In his chairman’s address last year, Mr Levett stressed that life insurers and pension funds were able to provide funds for socially desirable purposes such as low-cost housing, but always subject to the criteria of a market-related return and a commensurate level of security being met. The Jacobs Committee, in considering the socio-economic responsibilities of savings institutions, came to the same conclusion and emphasised that the needs of the members of retirement funds and life insurers had to come first.
Low-cost housing

The report recommends a holistic approach to the problem of low-cost housing. It suggests that the government should focus on providing adequate infrastructure and improving the quality of life in residential areas. The report also emphasizes the importance of involving local communities in the planning and implementation of housing projects.

Arboirion

The report highlights the need for a more balanced approach to urban planning and development. It recommends that the government should prioritize the needs of the urban poor and provide them with adequate housing and employment opportunities. The report also calls for the establishment of mixed-use development projects that can provide affordable housing and job opportunities for the urban poor.

The report recommends that the government should provide incentives to private developers to build affordable housing units. It suggests that the government should also work with non-governmental organizations to provide affordable housing solutions for low-income families.

Conclusion

The report concludes that the government should take a more proactive role in addressing the housing crisis in urban areas. It recommends that the government should work with local communities and private developers to create sustainable and affordable housing solutions.

The report also highlights the need for a comprehensive approach to urban development that takes into account the social, economic, and environmental needs of the urban poor. It recommends that the government should work with international organizations to develop innovative solutions for urban development.

The report concludes by emphasizing the importance of involving local communities in the planning and implementation of housing projects. It suggests that the government should work with local communities to create sustainable and affordable housing solutions that meet the needs of the urban poor.
A TAXING TIME AT THE LOST CITY

The maximum rate of taxation of individuals in SA is reached at a much lower level than in many other countries, according to a new study on tax policy.

The study is part of the Sanlam, Frankel Kruger, Ernst & Young and HSBC sponsored Platform for Investment (PFI), which was unveiled last weekend at the Lost City at Sun City.

PFI includes a section on tax policy by Ernst & Young's Ian MacKenzie. Tax policy proposals draw on the work of a number of experts, including Tax Advisory Committee chairman Michael Katz, Professor Lieb Loots, Finance deputy director-general Esthian Calitz, Professor Dennis Davis and SA Fiscal Think Tank chairman Maruis van Blerk.

PFI concludes that SA's individual tax rates are on the high side compared with other countries. It says the tax payable on R150 000 shows that SA has a higher tax cost (33%) than the US, Germany, the Netherlands and Japan. Only Australia (38%) is higher.

PFI recommends that the maximum rate of individual tax should be reduced to 40% on a phased basis over the shortest possible time. The maximum rate should be reached at a level not less than R150 000, below which there should be no more than four other tax brackets.

It says that the Government should not rely on fiscal drag to increase tax revenues. Tax brackets should be adjusted annually to take inflation into account.

PFI says an annual wealth tax is not appropriate for SA because of administrative and cost problems.

It says a land tax should not be introduced to raise revenue, but that it might be an effective way of addressing land inequalities and encouraging the productive use of land.

PFI says international comparisons suggest room for an upward shift of the current rate of capital transfer tax of 15%.

The current threshold of R1-million, below which no estate duty is payable, should be increased to R1,5-million.

SA's tax system will need to be internationally competitive if SA is to encourage investment and international trade, says PFI.

It says corporate tax must be reduced, recommending a 40% corporate tax rate coupled with tax allowances for manufacturing plant and buildings, but says this will only just be acceptable. "A rate of 35% will be preferable."

PFI also stresses the need for special tax incentives for small and medium-sized businesses.

It says a multi-rated VAT system should be implemented, suggesting that some foodstuffs should be zero-rated. Medicines, medical services and electricity should have a 5% rate, standard items should be subject to 15% VAT and luxury goods 20%.

The study says the total tax burden should not exceed a realistic proportion of gross domestic product. It also calls for the inclusion of a taxpayer's bill of rights in the tax system.
VAT revenue lags far behind target

PRETORIA — With government's revenue from VAT running at only R9.3bn after seven months, the target of R21bn for the full fiscal year is unlikely to be reached.

Economists expect the VAT shortfall to run to as much as R6bn. Some said yesterday government would have had to levy VAT at a rate of about 18.5% to have achieved the budgeted revenue target.

The breakdown of revenue figures showed individual and company tax totalled R25.4bn, against budget expectations of R60.5bn.

DP finance spokesman Brian Goodall said yesterday the gap between government's expected tax income and collections confirmed to widen, indicating a shortfall at the close of the financial year of several billion rand. (320)

The figures highlighted that individuals and companies had been "squeezed to the limit" in direct taxation. Forcing more out of taxpayers could lead to a long-term paralysis of the economy, he said.

The only solution was to cut back ruthlessly on state spending.

Government had two major income raising options — an increase in VAT and in petrol tax — and both were almost certain to be raised in the Budget, if not before.

Either would increase inflationary pressure, but with the likely massive deficit before borrowing, government would probably ignore the risk, Goodall said.
The economic terrain must be levelled for take-off, argues Stephen Meintjes

Grounding high fliers to let labour and capital soar.

However far, fast or high we want economic growth to fly, it will remain land-based. For no one has yet invented any means of creating wealth other than by applying labour and capital to land.

Yet, despite all the talk about levelling the economic playing field, it is astonishing how little thought is given to that end.

All that is needed is to replace taxation by site-value user charges — the players on the High Ground (best metropolitan sites and arable land) pay more than those on the Low Ground.

The advantages enjoyed by High Ground players are reflected by the prices they pay — for example, R5 000/ha for land in the Johannesburg CBD as against R30 per hectare in an arid region.

So the market is telling us that the best land is many times more productive than the poorest.

Clearly not all can play on the High Ground and no matter how skillful the players on the Low Ground use their capital and apply their expertise, they will be outplayed.

In golf, where the terrain is the same for all players but it is accepted that skills differ, handicaps are used to give weaker players a chance to win.

So on the economic playground, one would think that the High Ground players would incur a "handicap".

On the contrary, due to the "oversight that caused all the trouble", it is the Low Ground players who are handicapped! Quite apart from the ruinous effect of VAT and petrol taxes on the ultra-poor millions eking out a subsistence in remote rural areas, formal economic activity there is also effectively penalised.

Even companies merely breaking even on the Low Ground — and hence paying no company tax — are not left off the hook.

In addition to VAT, hefty imposts are payable via PAYE, petro-levies and other indirect taxes.

As Ben Vorster, MD of the Small Business Development Corporation, points out, small and medium-sized enterprises — many of whom are Low Ground players — actually pay taxes at much higher rates than High Ground corporations enjoying export, sponsorship, and other allowances.

No wonder there is little formal economic activity outside the metropolitan areas and there is an irresistible compulsion on the part of Low Ground players to flee to the High Ground, even if it means squatting there.

So what was the "oversight that caused all the trouble"?

Briefly it was the failure of governments since the Industrial Revolution to see that locational advantage is the one indisputable input in the process of creating wealth for which the state, by underwriting security of tenure, can take full credit.

That process consists simply of applying labour and capital on land. The primary claim on the resulting wealth are earnings, profit and rent, respectively.

Rent is the term used by economists to describe the additional output on better land compared with that on the least productive, given the same input of labour and capital. It is the natural source of revenue.

By ignoring locational advantage and taxing instead the fruits of labour and capital, governments penalise all who work and venture their capital. This attitude encourages underutilisation of land and natural resources.

So capital and labour fight like two dogs while the third, ownership of natural resources, walks off with the bone of unearned income.

Technically, by socialising locational advantages via site-value user charges, governments would, for the first time, create truly free and efficient markets in natural resources, thus ending what Winston Churchill called "the oldest monopoly in the world".

He inveighed against the curious system in which five percent of the human race can appropriate the face of the earth and charge the rent through the nose for the "privilege" of living and working on "their" planet.

Site-value user charges would end all that nonsense because owners of natural resources, who now understandably may prefer the leisurely wait for risk-free capital appreciation to the effort and risk of fully developing their property, would have a clear incentive to do so.

Those without the inclination or ability would dispose of their properties.

Moreover, the closer the annual user charge came to capturing the full locational advantage, the closer acquisition costs of land would tend to zero. Property prices would therefore reflect the value of improvements only.
GOVERNMENT NOTICES

DEPARTMENT OF FINANCE

No. R. 3352 11 December 1992

COMING INTO OPERATION OF SECTIONS 44 (1) (a), (b), (c) AND (e), 45 AND 53 OF THE INCOME TAX ACT, 1990 (ACT No. 101 OF 1990)

Under section 64 (2) of the Income Tax Act, 1990 (Act No. 101 of 1990), I, Derek Lyle Keys, Minister of Finance, hereby determine that sections 44 (1) (a), (b), (c) and (e), 45 and 53 of the said Act shall come into operation on 11 December 1992 and such sections shall apply to any remuneration which is paid or becomes payable by an employer to an employee on or after 1 March 1993.

D. L. KEYS,
Minister of Finance.

No. R. 3353 11 December 1992

AMENDMENT OF DEFINITION OF "OFFICIAL RATE OF INTEREST" IN PARAGRAPH 1 OF THE SEVENTH SCHEDULE TO THE INCOME TAX ACT, 1962

Under paragraph 20 (1) of the Seventh Schedule to the Income Tax Act, 1962 (Act No. 58 of 1962), I, Derek Lyle Keys, Minister of Finance, hereby amend paragraph 1 of the said Schedule with effect from 1 January 1993 by the substitution in the definition of "official rate of interest" for the expression "17 per cent" of the expression "15 per cent".

D. L. KEYS,
Minister of Finance.

GOEWERMENTSKENNISGEWINGS

DEPARTEMENT VAN FINANSIES

No. R. 3352 11 December 1992

INWERKINGTREDING VAN ARTIKELS 44 (1) (a), (b), (c) EN (e), 45 EN 53 VAN DIE INKOMSTEBELASTINGWET, 1990 (WET No. 101 VAN 1990)

Kragtens artikel 64 (2) van die Inkomstebelastingwet, 1990 (Wet No. 101 van 1990), bepaal ek, Derek Lyle Keys, Minister van Finansies, hierby 11 Desember 1992 as die datum waarop artikels 44 (1) (a), (b), (c) en (e), 45 en 53 van genoemde Wet in werking tree en genoemde artikels is van toepassing op enige besoldiging wat deur 'n werkgever aan 'n werknemer betaal of verskuldig word op of na 1 Maart 1993.

D. L. KEYS,
Minister van Finansies.

No. R. 3353 11 Desember 1992

WYSIGING VAN OMSKYRING VAN "AMPTELIKE RENTEKOERS" IN PARAGRAAF 1 VAN DIE SEWENDE BYLAE BY DIE INKOMSTEBELASTINGWET, 1962

Kragtens paragraaf 20 (1) van die Sewende Bylae by die Inkomstebelastingwet, 1962 (Wet No. 58 van 1962), wysig ek, Derek Lyle Keys, Minister van Finansies, hierby die omkywing van "amptelike rentekoers" in paragraaf 1 van genoemde Bylae met inang van 1 Januarie 1993 deur die uitdrukking "17 persent" deur die uitdrukking "15 persent" te vervang.

D. L. KEYS,
Minister van Finansies.
PRESS STATEMENT

by the

COMMISSIONER FOR
INLAND REVENUE

INCOME TAX: REGARDING THE REDUCTION IN THE "OFFICIAL RATE OF INTEREST" FOR FRINGE BENEFIT TAXATION PURPOSES

A taxable benefit accrues to an employee if a loan is granted to him and either no interest is payable by him or interest is payable by him at a rate less than the official rate of interest. The cash equivalent of the value of the taxable benefit in these circumstances is the amount the employee would have paid on the loan during the year of assessment if he had been obliged to pay interest at the official rate less the amount of interest (if any) he actually incurred during the year. At present the official rate of interest as defined in paragraph 1 of the Seventh Schedule to the Income Tax Act, 1962, is 17 per cent.

It is hereby notified for general information that it will be recommended to Parliament that the official rate of interest be reduced from 17 per cent to 15 per cent with effect from 1 January 1993.

Issued by: The Commissioner for Inland Revenue
P.O. Box 402
PRETORIA
0001.

Enquiries: Mr B. Hechter.
Tel. (012) 315-5311.

PERSVERKLARING

deur die

KOMMISSARIS VAN BINNENLANDSE INKOMSTE

INKOMSTEBELASTING: MET BETREKKING TOT DIE VERLAGING IN DIE "AMPTELIKE RENTEKOERS" VIR DIE DOELEINDES VAN BELASTING OP BYVOORDELE

'n Belasbare voordeel val 'n werknemer toe indien 'n lening aan hom toegestaan is en óf geen rente deur hom betaalbaar is nie óf rente daarop teen 'n koers laer as die amptelike rentekoers deur hom betaalbaar is. Die kontantequivalent van die waarde van die belasbare voordeel is in hierdie omstandighede die bedrag aan rente wat die werknemer ten opsigte van die jaar van aanslag sou betaal het indien hy verplig sou wees om rente teen die amptelike rentekoers te betaal, min die bedrag aan rente (indien enige) wat hy werkelik gedurende die jaar aangegaan het. Tans is die amptelike rentekoers soos in paragraaf 1 van die Sewende Byle by die Inkomstebelastingwet, 1962, omskryf, 17 per sent.

Daar word hiermee vir algemene inligting bekendgemaak dat daar by die Parlement aanbeveel sal word dat die amptelike rentekoers met ingang van 1 Januarie 1993 vanaf 17 persent tot 15 persent verlaag word.

Uitgereik deur: Die Kommissaris van Binnelandse Inkomste
Posbus 402
PRETORIA
0001.

Navrae: Mr. B. Hechter.
Tel. (012) 315-5311.

Use it.

Don't abuse it.

water is for everybody

Werk mooi daarmee.

Ons leef daarvan.

water is kosbaar
MEDIA STATEMENT
by the
COMMISSIONER FOR
INLAND REVENUE

CONCERNING PAYE DEDUCTIONS:
INDEPENDENT CONTRACTORS AND
LABOUR BROKERS

The Income Tax Act, 1990 (Act No. 101 of 1990), introduced certain amendments to the Fourth Schedule to the Income Tax Act, 1962 (Act No. 58 of 1962), relating to the deduction of employees tax (PAYE) from remuneration paid to any person who is a labour broker, or who renders services to or on behalf of a labour broker, or who is a person or class or category of person declared by the Minister of Finance to be an employee.

The 1990 Act provides, however, that the relevant amendments will only come into operation on a date to be announced by the Minister of Finance.

In terms of Government Notice No. R. 3352 of 11 December 1992 published in Government Gazette No. 14480 on 11 December 1992 the Minister of Finance has determined 11 December 1992 as the date on which the amendments will come into operation and that PAYE will become payable on remuneration paid to employees to whom the amendments apply with effect from 1 March 1993.

Provision has been made for a certificate of exemption from the deduction of PAYE to be issued to employees affected by the amendments subject to certain conditions being met.

A brochure explaining in detail which employees are affected by the amendments and what steps need to be taken to obtain a certificate of exemption has been prepared by Inland Revenue.

The brochure and application forms for the certificate may be obtained from any Receiver of Revenue.

Issued by: The Commissioner for Inland Revenue
P.O. Box 402
PRETORIA.

Enquiries: J. Hanssen.
Tel. (012) 315-5324.

PERSVERKLARING

deur die

KOMMISSARIS VAN
BINNELANDSE INKOMSTE

MET BETREKKING TOT LBS-AFTREKKINGS:
ONAFHANKLIKE KONTRAKTEURS EN
ARBEIDSMAKERLAARS

Ingevolge die Inkomstebelastingwet, 1990 (Wet No. 101 van 1990), is sekere wysigings tot die Vierde Bylae by die Inkomstebelastingwet, 1962 (Wet No. 58 van 1962), aangebring met betrekking tot die verhaling van werknemersbelasting (LBS) van besoldiging betaal aan 'n persoon wat 'n arbeidsmakelaar is, of 'n persoon wat dienste aan of ten behoewe van 'n arbeidsmakelaar lever, of 'n persoon of klas van kategorie persoon wat deur die Minister van Finansies as 'n werknemer verklaar is.

Die 1990-Wet bepaal egter dat die betrokke wysigings eers in werking sal tree op 'n datum wat deur die Minister van Finansies aangerekend sal word.

Ingevolge Goewermentskennisgewing No. R. 3352 van 11 Desember 1992 wat in Staatskeraart No. 14480 op 11 Desember 1992 gepubliseer is, het die Minister van Finansies 11 Desember 1992 bepaal as die datum waarop die wetswysigings in werking sal tree en dat LBS verhaalbaar sal wees vanaf 1 Maart 1993 van besoldiging betaal aan werknemers ten opsigte van wie die wysigings van toepassing is.

Voorsiening is gemaak vir die uitvoer van 'n vrystellingsertifikaat met betrekking tot die verhaling van LBS aan werknemers wat deur die wysigings geraak word onderhewig aan die nakoming van sekere vereistes.

'Brosjure wat volle besonderhede bevat van watter werknemers deur die betrokke wysigings geraak word en watter stappe gedoen moet word om vir die vrystellingsertifikaat aansoek te doen is deur Binnelandse Inkomste opgestel.

Die brosjure en aansoekvorm vir die vrystellingser tifikaat is by enige Ontvanger van Inkomste verkrygbaar.

Uitgereik deur: Die Kommissaris van Binnelandse
Inkomste
Posbus 402
PRETORIA.

Navrae: J. Hanssen.
Tel. (012) 315-5324.
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Govt 'may make retrenchments tax free'

GOVERNMENT might soon announce tax exemptions on retrenchment packages for employees in the lower income bracket, according to sources.

It is understood that Finance Minister Derek Keys has agreed to a request from mining industry employers and unions to exempt some retrenchment packages.

Sources said the new deal would apply to workers in all sectors and would probably involve payouts of less than R10 000.

A spokesman for Keys, who is on leave until January, was not able to confirm or deny government approval for the scheme.

This year alone several hundred thousand workers have been retrenched in the manufacturing, building, mining and public sectors.

The gold mining industry alone has lost 150 000 jobs through retrenchment since 1987. And about 35 000 workers were retrenched in the metal industry this year — the same as last year.

Predictions are that this scale of retrenchments will continue next year if the economy does not turn around.
Keys unlocks Budget plan to hike VAT

FINANCE Minister Derek Keys has begun the spadework for his toughest political challenge yet — next year's Budget.

The VAT Co-ordinating Committee (VCC), which includes prominent members of Cosatu, has tentatively agreed on the need for an increase in the rate of VAT while extending the number of basic items which are exempt.

Mr Keys has also briefed the Economic Forum (EF), which consists of organised business and labour, on the severe challenges he faces in constructing his first Budget.

The VCC and EF were given the first estimates which the Government has produced for next year's Budget.

Sources say the estimates are "extremely bleak", "really
terrible" and "pretty horrifying".

The shortfall between expenditure and revenue this year is likely to be more than 8% (about R5.6-billion) of GDP of R330-billion.

Sources suggest that Mr Keys will budget for not less than a 6% deficit next year, still well above the 3% and 4% yardsticks for prudent public finance recommended by the IMF and World Bank respectively.

Wider

A VCC source says the committee has agreed that there will need to be an increase in the rate of VAT so long as a wider range of basic items, such as foodstuffs, are exempt.

"There will be major mut-terings, but the issue is fait accompli," says the source.

These sources and econo-
mists expect VAT to be in-
creased from 10% to about 13.5%, but do not discount the
possibility of a rate as high as 18%.

Many expect a VAT in-
crease to be accompanied by
a hike in fuel taxes (possibly early in the New Year) and increases in individual taxes by not adjusting tax brackets.

Mr Keys' keenness to in-
volve non-parliamentary parties in drawing up the Budget contrasts with that of his predecessor, Barend du Plessis. It has been widely speculated that Mr du Plessis' abrupt departure from politics was caused by his being forced to back down on the VAT issue.

Says the VCC source: "Mr Keys is an entirely different Minister of Finance.

Mr Keys last week briefed the EF on the constraints he faces in the next Budget. The Forum was told that it would not be asked to support the hard decisions which the Government will have to take, but was offered the chance to respond to Mr Keys' presentation with its own suggestions.

"There was no attempt to co-opt the Forum," says an observer, "but rather to make the budgeting process more transparent."

The VCC has met Mr Keys three times this year and has submitted a list of items, including medical services and foodstuffs, which it would like to see zero-rated.

Mr Keys is understood to be looking at these proposals.

Economists agree that there is little possibility of reducing the budget deficit next year to 3% (about R11-billion) of GDP, but say that a medium-term programme will be needed to achieve this target.

Model

They say, too, that a high-
er-than-acceptable deficit next year should be linked to economic reform to arrest the downward economic spiral.

Mr Keys has announced that the Government is aiming to cut expenditure next year by at least 3% after taking inflation into account.

This suggests that the Budget will increase from this year's R103-billion to about R116-billion.

Economists say there is enormous pressure to increase social spending, but that stiff tax hikes could push the fragile economy into a full-blown depression.

"Drastic tax hikes could push things from bad to worse," says Louis Geldenhuys, economist at Senekal Moston and Kitzhoff.

"It's a nightmare situation. There are vast demands for more social spending — for instance, to equalise pensions.

"We have a high-risk fiscal situation which could easily escalate, making the economy unstable with hyper-inflation."

Levels

Mr Geldenhuys says the solution is to accept a too-high deficit and try and grow the economy out of trouble.

He says that the high levels of Government spending must also be tackled.

While revenues are substantially down on Budget estimates because of the poor state of the economy, Government expenditure will increase by 18% this year.

It has increased 16.5% on average during the past five years, says Mr Geldenhuys.
VAT 'has killed property''

By MAGGIE ROWLEY
Property Editor

THE introduction of VAT had all but killed the residential property market, says Peter Gardiner of Anglo American Property Services (Ampros).

He said demand for new houses had fallen overnight as affordability had been affected as a result of the extra 10% cost of new homes.

The crippling effect of VAT on the new home market had not been foreseen and the differential between new and existing homes was only now narrowing.

Coupled with the current “double dip depression”, the effect on the property industry had been devastating and the loss of skilled artisans would be felt in years to come.

“Hundreds of vital people have left or are leaving the industry because of its perilous nature and they will not return. The cost of retraining people will ensure that a small house will cost close to R1m by the turn of the century,” he said.

Ampros is currently marketing 14 projects countrywide of which 11 are residential developments including its 400-stand Weigedacht Country Estate in the northern suburbs.

Sales here had also been affected by the introduction of VAT shortly after its launch and to date sales had totalled about R3m, equal to about 27 stands.

“But interest is now picking up considerably as the development offers great value for money and has all the necessary ingredients to make it successful.”

Gardiner said living styles of the future would have to take account of three factors which impact on daily lives, namely the threat to the natural environment, security of home and family and, increasing pressure on open space and recreational opportunities.

All these factors, he said, were being addressed by Ampros in their developments.

“However in our enthusiasm to heed our market’s environmental concerns, we have to be careful not to overcapitalise our product during this current recession.”

He said the size of Ampros estate and business parks were designed to enable them to rationalise the considerable capital cost of the features necessary to create the attractive lifestyle and secure work or home environment.

The cost of maintaining this “utopia” was rationalised among the householders who paid a monthly levy of between R100 and R150 to the Homeowner Association in each estate.
Multiple-rate VAT system picks up flak

By Des Parker

DURBAN — A leading accountancy practice says a multi-rate VAT system could cause more problems than it solves.

In addition, it is doubtful whether it would do much to keep prices down, says Ernst & Young in its In Touch circular.

In the wake of a weekend press report that Finance Minister Derek Keys has won tacit support from opponents of VAT, including the Coast-based VAT Co-ordinating Committee (VCC), to increase the rate of the tax in the Budget next March, the accountants suggest the Government will opt for the political expedient of more than one rate.

"Our belief, which we believe is shared by Revenue, is that multiple rates pave the path to hell," say the authors.

"Of course, SA's VAT is already multi-rate," they say. Nought percent and 10 percent already require the same systems in principle as would be required by rates of, say, nought percent, five percent and 15 percent.

"Clearly, using a lower rate tax for essentials and a higher or standard rate for other or luxury supplies is politically attractive." The report suggests problems of definition will arise if the Government applies a lower rate to goods outside the reasonably well-tested definitions of basic foodstuffs.

More exemptions would, inevitably, make the legislation more complex; already the section of the VAT Act dealing with zero-rating runs to 31 pages and comprises 10 percent of the law.

Ernst & Young says one potential benefit of multi-rate VAT exists.

Raising the lower rate from zero to something of the order of five percent would enable the Minister to keep the higher rate at about 12 percent.

Sources and economists were quoted at the weekend as speculating VAT would go from 10 to 13.5 percent, with nobody ruling out a rate as high as 15 percent.

Sources close to the VCC and the Economic Forum, who have been widely briefed by Keys on budgetary constraints, say Keys faces a gap between revenue and expenditure this fiscal year in excess of eight percent of GDP, or about R26 billion of GDP of R320 billion.

He is expected in March to budget for not less than a six percent deficit, still well above the IMF and World Bank guidelines of three and four percent.
IMF against SA tax hikes

Business Staff
JOHANNESBURG.—The International Monetary Fund (IMF) has severely criticised the South African government’s fiscal policy and has called on it to refrain from raising tax rates in the forthcoming Budget.

In the IMF’s report on its annual “Article IV consultation”, which assesses South Africa’s economic performance, the fund also slates South Africa’s trade and industrial policy.

The IMF says that in the medium-term, South Africa would have to find the right balance between policies directed at social improvement and those directed at promoting economic growth.

In order to achieve sustainable growth the IMF lays down certain economic “baseline” targets for the period 1992 to 2000 and assumes a yearly population growth rate of 2.5 percent.

These targets include average economic growth of 3.2 percent, employment growth of three percent, real wage increases of 0.5 percent a year and an average 23 percent ratio of fixed investment to gross domestic product (GDP).

Budgetary policies would be of crucial importance in the pursuit of these objectives and therefore the fund expresses “serious concern” about recent budgetary developments.

In particular the deficit before borrowing, which the IMF expects to rise to seven percent of GDP for the 1992-93 fiscal year, would place considerable pressure on future budgets given the interest costs of financing this deficit.

On the budget deficit itself the IMF says that the main focus of efforts to reduce the deficit “must lie in the area of pruning public expenditure.”

“In this respect curbing public sector employment and pay increases would constitute an obvious line of attack.”

The fund says that while even public spending on social programmes may need to be scaled back it comments that social backlogs should be met by moving rapidly towards equality of social spending between different race groups.

“At the same time consideration might be given to financing an increased volume of such services by increasing charges for those services provided to middle- and upper-income households,” the IMF recommends.

It warns strongly against raising personal tax rates, however, as from an international perspective “tax rates in South Africa are relatively high.”

Turning to trade and industrial policy the IMF calls for a more outward looking trade policy, which would allow the economy to develop more along the lines of “its comparative advantage” and expose the “concentrated” domestic industrial structures to foreign competition.

As this would hold clear benefits for the South African consumer the IMF supports proposals that the import surcharge should be eliminated, import licences and formula duties be converted to transparent tariff equivalents and the general level of tariffs be reduced over a number of years.

On monetary policy the IMF supports the Reserve Bank’s strict anti-inflationary measures but blames “unresponsive union wage demands” for the continued stubbornness of high price increases.

Its assessment of South Africa’s economic performance this year and in 1993 is very much in line with previous forecasts by the Reserve Bank — a two percent decline in GDP this year and a slight 1.5 percent improvement in 1993.
Reconstructing the Nation with Tax Incentives

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RECONSTRUCTING THE NATION WITH TAX INCENTIVES

The economic policies of the current administration, particularly the tax incentives proposed in the Economic Recovery Tax Act of 1972, are designed to stimulate economic growth and employment. The act provides for a variety of tax breaks, including accelerated depreciation, investment tax credits, and the personal tax relief provisions. These incentives are intended to encourage businesses to invest in new equipment and facilities, thereby creating jobs and boosting the economy.

The tax reform proposals have been supported by a number of economists and business leaders who believe that they will help to stimulate economic activity. However, there are also concerns that the tax incentives may benefit large corporations at the expense of small businesses and individuals. Additionally, there is debate about the impact on the federal budget deficit.

The success of these tax incentives will depend on how they are implemented and whether they are effective in stimulating economic growth. It is important that the administration and Congress work together to ensure that the tax incentives are used to their full potential and that they are not a substitute for necessary reforms to the tax system.
STATE REVENUE

Trickle down

State revenue figures over the seven months of the fiscal year to end-October, show a poor performance in most categories, notably VAT collections. These, together with GST carry-overs, brought in R9.5bn, which is 9.9% lower than earnings through VAT and GST over the same period last year, a shortfall this year of R2.8bn on the pro rata budget figure.

Of the other categories of Inland Revenue:
- Income tax raised R25.3bn, 5.1% up on last year’s comparable figure, and a shortfall of R4.1bn on a pro rata basis; and
- Other taxes R2.7bn, 20.6% up on last year and R300m ahead pro rata.

Inland Revenue so far has totalled R36.4bn, an increase of only 6.2% over last year, or R6.5bn short.

Actual Customs & Excise income, before deductions under Customs Union agreements, while exceeding earnings over the same period last year by 23.4%, is nevertheless short of projected budgeted income over the period — R9bn has come in against a pro rata budgeted R9.5bn.

Nedcor Bank chief economist Edward Osborn says the figure for excise duties is disturbing, with R2.4bn being raised out of a pro rata budgeted R2.8bn. "Like VAT, the excise duty has been stung by lower consumption."

A total of R41.7bn has been raised in all forms of revenue, only 3.5% higher than that over the similar period last year — a real decline after inflation of 8.5%. The figure is also R7.7bn short of the pro rata estimate for the period of R49.4bn.

Osborn says that, should the pattern of revenue continue to year-end, a Budget deficit before borrowing for the year of 8%, or R28bn, looks likely. "This is the figure Finance Minister Derek Keys has been mentioning," says Osborn.

Inland Revenue figures are affected by large payments to the TBVC states and self-governing territories (R1.2bn so far this financial year); these relate to income, company tax and VAT, collected by Inland Revenue but due in these states and territories.

Also, Customs & Excise figures are affected by payments to neighboring countries under the Customs Union agreements (R3.7bn so far). Says Osborn: "If one calculates gross revenue, which includes these payments, one comes to a figure for the year of R46.6bn — R7bn short of what it should be at this stage."
'No talks on VAT'

The VAT Co-ordinating Committee has not supported an increase in the rate of VAT and has not discussed the issue with Finance Minister Derek Keys, says VCC chairman Bernie Fanaroff. Reacting to an article in Business Times last week, Mr Fanaroff said discussions with Keys were limited to the issue of zero-rating of foodstuffs. The article quoted an unnamed VCC source as saying that the VCC had tentatively agreed on the need for an increase in the rate of VAT.

"We have deliberately dissociated our discussions on zero-rating from any discussions on an increase in VAT, partly because we don't want to be blamed for the increase and partly because we have not accepted the need for a general increase."

SI Times (B155) 20/12/92 (820)
A MISERABLE Christmas looms for taxpayers who have been using close corporations (CCs) and employment agencies to postpone or avoid payment of their tax liabilities.

An amendment to the Income Tax Act, activated by Finance Minister Derek Keys last week, demands that employers now bear the responsibility for deducting PAYE and SITE on all monies paid to so-called "labour brokers" or taxpayers who make their services available through agencies.

The amendment covers any remuneration paid on or after March 1 1983.

It will affect temporary workers, such as secretaries and bookkeepers, who are placed by specialist agencies.

It will also affect individuals who set up close corporations and then negotiate a work contract between their employer and the CC.

François Strydom, tax manager at Deloitte & Touche, says that in the case of professional firms such as lawyers, auditors and architects where services are performed by an enterprise — as opposed to providing persons to a client, as with a temporary bookkeeper — the enterprise will not be regarded as a labour broker.

There will be relief, in the form of exemptions, to qualifying labour brokers. The key will be whether the labour broker carries on an independent trade, says Strydom.

Issues that will determine its independence include whether the CC operates from its own premises and the number of clients that it has. This is clearly designed to draw companies — working for one employer — into the tax net.

Other exemptions will be granted by the Receiver, for a period of one year at a time, if the labour broker is registered as a provisional taxpayer, is registered as an employer and his tax affairs are in order.

"Where no exemption has been granted, employees' tax must be deducted in line with the employers' tax tables — if the payment is made to individuals.

"In the case of payment to companies and close corporations, the current corporate tax rate of 48% will apply," says Mr Strydom.

He adds that taxpayers can apply for a reduction of the rate but will then have to prove that their taxable income will be less than the
VAT increase ‘inevitable’

By Sven Linnehe

Indirect, and perhaps direct, tax increases are inevitable in the Budget for the 1989/4 fiscal year, says economist Elmiem de Kock in Syfrets’ latest Economic Review.

And she suggests that the conspicuous silence by the ANC and the trade unions about the impending hike in VAT and other taxes indicates that they have accepted such a move and shows “that they may finally be coming to terms with economic realities”.

“Within the space of one year, they have switched from opposing VAT to tacitly supporting an increase in VAT,” says De Kock, referring to the outcry by extra-parliamentary groups when VAT was introduced.

She says that the main reason for the visible lack of opposition to a rise in both direct and indirect taxes is that a low budget deficit was in the interests of a new government.

She adds, however, that as a result of VAT being turned into a “political hot potato” the tax was introduced at 10 percent and not at 13 percent “as it should have been”.

As a result of these “political games” revenue in the current fiscal year will fall short by about R6 billion leaving the government facing a budget deficit of about eight percent of gross domestic product, well above the IMF recommended level of three percent.

“Although the economy is forecast to recover marginally next year, revenues would still not be sufficient without tax increases to ensure a lower deficit of about six percent of GDP.

“It is therefore inevitable that indirect, and perhaps direct, taxes will have to be increased in 1993/4 regardless of the depressed state of the economy,” De Kock forecasts.

Since the Reserve Bank was unlikely to deviate from its current anti-inflationary stance the upswing would not be consumer led through lower interest rates.

“Rather, it will stem from an agricultural turnaround, inventory rebuilding and maintained export growth.”
Nactu against VAT hike

By Ike Motsapi

THE NATIONAL Council of Trade Unions has advised the Government not to go ahead with its plans to increase the Value Added Tax by three percent next year.

General secretary Mr Cunningham Ngcukana said his federation had, at a meeting on December 3, voiced concern to Minister of Finance Mr Derek Keys that any increase in VAT would bring added misery to the underprivileged.

VAT is at present levied at 10 percent. Ngcukana said Nactu raised five points explaining why VAT should not be increased.

These were:
- It is wrong to raise taxes in a recession. An increase in VAT will hit industry and commerce hard because they are “presently punch drunk”.
- A VAT increase will hit hardest those who can least afford it.
- VAT is inflationary. Every one percent increase will raise the Consumer Price Index by 0.8 percent.
- There are other ways of raising revenue like abolishing tax loopholes, increase fuel levies, impose new taxes like capital gains tax.
- Cut expenditure. Government should not be allowed any more revenue, as they have proved incapable of spending it responsibly. The gap between revenue and expenditure should be closed by cutting wasteful expenditure - not raising VAT.
for tax purposes, persons falling within this definition, as well as individuals operating through labour brokers.

From March 1, 1993, Revenue will apply the definition of "labour broker" and require the withholding of Paye and Site from the fee earnings of those who fall within the definition and who have not been granted exemption. Employees' tax will have to be deducted at the rate of 48% in the case of companies and CCs, while an individual labour broker would have employees' tax deducted at the applicable personal rate.

Furthermore, also from March 1, 1993, if the individual operating through the labour broker receives a fee from that broker, then he or she will also have to be subjected to employee's tax (at personal rates) to be deducted by the broker.

However, the definition of "labour broker" is so wide that it potentially covers all legitimate providers of services including professional people, such as accountants and attorneys, as well as the real targets of the legislation — employment agencies and certain one-person CCs. The abusers of one-person CCs include people such as draftsmen, computer programmers and artisans (frequently from overseas) working through CCs for one "client" only — a method of postponing the payment of tax. In some cases the practice has amounted to tax evasion (ie fraud) as no CC was ever registered.

Deloitte & Touche tax manager Francois Strydom says it seems Revenue's approach will be to distinguish the provision of services to a client from the provision of persons to perform those services. This distinction will filter out the professional practitioners and other providers of services, who will not need to apply for exemption.

It remains to provide a procedure to distinguish between genuinely independent labour brokers (such as traditional employment agencies and independent one-person CCs) and those cases where Revenue considers to be disguised employer/employee relationships.

One important legal argument, says Deloitte tax manager Louise Vosloo, may be raised by taxpayers — that the definition of labour broker does not include a one-person CC. The argument is that one purpose of the Labour Relations Act is to protect employees rendering services to a labour broker. It seems unlikely, therefore, that the legislature intended to extend this protection to a one-person CC, where the only member is the person whose services are offered to clients. If successful, this argument would render the amendments ineffective in relation to all one-person CCs.

Any taxpayer falling within the definition of labour broker, who wishes to obtain exemption from the Paye and Site requirements, will now have to complete form IRP 30(a) and submit it to the local Receiver. The labour broker will have to show:

- Carries on an independent trade;
- Is registered as both an employer and as a provisional taxpayer; and

Has submitted all tax returns to date or has a valid extension.

The problem lies with the concept "independent trade". According to Strydom, Revenue favours the "supervision and control" test. If the client, not the broker, determines the manner in which duties are performed as well as work done then there is no independent trade. The payment of remuneration at regular intervals may also lead to that inference.

The IRP30(a) also asks whether:

- The broker provides services to more than one client;
- It operates from its own office;
- The persons performing the services are subject to the terms and conditions of the contract between the labour broker and its client;
- There is a contract between the client and the broker's employees; and
- Those employees receive benefits, such as housing assistance or training from the client.

Answers to the questions in IRP30(a) will distinguish independent labour brokers from cases of disguised employment.

The labour broker will have to apply annually for an extension of the exemption. Employers using the services of labour brokers will now have to be wary. If an exemption is not granted, failure to deduct Paye will attract penalties as well as interest payable to Revenue. What is not clear yet is whether Site will apply if the annual remuneration is R50 000 or less — though it seems probable Site will apply.

Vosloo assumes that Paye and Site payments made by companies and CCs will qualify as credits against final assessments.

If a broker does not obtain an exemption there can be a double deduction of Paye — firstly by the client, secondly by the labour broker itself; that is, if it pays a salary to its own employee or fees to individuals it places with the client.

But no Paye will be payable by a CC on amounts paid over to its members, who are treated on the same basis as directors of private companies for tax purposes. Of course, the member will be taxed as a provisional taxpayer on all earnings, which would include fees from the CC, but not distributions from the CC (the counterpart of dividends from a company).

A labour broker may apply for a reduction in the standard rate, on the basis that its taxable income will be less than the remuneration equal to gross fees. This will be the case where the broker has deductible expenses not taken into account for Paye or Site purposes.

A serious question is whether an effective two months (to the end of February) will be enough to process applications. Strydom says he hopes the brochure to be issued explaining the procedure will be adequately detailed and that Revenue offices will have staff available to process the exemptions in time to meet the March 1 deadline.
Tax bonanza for top firms

Some of SA's leading corporations are paying little or no tax at a time when the government is scrambling to find additional funds to finance its spending.

Almost a fifth of the JSE's industrial companies that detailed their tax payments in their latest audited results, enjoyed an effective rate of under 20%, according to figures provided by information service I-Net.

Iscor, labelled as the world's most profitable steel company by Fortune magazine, paid just 0.1% of its profit in tax for the year to June while paper and pulp producer Sappi remitted just 1% of its R16.7-million pre-tax profit to the Receiver of Revenue.

Anglo American Industrial Corporation — which houses Anglo's interests in companies like Mondi, Hiveld Steel and Haggie — paid tax at a rate of 18% last year.

Hiveld — which stands to gain further tax benefits from its involvement in the Columbus Stainless Steel project — paid tax at a rate of 12.5%.

The International Monetary Fund has warned that accelerated depreciation allowances granted to projects like Columbus — under section 37E of the Income Tax Act — will be a further drain on the country in the next few years in terms of lost revenues.

Other notable tax rates are:

- Gencor 9%;
- Rand Mines 6.8%;
- Alcan 28%;
- W&A 23%;
- Bogen 10.2%;
- Derbly 11.4%;
- Safren 17.83%;
- Anglo Alumina 19.15%;
- Sasol 23.5% and
- South African Breweries 36.6%.

The rates are kept low by legitimate use of benefits from assessed tax losses and allowances for investment in capital projects.

Meanwhile, there are growing signs that individuals will be called on to fund the widening shortfall between government income and expenditure which is expected to be around R25-billion for the current fiscal year.

Sanlam economist Pieter Calitz says the government has three options to reduce expenditure: increase taxes — preferably indirect taxes — or to fund the deficit through borrowings.

He believes government will have to use a combination of all three.

Increases in indirect taxes are expected to take the form of a higher VAT rate of 15% and a 10% increase in the fuel levy. Both will have an impact on inflation and could delay an upturn in the economy.

Although the government is not expected to raise individual tax rates in the next budget, direct payments to individuals will be up at least 20% through fiscal drag, says Mr Calitz.

'To reduce real government spending by 3% will be difficult at this time,' Minister Derek Key's only way of achieving that is to fire public servants. That in itself can be contra-cyclical because of the severance costs,' Mr Calitz said.

Sasol, in its outlook for the 1993/94 budget advocates a cut in the corporate tax rate from its current 48% to bolster confidence.

The MEF, in a report on the South African economy released earlier this month, said every effort should be made to broaden the tax base and to eliminate tax expenditures.

Substantial

It criticised the accelerated depreciation allowances granted to large-scale export beneficiation projects because they will entail a substantial cost to the government over the next few years in terms of lost revenue.

The depreciation allowances allow companies to apply the present 20% allowance from the date that they put up the funds for the project rather than from the date of commission.

This means that government will have to bear the cost of the allowances, which can be transferred to companies not even linked to the project, long before the project comes on stream or produces any revenue for the industry.

The I-Net analysis used published tax rates from the latest audited financial statements.
Hike in taxes ‘to be opposed’

LABOUR unions would embark on a renewed programme of mass action if the Government increased taxes in its 1993 Budget, Congress of South African Trade Unions president Mr John Gomomo warned yesterday.

Speaking at the 27th annual Labour Party conference in Port Elizabeth, Gomomo said Cosatu would not tolerate the Government’s manipulation of taxes.

Political freedom had to be fought for, and mass action was an important part of that struggle, Gomomo said.

In his address, LP leader the Rev Allan Hendrickse called for the formation of a government of “national salvation” to rescue the country from economic ruin.

It was "nonsense to talk of a government of national unity" because the division that was the legacy of apartheid would haunt the country for generations to come.

“A government of national unity suggests we are unified when we cannot be at this stage in our history.”

Instead, a government comprising a broad spectrum of political parties would create the kind of stability needed to attract foreign investment.