TAXATION — 1993

JANUARY — MARCH.
Fuel levy increases expected this year

GOVERNMENT revenue from tax on fuel is the only source of income running above budget, signalling there was room for a substantial increase in the tax this year.

Latest available Central Statistical Services (CSS) figures show revenue from the fuel levy rose by 42.7% in the April to October period to R3,99b. The increase is significantly higher than the budgeted rise of 27.8%.

Economists said the figures suggested fuel consumption was not particularly sensitive to price increases, and that government could therefore comfortably raise the tax on fuel by a significant margin.

Government could opt for a substantial hike in the fuel levy as part of a strategy to keep the VAT rate as low as possible, as a higher VAT rate appeared to have a greater effect on consumption while public opinion against VAT was also stronger.

In the last Budget, levies on petrol and diesel a litre were increased by 8c and 6c respectively. Economists said higher increases than last year could help government avoid another VAT headache.

A substantial increase in the fuel levy would be in line with the stated policy of raising a greater proportion of revenue through indirect taxes.

Indirect taxes accounted for less than 34% of total revenue in the third quarter of 1992. Reserve Bank figures show, from 42.1% in 1989. Taxes on individuals now accounted for about 44% of total revenue.

The CSS figures showed that the income from VAT was running at almost 10% below the previous year's revenue from GST. Economists said the VAT rate should have been about 13% for government to reach the year's revenue targets.

Revenue from tax on companies and individuals was also running well below budget — up 5% compared with a budgeted figure of almost 17% for the year as a whole.
Nactu suggests new taxes

INSTEAD of shifting the tax burden to the poor by increasing Value Added Tax, the government could introduce at least eight other taxes to raise revenue, suggests the National Council of Trade Unions in a report prepared by the Labour Research Service.

The report will serve as Nactu policy at the National Economic Forum meeting next week.

The federation suggests the government tax pension fund contributions and introduce progressive property taxes, rural land taxes, a minimum business tax, a capital transfer tax, a capital gains tax and a tax on interest earned by emigrants.

The government should also reintroduce the tax on dividends.

These, together with the proposed increase in the fuel levy announced this week, and the luxury tax introduced last year, could raise R15.4-billion. Increasing VAT to 15 percent will only raise R8-billion.
The Taxman has dealt a blow to taxpayers seeking to outwit the PAYE system by selling their services to their employers through a close corporation.

Employers will soon be obliged to deduct the maximum amount of PAYE withholding tax (48 percent) from the monthly income of those "employees" who operate through a CC — which is more than the top marginal rate, writes LEIGH HASSALL.

John Hassen, director of law application at Inland Revenue, said that in addition to closing off the one-person CC practice, the new laws would spell out in clearer terms the PAYE treatment of all labour brokers.

He added that some labour brokers were not deducting PAYE from payments to their workers to the detriment of those employers who were making deductions.

Hassen said the new laws would stop the inequity whereby the CC "employees" could deduct certain expenses which ordinary employees could not.

The new provisions are effective from March 1 1993, allowing for a two-month period of grace in which certain taxpayers may apply for a special exemption certificate.

Ernest Mazansky, tax partner of Kessel Feinstein, said the exemption was applicable to those businesses providing the services of individuals, for example a secretarial temping service.

Such businesses should obtain an exemption application form from the local Revenue office.

He added that, other than in exceptional circumstances, the one-person CC selling services to a single client was unlikely to be granted an exemption.

Mazansky pointed out that a business which provided a service, for example bookkeeping, fell out of the ambit of the new legislation as it offered a particular service.

Mazansky advises labour brokers who will not get the exemption to cancel their CC agreements with their employers as they stand to pay substantially higher monthly PAYE provisions.

For example, a computer analyst (married with no children), who earns R120 000 a year, will pay an average PAYE of 33 percent — if the analyst continues to be employed by her CC she will effectively pay the maximum PAYE rate of 48 percent on her monthly salary.

The latest move is seen as an effort by the taxman to increase revenue at a time of tight squeeze on Government finances.
Fuel tax on the up and up

From Greta Steyn
JOHANNESBURG — Government revenue from tax on fuel is the only source of income running above budget, signalling there was room for a substantial increase in the tax this year.

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Economists said the figures suggested fuel consumption was not particularly sensitive to price increases, and that government could therefore comfortably raise the tax on fuel by a significant margin.

Government could opt for a substantial hike in the fuel levy as part of a strategy to keep the VAT rate as low as possible, as a higher VAT rate would have a greater effect on consumption.
Call for lower corporate tax rate to fuel growth

PRETORIA — SA’s high 48% corporate tax rate was a strong disincentive for investment and was stunting economic growth, Ernst & Young national tax director Ian MacKenzie said yesterday.

Speaking at the Platform for Investment conference, MacKenzie urged government to reduce the corporate rate to 40%, in line with other middle-income economies, in order to improve SA’s competitive standing in the international community.

Urgent measures should also be taken to increase the upper personal tax threshold of R150,000 to encourage capital accumulation, to limit tax brackets to four and to avoid fiscal drag, MacKenzie said.

While it was inevitable that VAT would be raised to at least 15% in March and possibly further in the medium term, government should consider instituting a multiple rate system of VAT, MacKenzie argued.

If negotiated politically, the implementation of a multiple rate system would lead to higher incomes from the tax in particular with regard to the “low-visibility” informal sector.

Investor confidence in the SA economy would be significantly boosted if more appropriate personal and corporate tax rates could be established, if the tax base was broadened and if an equitable, legitimate and consistent system of taxation was efficiently administered, MacKenzie said.

“We are not suggesting the immediate implementation of these proposals, but it is vital to set meaningful goals in the transitional period or impair investors’ confidence,” he added.
He said that when VAT was introduced, the tripartite alliance had said that it would lead to increases in living costs for poor people, "and that is exactly what has happened."

"We also predicted that once introduced, the government would use VAT to make up for its ridiculously high expenditure."

Mr Shev pointed out that the fall-off in revenues was indicative of tough trading conditions, which had in turn affected company profits and individual incomes.

He added that high level of retrenchments had also affected collections of PAYE.

TIM MARSHALD reports from Johannesburg that Public Investment Commissioners (PIC) has committed itself to lending the government R5bn by March to fund the rest of the deficit.

"We have more than enough cash to fund the deficit," PIC director Mr Badie Badenhorst said.
Anti-insolvency measures like public sector and opposition
FW's 5% shock

By ANTHONY JOHNSON
Political Correspondent

PRESIDENT F.W. de Klerk warned taxpayers yesterday to brace themselves for "unavoidable" tax increases in the March budget and announced that South Africa's 760,000 public servants would get only a 5% pay increase from July.

He said the "painful steps" were necessary to revive the ailing economy, and warned that unless the economy could be placed on a growth path we would become "as poor as you are now".

In a briefing for the Public Sector Employees Organisations in Pretoria, which was attended by Finance Minister Mr. Derek Keys, Mr. de Klerk said all South Africans had become poorer "in the past few years" and there was no room now or in the foreseeable future to remove "real or imagined" backlogs in public services.

The harsh medicine announced by Mr. de Klerk came after predictions that VAT would be increased by at least 5% because of an expected R18 billion government deficit before the March budget and indications by Mr. Nelson Mandela that the ANC may call for the lifting of remaining sanctions because of the dire state of the economy.

Mr. de Klerk said, however, that despite the "gruesome" economic recession and falling state revenues, "considerable new outlays" would have to be made in the socio-economic sphere.

He said the government had already committed itself to spend "considerably more", for example, on "the essential elimination of indefensible disparities in social pensions".

Mr. de Klerk said efforts would be made to ensure that the growth sectors of the economy were affected as little as possible.

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Taxes must be increased

THE State President’s two-listed blow — higher taxes and confirmation of no further salary improvements for public servants — has been met with a chorus of indignation from opposition spokesmen and public-service representatives.

De Klerk yesterday told a meeting of public servants’ organisations and teachers’ bodies that tax increases were inevitable to prevent the country from sliding into insolvency.

Although De Klerk did not specify which taxes would be increased, personal income tax as well as VAT would be affected, according to an informed source who attended the meeting.

However, De Klerk gave the assurance that the tax status of pension gratuities would not be changed in the coming Budget — thus cushioning the effect of higher taxes on public servants who have taken early retirement.

“We will, unfortunately, not be able to avoid a tax increase in one form or another. In taking this decision, the Government will naturally take into account the fact that the economy still finds itself in a recession. Efforts will also be made to ensure that the growth sectors of the economy are affected as little as possible.

“The approach, therefore, will be calculated and objective, but the ultimate result is inevitable and the taxpayers will, unfortunately, have to contribute more to the Treasury,” De Klerk said.

Painting a bleak picture of the economy, he said the country would become insolvent unless State expenditure were further curbed and additional revenues secured. Inflation had dropped in the past three months — one of the few positive signs in the economy.

“Greater fiscal discipline is necessary — and also your and my additional taxes are necessary — to further anchor that which we have achieved.”

De Klerk said the net increase in State expenditure by personnel reduction and other means had not been “anywhere near enough” to relieve the necessity of fiscal discipline.

The Government therefore could not afford to spend more money than already earmarked to improve public servants’ salaries. A 5 percent increase had been promised to them last year, and the Government would stick to this promise even though this offer would have been lower if the Gov

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Taxes

* FROM PAGE 1.

...government had to formulate it now.

...With the economy in a recession, public servants should be glad to have jobs at all, he added...

...Reacting to the speech, Democratic Party spokesman Douglas Gibson said he was amazed at De Klerk’s announcement.

“What does he mean? Is VAT to be increased? If so, at the very least VAT on basic foodstuffs should be abolished.

“If the President is referring to income tax, he must be told that South African taxpayers are now among the highest taxed people in the world.”

Conservative Party finance spokesman Cas Uys said higher taxes would lead to higher inflation, and the public would have to foot the bill for the Government’s inability to apply fiscal discipline.

“Three years ago (former Finance Minister) Barend du Plessis said taxes would be reduced, and now the opposite happens,” Uys said.
CAPE TOWN — Sweeping tax reforms — including corporate and maximum individual tax rate cuts to 40% on a phased basis — were needed if SA was to meet the objectives of new investment and economic growth and satisfy political aspirations, Ernst & Young national director Ian McKenzie said yesterday.

To attract foreign investment, SA’s tax rates would have to be internationally competitive, though he did not believe it appropriate to grant new investors tax holidays or exemptions. A tax rate of 30% should be applied to businesses with taxable profits of less than R100 000 a year.

At a presentation on the Frankel Max Pollak Vnderine, Sanlam, Ernst & Young and Human Sciences Research Council study findings, Platform for Investment, McKenzie said tax reform had to be among the instruments used to restructure SA’s economy.

“Taxes must not be undertaken in isolation or with the simple objective of raising additional finance in the short term, but must form part of a broad economic policy which will raise the platform for investment,” he said.

He mooted eliminating the difference between nominal and effective rates of tax by introducing a method to determine taxable income which followed generally acceptable accounting principles, with particular reference to the timing of recognition of income and expenditure.

Group taxation, if implemented, would eliminate “the unproductive time spent by the taxpayer in structuring group operations so as to achieve optimum tax efficiency within commercial and legal constraints and by Inland Revenue in challenging the structures”.

McKenzie recommended that the practice of ring-fencing certain transactions be eliminated. While tax-based incentives should be the exception, they would be required in the medium term to encourage investment, and would have to be linked to a targeted plan for industrial development.

One of the aims of the study was to show that the prospects for SA’s future were not as dismal as had been forecast.

The findings are to be presented to political and business groups, including the ANC and the Cabinet.

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France and SA consider joint projects

SA GOVERNMENT officials are negotiating with their French and German counterparts on the possible funding of several multimillion-rand development projects in southern Africa.

A Foreign Affairs spokesman said yesterday senior officials were to meet a delegation from the German economic development ministry this week on joint involvement in infrastructural projects.

This followed “general” discussions the South Africans had with German Development Co-operation Minister Carl-Dieter Spranger when he visited SA late last year.

It is believed the South Africans are particularly concerned about finding foreign backing for the upgrading of the Ressano Garcia road and rail links with Mozambique.

With the end of Pretoria-Renamo hostilities in that country, improving these links has become a priority because of their importance in reconstructing the Mozambican economy. Upgrading is expected to cost at least R50m.

The Foreign Affairs spokesman said talks also had been initiated with the French government on similar projects.

The talks were continuing.

Last year the SA and Italian governments signed a protocol committing the Italians to providing finance, and SA the technical expertise, for projects which are worth about R200m.
Get ready to have your pocket picked

By SUBLIME kids more than firm commit- has already alerted South Africa to a heaven for new tax shocks in the 1983 Budget that will be split out on or about March 17.

In increases in the VAT rate from 10 percent to 15 percent has been mentioned in whispers that have deliberately been blown loud enough to everyone to overhear.

10 on the cards may be another upward twist in the fuel levy, bringing new pressures on petrol and diesel prices. No doubt the motive has been to use the revenue to cover interest payments.

The latest bulletin of the Econometric research unit sets out to do is explain why it is now almost inevitable that VAT and the fuel levy will be strapped to the whipping post.

In short, it argue, the Budget will be virtually forced to thrash more revenue out of them both to help avert further deterioration in the economic climate that hit them to the worse on record.

But don't shout the messen- ger. New Minister of Finance, Derek Keys, brought in from outside the political arena to use hard-nosed muni- natorial tactics to try to sort out the mess, may have no alternative.

Econometric director Dr Asar Jamminde concedes the fact that the state is on a tax treatment at hand to start bandaging the wounds inflicted on the national accounts by a string of two decades of bud- ging and mismanagement.

He thinks this best to come only two or three years of hard facts — and the bad news.

The logic is based on a re- view of the severity of prob- lems amassed by a govern- ment out on a spending binge that it must have seen could not as with state debts climbing higher and higher.

The 1982 Budget predicted that state expenditure would work out at R1 billion and revenue at R6 billion, leaving a deficit of R3 billion to be borrowed from somewhere, at an exorbitant cost of even higher charges.

Results have turned out even worse than that. Revenue have been running well under expectations because the cause of cuts in spending by individuals and companies alike as a result of the recession have world cash a "choked to taxation.

Meanwhile, the cost of the gush of red ink on the national balance sheet.

The interest charges on public debt equalled no more than R3 billion in 1970. As govern- ment spending rose from year to year by the public debt had grown to such dimensions that by 1980/81 the interest pay- ments were equal to no less than 10 percent of the national budget.

Econometric estimates the 1983 Budget will reveal interest charges equal to a staggering 19 or even 20 percent of ex- pensive — the single largest item in the entire budget, even out- taking the 18 percent allocation going to education.

"It is impossible to go on in this way indefinitely," he says.

"Unless the Government learns to pull in its horns, especially with cutbacks in spending on a bloated civil service, it will be a tragedy to see how primitive that will turn South Africa into a banana republic.

Happily, the new Minister is doing his best to repair the damage caused by excessive government spending.

"Tax increases may be the only treatment at hand to start bandaging the wounds inflicted on the national accounts by at least two decades of bundling and mismanagement."

Years of economic mismanage- ment have dragged government fi- nances into a mess. Think-tank researchers believe the 1983 Budget will force consumers to fork out an additional R7.5 billion in higher VAT and fuel taxes to "tide the rising tide of national debt, reports MICHAEL CHESTER.

10 even 20 percent of ex- pense — the single largest item in the entire budget, even out- taking the 18 percent allocation going to education.

"It is impossible to go on in this way indefinitely," he says. "Unless the Government learns to pull in its horns, especially with cutbacks in spending on a bloated civil service, it will be a tragedy to see how primitive that will turn South Africa into a banana republic. Happily, the new Minister is doing his best to repair the damage caused by excessive government spending.

Derek Keys is "doing his best to repair the damage caused by excessive government spending."

They believe a tax on divi- dends may be reintroduced, though bringing in less than R1 million. And they fear the scheme, if it were to be reintroduced, may be introduced to raise an extra R1 billion — "but", they add, "it is unlikely such a dramatically large increase in tax will be clawed back by an event such as the present Government.

That switches the focus to indirect taxes. Econometric reckon there may be further rises in customs and excise duties enough to collect an additional R100 million from items such as beer and cigarettes. Inflation, however, should not net an extra R3 billion. In all, if the Government decided to allow all the rates at current levels, inflation should be defivestable enough to boost revenues and finally n the tax collectors a total of about R2 billion.

Unfortunately, that would still leave a huge deficit around R2 billion, threatening to swell to R3 billion even if the Government started spending the money.

In fact, argues Jamminde, that VAT rates and the fuel levy must be increased to hit targets in the next budget.

He estimates that a hike in VAT from 10 percent to 15 percent, plus an increase of 15 c/c in the fuel levy, should bring in an additional R2 billion or so. That would trim the deficit down to R1 billion, or a more reason- able 4 percent of gross domes- tic product.

While hikes in VAT to zero on basic foodstuffs would cost no less than R1 billion in revenue losses. So it was possible that this cut could climb even higher than 15 percent on non-essential items, to cover the ripples over on luxury.

But there could be a back- lash for inflation, which optimists have forecast should soon be in retreat.

Econometric calculates that a 3 percent rise in the VAT rate could lift inflation back higher for about 2.4 per- cent. Also, an increase in the fuel levy of 0.5 c/c equal to a 10 percent rise in petrol prices would add another 0.5 to 0.6 percent to the inflation rate.

But it may well pay to hope of a single-digit inflation by 1984, warns Jamminde.

Yet South Africa would face an even worse predicament in the longer run. As the Government multichannelled its food back in the net and decided to borrow its way out of its problems, avoid the nation- al debt running out of control.

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Squeezing the middle classes

NO amount of fine tuning the present taxation system will disguise the fact that middle-income South Africans will have to foot the bill for two decades of government profligacy.

An economic model by Econometrics suggests that if the average South African’s discretionary income could be almost halved as a result of higher income tax and indirect tax payments, there would be no consumer-led economic recovery or a substantial increase in personal savings.

With Government revenue expected to undershoot spending by between R85-billion and R100-billion by fiscal year-end, the deficit will be between 7% and 8% of GDP.

Fiscal drag — where salary increases push taxpayers into higher tax brackets — will mop up R2.4-billion in income tax in the 1998/9 fiscal year. This is what government will net by simply leaving tax brackets unaltered for inflation.

The Government is expected to raise VAT to 13%, at the same time zero-rating certain food items. This will generate an additional R3.4-billion, says Louis Geldenhuys, economist with Sesankei, Mouton & Kilsch. Fuel levies are likely to be raised by at least 10c, raising the pump price by 6% and generating around R1.1-billion for the fiscus.

For every R100 earned in SA in 1992, an average 31% was paid to Government, 17.4% in income tax and 13.4% in indirect taxes. Discretionary income will fall to about 26%.

The country is edging towards a dangerously high level of taxation. Who will pay these higher taxes?

Middle class South Africans, of course. Nearly 40% of all tax collected this year will be paid by the 1.6-million taxpayers earning between R40,000 and R200,000.

A Department of Inland Revenue model shows that a married taxpayer with no children earning R120,000 a year pays about 40% to government. Particularly hard hit will be the 1.57-million taxpayers earning less than R20,000 a year. Fiscal drag means that many of these, who can least afford it, will become first-time taxpayers.

Individual taxpayers, already paying 70% of all income tax, will shoulder an even larger share of the tax burden.

Miners will pay almost nothing and companies will pay proportionately less. Increasing taxes on companies is an indirect way of taxing individuals and, keeping a steady eye on where jobs are created, government will be careful not to kill the goose that lays the golden egg.

Finance Minister Derek Keyes is the man charged with administering the bitter medicine. He will, as his predecessors did, grab a larger slice of your earnings in an attempt to settle the apartheid bill once and for all.

But in this he will fail because the country can no longer afford it. The Laffer Curve principle suggests that there is a point at which higher taxes do not produce higher revenues. The economy becomes so over-taxed it goes into decline.

The interest bill on government debt, over R30-billion in the coming year — will become the largest single item of expenditure and reduces the fiscal latitude of future administrations.

Ironically, it is the victims of apartheid who will end up with the bill.
Govt debt ‘will not push up rates’

GOVERNMENT’S borrowing requirements in the next fiscal year were not expected to put upward pressure on long- or short-term interest rates, economists said yesterday.

They predicted government would not have to borrow more in the next fiscal year than it did in the 1992/93 year, as Finance Minister Derek Keys was expected to announce a deficit of 6% of GDP or about R22bn in the March Budget.

A 6% deficit would be achieved only by raising VAT to 13%, increasing the fuel levy by 10c, raising customs and excise duties and possibly increasing other taxes, economists said. They believed it was not possible to cut back enough on government spending to avoid raising taxes, as SABC suggested this week.

The organisation said the savings from plugging the increase in spending to below 7% would obviate the need to raise taxes.

Most economists expected an increase in spending of 8%-10%. Rand Merchant bank economist Rudolf Gouws said it would be difficult to get the increase in spending down to single digits. The state’s wage bill would rise by about 10%-11%, in spite of the 5% overall increase in public servants’ salaries, because of the effect of notch increases. He doubted Keys could announce an increase in spending substantially below 10% without endangering his credibility.

Without tax increases, revenue would only amount about 8%, yielding a deficit of R30bn. At 8.5% of GDP, Gouws argued a R30bn deficit would be unacceptable and billions of rand in extra tax would have to be found to bring the deficit down to a more acceptable level. Most economists believed Keys would opt for 6%.

Sunlam economist Johan Luw said a 13% VAT rate with zero-rating of basic foodstuffs would be a major ingredient of a Budget strategy to avoid a deficit of more than 6% of GDP. At R22bn, the expected deficit would not place upward pressure on interest rates as the capital market could easily accommodate that level of borrowings. He said short-term interest rates such as the prime overdraft rate should also not be adversely affected by the Budget, as the deficit would be lower than in the present fiscal year.

Economists are forecasting a deficit in the present fiscal year of about R26bn — excluding extra spending on drought relief. The possibility of huge spending on drought relief being reflected in this fiscal year could push the figure up to R25bn-R30bn.

Shortfall expected in Receiver’s income

PRETORIA — Government’s tax income problem is worsening by the month, says Aha senior economist Adam Jacobs.

He was commenting on the latest income tax and VAT collection figures released yesterday by the Finance Department, which show the total take from both sources in the April-December period was R44.7bn — R27bn short of the R71.5bn budgeted for the whole financial year.

Income tax revenue in the nine months was just more than R32bn and VAT revenue was R12.64bn.

The Budget expectation for the financial year was R58.64bn from income tax and R21.01bn from VAT.

Although state revenue would be boosted by provisional tax payments next month, it would miss the budget target by a substantial margin.

The recession’s effect on the business community was reflected clearly in the shrinking of company tax and VAT. In the first six months of the financial year, company tax take was 19% down on year-earlier figures. Aha estimated that tax income at the close of the financial year would be R9bn below the budgeted figure.

GEIS fraud probe could involve millions

INVESTIGATORS in the Trade and Industry Department and the Office for Serious Economic Offences are investigating cases of alleged General Export Incentive Scheme (GEIS) frauds involving millions.

A department spokesman confirmed the investigations, but said it was impossible to attempt to estimate the amount involved.

It was believed, however, that the department was looking into several dozen cases. The spokesman said current investigations showed the re-

with the revised guidelines are being processed only now, it is somewhat early to arrive at firm conclusions about their effects,” the spokesman said.

An Office for Serious Economic Offences spokesman said investigators checking allegations of abuse of the Phase VI vehicle local content programme were also looking at abuses of GEIS.

These GEIS probes were, however, incidental to the Phase VI investigations, he added.
Tax hike would be immoral - PAC

Sowetan Reporter and Sapa

SOUTH Africans, already reeling under an economic recession, would not be able to afford yet another tax increase, said Azapo publicity secretary Dr Gomolemo Mokae in a statement yesterday.

He was commenting on State President FW de Klerk’s announcement on Friday that tax increases could be expected this year.

PAC’s secretary-general, Mr Bennie Alexander, said the regime had no moral right to increase taxes as it was riddled with corruption scandals and had grossly overspent on its budget.

“The PAC of Azania will not tolerate any tax increases. The unemployment, homelessness, escalated medical costs and increased education fees together beg for a policy of interim relief for the people rather than increased taxation,” Alexander said.

Mokae said rather than contemplate a tax increase, the Government should “transform” the health services and “unify” the education system, or they should resign so that a popularly-elected majority government could come into being.

He added that after its 11th national congress held in Port Elizabeth in December last year, Azapo had experienced a “phenomenal surge” in membership.

“We will not hesitate to mobilise this membership against any tax increase.”

Alexander said the PAC was “shocked and outraged at the dictatorial decision by De Klerk” to increase taxes during this year and to give civil servants only 5 percent salary increases.
Tax increase storm growing

Political parties have added their voices to those of trade unions and public servants criticising President de Klerk's announcement on Friday of a likely tax rise and a 5 percent salary increase for civil servants.

ANC spokesman Carl Niehaus said the organisation would oppose any increase in taxes such as VAT which included an increase in the cost of basic foodstuffs. Many people were living on the breadline, he said.

He added that the shortage of funds was a general indication of the country's economic crisis and highlighted the need to reach a political solution as fast as possible to end uncertainty.

He said any efforts to increase taxes had to be on luxury goods, rather than basic foodstuffs.

PAC general secretary Benny Alexander said he was shocked and outraged at the dictatorial decision taken by de Klerk. He added the PAC would use the issue of taxation in a campaign to discredit an interim government of elitist collaborationists.

Azapo publicity secretary Dr Gomoelo Mokae said South Africans were already reeling under an economic recession and could not afford another increase.

Mokae said rather than contemplate a tax increase, the Government should transform the health services and unify the education system, or they should resign so that a popularly elected majority government could come into being.

He said that after its 11th national congress in Port Elizabeth in December, Azapo had experienced a phenomenal surge in membership, which the organisation would use to mobilise against any tax increase.

Niehaus said it was wrong for top civil servants and those in Government to give themselves large salaries and perks increases, while those lower down faced the same shrinking incomes as others in the workplace.
FW’s proposal to raise taxes creates a furore

COSATU, the PAC and Azapo warned yesterday that President F W de Klerk’s proposed tax increase, for this year could place government on a collision course with the three organisations.

De Klerk’s announcement of a 5% pay increase for civil servants and a possible tax hike was roundly condemned by political parties, trade unions and civil service employee organisations.

Cosatu spokesman Neil Coleman said the increases would be “another case of the man in the street having to pay for the blunders of government”, which should instead be taking decisive action against apartheid expenditure, corruption and state expenditure.

PAC secretary-general Benny Alexander said his organisation was outraged by the move. Government had no moral right to increase taxes and the 5% increase would decrease the income of civil servants in real terms.

“The tax increases will erode even the 5% increase ... we are especially concerned about the consequences of the announcement on black schools, which may be hit very hard by teacher strikes.”

CP spokesman Casper Uys described De Klerk’s announcement as further evidence of government’s inability to manage a collapsing economy.

Azapo public relations secretary Gomelmo Mokoane said yesterday his organisation would not hesitate to mobilize its membership against tax increases.

National Professional Teachers’ Organiza- tion (Naptosa) president Leopole Tsaunyane said a tax hike would mean a reduction in teachers’ salaries. Thousands of teachers in lower salary categories would be unable to cope with this.

SA’s economic and financial ills could not be solved by cutting the state salary bill, and Naptosa would insist on the state taking effective steps to marshall other resources for investment to ensure healthy economic growth, Tsaunyane said.

Other groups opposed to the hike and the 5% salary increase for teachers included the SA Democratic Teachers’ Union (SADTU) and the National Education, Health and Allied Workers’ Union.

GERALD REILLY reports that public sector workers would be disappointed with the 5% rate increase, especially as in the past three years increases had been limited to between 6% and 16%.

This was said by representatives of the 16 public sector personnel organisations after discussions with De Klerk on Friday.

A Public Servants’ Association spokesman said it was appreciated that government faced an enormous economic problem and needed to cut back on government spending. The president had made it clear that state income had to be increased to close the gap between revenue and spending. De Klerk’s assurance that retirement annuities would not be taxed was also appreciated.
Govt slammed for increase in taxes

(32) 18/11/1983

Cape Times, Monday, January 18, 1983
PRESIDENT F W de Klerk had signalled tax increases in the March budget would be structured carefully to avoid a blow to business confidence, economists said at the weekend.

De Klerk, noting that tax increases would be unavoidable, said efforts would be made to ensure growth sectors were not affected "as little as possible". He was speaking after meeting government service employee representatives on Friday.

Economists said De Klerk's concern with economic growth indicated that the extra tax burden would be spread thinly across VAT, the petrol levy, customs and excise duties and fiscal drag.

There had been speculation that Finance Minister Derek Keyes was to reintroduce the minimum tax on companies after representations from the ANC, but this now seemed out of the question.

Senegal Mouton & Kitshoff economist Louis Geldenhuys expected tax increases to be spread over indirect taxes. While a hike in personal taxes was unlikely, there would be no compensation for fiscal drag.

Even reducing the deficit to 6% of GDP — the accepted norm — would require an extra tax take of R6bn-R8bn.

Most of the increase in revenue could come from a hike in VAT to 13% while certain basic foodstuffs were zero-rated.

A further substantial inflow (just over R1bn) could come from adding 20c to the petrol levy, an increase of 6% in the fuel price. An additional R500m could come from raising customs and excise duties.

Economists said a further source of revenue hinted at was taxing a portion of current pensions contributions. But the Life Offices Association (LOA) had asked government to avoid this course of action.

De Klerk said on Friday government had no immediate intention of changing the tax status of state pension fund gratuities. That means government has rejected the LOA's recent call for the equal tax treatment of lump sum payments between the private and the public sectors.

DUMA GQUBULE reports that some economists warned against tax increases while the economy remained in recession.

Old Mutual's Terrence Molle said he was not convinced tax increases were the best route to solving the deficit.
Unions slam De Klerk's tax plan

By Brendan Templeton

Opposition to President de Klerk's austerity programme is growing, with more organisations coming out against his announcement of tax rises and a limit of 5 percent in wage increases for civil servants.

Moderate trade unions and personnel associations have joined the Congress of South African Trade Unions (Cosatu) in denouncing the plan.

In statements yesterday, Cosatu - and the conservative Teachers Federal Council (TFC) slammed De Klerk's announcement made on Friday.

The influential Public Servants Association (PSA) has also expressed dissatisfaction.

Cosatu said the Government needed to urgently review its expenditure and find better ways of collecting taxes from big business rather than targeting the man in the street.

"Inspired leaks from the Government have tried to prepare the public for the fact that they intend to shift the tax burden on to the individual even further by raising taxes such as VAT, PAYE and tax on fuel.

"No amount of preparation will convince our members or millions of working people to accept that this corrupt and inefficient Government is taking these measures in their interest," Cosatu said.

Measures to stamp out corruption; to eliminate apartheid duplication in the civil service; to stop "golden handshakes" for civil servants implicated in murder and corruption; to curb military spending, and to "drastically" reduce salaries of the Cabinet, MPs and other apartheid fat cats" were more urgently needed.

"If (De Klerk) had announced these measures, perhaps this time the battered South African public may have believed that the Government means business," Cosatu said.

TFC chairman Allan Powell said the salary adjustment was "unacceptable and incomprehensible".

Teachers had made "drastic sacrifices" with previous below-inflation wage increases and "radical" refreshments.

Further action would be determined after consultation with its members, but the TFC would do "all in its power to prevent a confrontation with the authorities", Powell said.

The PSA has warned that even moderate civil servants could be driven to a point where they would have no choice but to take drastic steps.

The SA Association of Municipal Employees said the limit of a 5 percent wage increase placed "great pressure on the freedom" of industrial negotiations for 1993.

The association's president, Hans Deetles, said while civil servants were denied the right to negotiate in terms of the Labour Relations Act, the freeze could affect the position of those who had the right.
DP lashes govt over promised tax hikes

CAPETIMES Political Correspondent

THE DP yesterday blamed promised tax hikes by President F W de Klerk on government incompetence and corruption.

DP Finance spokesman Mr Ken Andrew said the warning of the increases in the March budget "vividly illustrates the inability of the government to manage South Africa's affairs competently".

South Africans have every reason to believe the proposed increases were "simply another form of ad hoc crisis management", he said.
Taxes boycott threatened

THE New Unity Movement-aligned Grassy Park Civic Association (GPCA) yesterday threatened to boycott the payment of taxes used to pay for what it said were the "blunders of the Herrenvolk".

GPCA secretary Mr Ivan Fife said his organisation completely rejected the increase in taxes hinted at by President F W de Klerk last week.

He said it was unacceptable that the oppressed be asked to pay indirectly for the "blunders", such as misappropriation of public funds, maladministration and government propaganda.

"We refuse to pay exorbitant taxes which the government wants to use to finance such actions," Mr Fife said.

He said his community already faced problems such as unemployment and lack of food and homes.
 Industry ‘needs to be consulted’

‘No rush’ to tax pension contributions

CAPE TOWN — Fears that government would rush to start taxing pension contributions in this year’s Budget faded after a top Inland Revenue official yesterday indicated government was not planning hasty action.

Inland Revenue’s legal drafting director Ian Meiklejohn said it appeared unlikely that material changes would be made to the taxation of retirement funds in the 1993 parliamentary season.

He said the issue was highly sensitive and account would have to be taken of the legitimate expectations of vested rights. Broad consultation with the retirement industry would be necessary first.

There has been a widespread belief in the industry that measures would be hurriedly enacted this year to generate additional revenue and enable government to equalise pensions between the different racial groups in the March Budget.

Suggestions regarding the taxation of retirement funds were made by Finance special adviser Japhie Jacobs last year in his report on the flow of funds between financial institutions.

After the release of the report the Financial Services Board asked financial institutions and other bodies to comment by January 5 on five tax scenarios proposed. About 50 submissions were sent to Meiklejohn for recommendation.

While he had not yet studied the proposals, Meiklejohn said there was a fairly widely held view that the tax allowances on retirement fund contributions were too generous. On the other hand, it appeared there was widespread opposition to Jacobs’ suggestion that a portion of pension or provident fund contributions by employers be disallowed for tax purposes.

Jacobs suggested a third of employers’ pension contributions be taxed and that 20% of employers’ contributions be taxed at the company tax rate. Alternatively, the employers’ contributions could be taxed at the average rate of pension fund members.

Meiklejohn said the industry felt employer contributions were a salary cost and therefore a legitimate expense which should be allowed. There appeared to be a consensus that total retirement fund contributions should be capped, though no agreement had emerged on whether the cap should be a percentage limit, a cap on benefits or on contributions.

The proposal for an absolute rand cap on contributions would be impossible to implement, Meiklejohn said.

He had reservations about the impact of a cap on tax-free contributions, saying it was not yet clear that this would increase the revenue to the finance as the disallowed portion of the contribution could be channelled elsewhere.
Bid to organise tax resistance campaign

Staff Reporter

A fifteen organisations representing political and church groups yesterday agreed in principle to a national tax resistance campaign.

The Johannesburg meeting, hosted by Kolonial Southern Africa, was motivated by what national co-ordinator Barry Poppleton described as: "Clear corruption and mismanagement of taxpayers' money by Government departments."

The group plans to launch the tax resistance campaign after a meeting at the end of February which will include business, political, trade union and religious organisations, he said.

The campaign plans to address the need for legislative changes in the Income Tax Act, which would enable corporate bodies and individuals to determine "how their taxes were spent."
Campaign seeks alternatives to 'squeezing' of tax
Call for Gratuities tax parity
Groups to launch tax protest campaign

ABOUT 50 organisations will meet in Johannesburg today to discuss a "tax resistance campaign" to protest against government corruption.

The summit, involving churches, trade unions and political parties, will be held under the auspices of the Christian service organisation, Kolonias, which called the gathering in response to corruption and "underhand" operations.

"Many feel that paying taxes to a government which is clearly not prepared to be accountable to its people amounts to being an accomplice to the actions revealed in recent months," Kolonias said yesterday.

A Kolonias research document proposed a "direct action campaign" which would allow partial payment of taxes or a complete refusal in order to create pressure.

"Peace tax support groups will be formed... offering information, personal support and creative group action ideas," the document said.
Metpol warns funds for social projects an 'additional tax'

MARC HASENFUSS
Business staff

THE insurance industry could not be expected to shoulder the responsibility for funding 'socially desirable' projects, according to Metropolitan Life.

Chairman Willem Pretorius said in his annual review that although investment in low-cost housing, education and training, job creation and primary health care were highly desirable, the insurance industry could not be expected to undertake such investments at other than commercial terms.

He said such investments with a high risk of loss of capital, and/or at subsidized returns would be tantamount to an additional tax on an industry and its policyholders — already carrying more than a fair share of the tax burden.

Mr Pretorius noted the recently formed Investment Development Unit (IDU) could, in time, provide some answers.

"We look forward to the IDU identifying, analysing and presenting to the industry opportunities to invest in socially desirable projects."

He stipulated these projects should have the backing of the communities designed to benefit from them and provide an acceptable risk/return profile to the investors.

On Metropolitan Life's prospects for the year ahead, Mr Pretorius anticipated another difficult year for new life insurance sales.

He also expected an increase in the number of clients finding it difficult to continue paying premiums on their existing policies.

But he stressed that focus on carefully selected niche markets with needs-based products and services should ensure Metropolitan remained strongly competitive.

"We therefore expect, barring unforeseen circumstances, premium income and earnings will both continue to grow at a healthy rate during 1983."
The dispute between taxpayers and Revenue on deductions for leave pay could well be resolved this year by an amendment to the Income Tax Act. If it goes through, those (numerous) companies, which have been allowed a tax deduction for money set aside to meet leave pay claims, would have to write back the deductions in eight annual installments. The amounts involved total hundreds of millions of rands.

Companies in future would be allowed to deduct leave pay only when the money is actually paid to employees, and not when the right to leave pay accrues to them.

Current Revenue practice is confusing, as some Revenue officers are disallowing leave pay accruals which have been claimed as deductions, while others are permitting them. The difference in treatment has arisen from diverging decisions on the deductibility of leave pay accruals in the Transvaal and Natal Income Tax Special Courts.

Revenue in the past has felt hard done by because employers were creating large accruals for leave pay and claiming the deduction — with great benefit to their cash flow. But tax was deducted from remuneration only when the leave pay was actually paid to employees.

Deloitte & Touche tax partner Philip Dieperink says — on the law as it stands — a company should object, in some circumstances, to an assessment based on a disallowance of a leave pay deduction. That is, if the conditions of employment are such that the employee cannot forfeit his leave under any circumstances. This follows the line of the Natal Special Income Tax Court.

Dieperink says if the law is changed to provide for a phased write-back, much uncertainty would be removed. On the other hand, there would be a trade-off of certainty against erosion of the general principles on which tax deductions can be claimed.

If the amendment to provide for an eight-year write-back period does become law this year, investment analysts in particular will have to investigate — on a company-to-company basis — what damage this will do to earnings.
The ghost of taxes to come

The spectre of tax increases also added to the weekend storm. While President FW de Klerk said careful note would be taken of "taxpayer rage", he also emphasised that "the government will not accede to demands to grant no increases whatsoever". The Congress of South African Trade Unions called De Klerk's announcement "an inspired leak designed to prepare the public ... for increases in VAT, Paye, and fuel taxes".

These taxes placed the budget deficit burden on workers and reduced their living standards even further, said the federation. Business taxes were a more effective form of revenue collection.

At a National Economic Forum meeting yesterday, the two major federations in the country, Cosatu and the National Council of Trade Unions, put forward their tax proposals.

They are likely to push hard for the zero-rating of basic foodstuffs, medicines and services as well as for no further increases in VAT.

With promises of a barrage of new and increased taxes, the Peace Tax Campaign is likely to gain ground, even if it wins only emotional support.

The campaign entails individuals subtracting a proportion of their income tax and putting it into an trust account to be used for development projects they approve of.

But in South Africa where employers are responsible for tax deductions, the protest is more diluted.

According to Barry Poppleton, of Southern Africa Kelasman, this includes letters of protest accompanying returns, arranging lower tax payments ... so one is able to control the amount still due at the end of the year and claiming excessive numbers of dependents.

Mosted as a form of protest against fast and furious corruption revelations at the end of last year, the tax campaign is becoming a popular buzzword.

Yesterday, a wide variety of organisations met to hammer out plans and elect a committee to take the idea forward.

A South African Chamber of Business representative said the campaign was unlikely to succeed because employers would not break the law by acceding to a request to send income tax anywhere other than to the Receiver of Revenue.
Budget blues on the cards

By JEREMY WOODS

None of this would produce upward pressure on interest rates and Mr. Louw is looking for a 1% cut in about March, followed by further cuts later in the year that could reduce interest rates to 13.5% by the year-end.

Investec Asset Management portfolio manager Stephen Mills says: “Our worst fear is that the Budget will boost taxes. We would be very worried about the effect that might have on the stock market.”

He says while tax increases are generally expected by the stock market “what is not in the price is how this would impact on corporate earnings”.

Hennel believes that with a R22-billion plus Budget deficit and an economy under severe pressure, there are few options left for the government that have not already been discounted by the stock market.

“Another fiscal lever that no one expects, like a minimum tax on companies, might well upset the market,” he says, “but we don’t expect a lot to look forward to in the Budget or the rest of the year.”

SaxoBank’s portfolio manager Matt

VAT INCREASES, higher petrol prices and more expensive beer, wine, spirits and cigarettes are some of the measures expected in the Budget by top Cape Town institutions this week.

“We are expecting the Minister to have a Budget deficit of about R22-billion, which means taxes are going to have to increase,” says Mr. Johan Louw, chief economist at the Sanlam head office in Cape Town.

He expects VAT increases to 13 percent, but with a wider selection of exemptions on items such as basic foods and electricity, as well as an increase on the fuel levy on petrol of 10c a litre and a range of excise duty increases.
Contractors plan 'new tax' protests

STAFF (320)

Contractors with close corporations are deciding at a meeting in Johannesburg today on a plan of action to protest against the change in tax legislation affecting them.

The tax change requires them to pay 40% tax at source on a monthly basis, rather than at the end of the year, when deductions for travelling expenses and expenditure are taken off the bulk tax payment.

The change affects engineers, draughtsmen, tracers and other contract staff with close corporations.

A committee of contractors has been formed and a picket outside the Receiver of Revenue's office is scheduled for February 5. The meeting today will be held at 6pm at Sturrock Park in Milner Park.

A premier contracting agent for the industry, David Heath, said: "The Receiver is alienating the man who works for himself", as the legislation took away their incentives. "Heath said the pool of floating manpower in the engineering industry would be reduced by the legislation, as people would move out of the market."

Director of Law Application at Inland Revenue John Hansen said deduction claims were a form of tax dodging and the effect of the tax change "would be that people who set up close corporations on the advice of tax consultants will realise that it doesn't pay to operate on that basis".

He said bona fide contractors would be unaffected as they would be able to obtain exemption certificates.
Bad time to raise taxes — business

ORGANISED commerce and industry have called on government not to increase taxes, as the timing was not right while the economy remained in recession.

Government was asked formally at an economic forum process committee meeting last week to avoid addressing the deficit problem by raising taxes, sources said.

While the private sector provided government with inputs on the Budget last week, labour representatives have not yet provided economic policymakers with any formal input, although they have signalled their opposition to tax increases.

While the suggestions handed to government at the forum meeting could not be obtained, business representatives spoke out openly against tax increases.

Sacob, in a reference to speculation that the VAT rate would be increased, said yesterday: "While Sob is not opposed to higher rates of indirect taxes in principle, there is concern at the timing of such an increase. Imposing a higher rate of VAT on a contracting economy is likely to increase the severity of the recession."

Sacob said the move could result in only a minimal increase in VAT collections and a reduction in collections of other taxes, because of the effects of a recession on government revenue.

The organisation also opposed raising the fuel levy and said a petrol price increase at this point in the business cycle might affect the economy more than in previous years. A higher fuel levy would be inflationary and would also result in lower collections in other areas.

Sacob said direct taxes were already too high by international standards and SA could not afford a more uncompetitive tax regime, as this encouraged companies to transfer profits offshore.

The Afrikaner Handelsinstituut (AHI) is expected to present Finance Minister Derek Keys with a similar view when the organisation meets him today. The AHI expressed opposition to an increase in the VAT rate last year.

Sacob's calculations show that a deficit of about 5% of GDP is possible without increasing taxes, provided government keeps the increase in spending below 7%.

On the basis of prevailing tax rates, and assuming real GDP growth of 1.5% over the fiscal year, government could raise about R3.5bn in additional tax revenue.

The organisation said the only option that could really work in addressing the deficit problem was to cut state expenditure.
Aggressive Taxation: Mutually Calls for More

By Walid Morfi

CR 01/93
Old Mutual moots hike in tax on lump sum benefits

OLD MUTUAL yesterday called on government to address the tax leakage through lump sum payments, saying it would support an increase in the taxation of lump sum benefits.

The move should form part of an overhaul of the retirement system that did away with tax arbitrage and allayed the industry’s uncertainty over tax increases, Old Mutual GM Garth Griffin said.

Speaking at a seminar on employee benefits, Griffin said it was time government took a standpoint on the relative benefits of lump sums or incomes, and adjust taxation accordingly. He said this was a prerequisite for restructuring the retirement system and doing away with tax arbitrage. He argued that the system should be restructured to “collapse” pension and provident funds together.

In its representation to the Financial Services Board on the issue, Old Mutual said it would support an increase in the taxation of lump sum benefits, either by implementing the Margo commission proposal (the application of the individual’s average rate of tax over the three years before receiving the lump sum) or the application of the present tax tables to the lump sum income.

A move to tax lump sums would reduce the incentive to encash benefits. There appeared to be consensus in the industry that the present basis of taxing lump sum benefits needed revision.

Well-considered action will lead to a greater degree of certainty and allay fears of a much wider emotional attack on the overall system.

However, the disparity between public and private sector taxation of pension benefits would have to be addressed before any wider review could be attempted. The continuation of the “very significant” tax-free benefits available to members of state and other public sector funds created a distortion that mitigated against rational decisions on the taxation of lump sum benefits.

It was also essential that the existing rights of present fund members be defined and protected.

This was a “contentious issue” and defining existing rights would “necessarily be subjective”.

Greta Steyn
Stals takes positive view on inflation

By Neil Behrmann

LONDON — Reserve Bank Governor Dr Chris Stals has allayed fears that anticipated tax increases could halt the recent drop in the inflation rate.

At a World Gold Council conference here on central bank asset management Stals said SA's underlying inflation rate had fallen to seven percent over the past four months.

"Most people compare inflation with twelve months previously, but latest indicators show that it is falling faster than was previously expected," he commented.

Stals said that any VAT increases in the coming budget, would not have an adverse impact on inflationary expectations.

Critics fear that VAT increases will raise inflationary expectations.

Stals contends that in the present recession, VAT increases will be a temporary blip in a downward inflationary trend. Since business conditions are poor, businesses would be mostly unable to maintain higher prices.
Taxman's sweep nets R1bn

PRETORIA — With government's tax income falling far behind Budget estimates, Inland Revenue is sweeping up every cent it can find in unpaid income tax and VAT. In nine months the division has raised in more than R1bn in unpaid income tax and penalties.

In a sustained crackdown, auditors and inspectors have tracked down hundreds of tax dodgers and defaulters owing tens of millions of rands to the Treasury.

During the course of last year an average of 14,000 summonses a month were served on late payers and on those who failed to submit returns, as well as for other tax transgressions.

According to Inland Revenue chief director: operation control Chris Dempers, undisclosed taxable income discovered amounted to a massive R2,186bn in the nine months to end-November last year.

GERALD REILLY

Tax and penalties paid on this amount totalled R1,084bn.
Most offenders were companies.
For the whole of the previous tax year, the tax and penalty figure amounted to R1,393bn.
It was likely that this figure would be exceeded in the current tax year.

Special investigations in the nine months from March to November uncovered unpaid taxes amounting to R211,3m. This, Dempers said, compared with R216m for the whole of the 1991/92 tax year.

Meanwhile, 12% of forms sent to salary earners this year have so far been returned.
In Johannesburg, 14% have not been returned, while in Pretoria 12% have not yet been returned.
The yearly inflation rate in December dropped to 9.6 percent, the first time it has fallen below the 10 percent mark since 1978.

Announcing the good news today, Central Statistical Services (CSS) said the sharp drop was led by a 9 percent decline in vegetable prices in December.

The decline in the inflation rate, which is a measure of increases in consumer prices over 12 months, has fuelled speculation that a further drop in interest and bond rates is imminent.

The senior deputy governor of the Reserve Bank, Dr Jaap Meier, said he was pleasantly surprised at the drop in inflation below 10 percent, which he had only expected in February/March this year.

"We will examine the impact of the latest inflation figure on the bank’s monetary policy at our weekly money market meeting this afternoon," Meier said.

Prospects

He said, however, that other aspects of the economy would have to be taken into account before a decision on interest rates was taken.

These included the balance of payments and, more crucially, the prospects of a higher VAT rate and fuel levies to counter the shortfall in tax revenues. Higher taxes would immediately lead to a technical rise in the inflation figures.

Economists have previously stated that a 13 percent VAT rate and a 15 percent increase in the fuel levy could add up to two percentage points to the annual inflation rate.

The fall in inflation to below 10 percent is seen as a remarkable victory for Reserve Bank Governor Dr Chris Stals who has persisted with a tight monetary policy despite calls to ease interest rates to boost a depressed economy.

As recently as June inflation was running at more than 15 percent.

In November it still measured a relatively high 11 percent.

On a monthly basis — between November and December last year — average consumer prices were unchanged while food prices actually declined by 0.1 percent.

This was in large measure due to an 82 percent fall in the price of vegetables as better rains boosted agricultural production. Compared with December 1991, however, vegetable prices were still 20 percent higher.

Other food products showed slight monthly increases in December, although well below the levels recorded in previous months.

The average inflation rate for 1992 was 12.9 percent compared with 15.3 percent for 1991 and 14.4 percent for 1990.

Average food prices last year rose by 25.1 percent, well up on 1991's 19.8 percent, the CSS said.
Receiver is on warpath

Own Correspondent

PRETORIA. — With the government's tax income falling far behind budget estimates, Inland Revenue is sweeping up every cent it can find in unpaid income tax and VAT.

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In a sustained crackdown, auditors and inspectors have tracked down hundreds of tax dodgers and defaulters owing tens of millions of rands to the treasury.

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According to Inland Revenue's chief director of operation control Mr Chris Dempers, undisclosed taxable income discovered amounted to a massive R2,186bn in the nine months to the end of November last year.

'Tax and penalties paid on this amount totalled R1,524bn. Most offenders were companies.

For the whole of the previous tax year, the tax and penalty figure amounted to R1,203bn.
Workshops to debate life assurers' tax

CAPE TOWN — A bone of contention between the life industry and Inland Revenue in the application of the four-fund approach to the taxation of life assurers is the inclusion of capital appreciation of assets in the calculation of allowable expenses.

The problem is likely to be thrashed out at a series of workshops organised by the Life Office's Association and scheduled to take place in Johannesburg and Cape Town next week.

Sanlam senior GM George Rudmin said the inclusion of capital appreciation of assets in the policyholders' fund in the calculation of allowable expenses was unprecedented in SA's taxation system.

But Inland Revenue legal drafting director Ian Meiklejohn said it was only a new application of the established principle that expenses allowed for tax deduction purposes should be pro-rated across a business's sources of income.

"My personal view is that it has to be taken into account," Meiklejohn said.
Tax hikes linked to government spending

By Sven Lünsche

Government spending in the 1993/4 fiscal year will have to fall by more than three percent in real terms — the guideline set by Finance Minister Derek Keys — if significant tax increases are to be avoided.

Southern Life economist Mike Daly warns in the latest Economic Comment that large increases in interest payments on the national debt will put even more pressure on spending to be curtailed.

"Everything possible should be done to eliminate some of the wastage that occurs in key areas, for example foreign affairs, which includes the independent and self-governing territories, education and defence," Daly says.

Despite Keys's commitment to lower state spending, Daly expects the Government to raise VAT from 10 to 15 percent (with more zero ratings on basic foodstuffs), increase the fuel levy and provide no relief against fiscal drag in the next Budget.

These measures could boost revenue by at least 15 percent in 1993/4, after a projected five percent rise in the current year.

"An expenditure increase of eight percent in nominal terms could then imply a deficit before borrowing of less than six percent of gross domestic product (GDP), which would be a small improvement on this year's expected eight percent," Daly says.

"A second year of a large deficit will be risky and unsettling for the capital market, but provided a coherent plan is put forward for government finances in 1993/4 with the backing of all political groups, the risks may be acceptable," he says.

He adds that a "negotiated and de-ideologised" privatisation programme should be revitalised as soon as possible to finance government fixed investment spending.

Commenting on the impact of deficit reducing measures, Daly says the expected tax increases will weaken the chance to break the range of inflation of 10 to 17 percent this year.

Higher indirect taxes, while having a deflationary effect through reducing consumer spending power, will show up as a technical rise in the consumer price index (CPI).

Without tax hikes the inflation rate could fall to as low as nine percent in the third quarter, says Daly.

He calls on the authorities to further exploit the recent gains on the inflation front by lowering short-term interest rates, which would return the economy to a positive growth rate and thus boost revenue collections.

On current evidence, though, he still expects the Reserve Bank to cut interest rates by at least two percentage points from Bank rate's current level of 14 percent.
Massive tax bill hike hits Bloch

LINDA ENSOR

CAPE TOWN — A massive hike in the tax bill of Bloch Ltd because of its relocation to SA from Ciskei resulted in the 21.6% increase in its pre-tax profit, being converted into a 10% drop in earnings a share in the six months to end-December.

Chairman Bernard Rabinowitz said the increase in taxation had been anticipated at the time of the decision to relocate the business as part of a settlement of a dispute with the Commissioner for Inland Revenue.

Royalties received from the use of Bloch's trademarks by trading companies in the Bloch supermarket group rose 22% to R630 377 (R510 720), earnings a share fell to 2.1c (2.4c) and an interim dividend of 2c (2.2c) was declared.

Rabinowitz said Bloch's licensees reported a fairly buoyant Christmas, which signalled an improvement in the economy.

Royalty income for the full year, he said, was expected to be R1.27m and this would generate profit after tax of about 4.2c per share.
Increase in taxes 'will depress weak economy'

GERALD REILLY

PRETORIA — Tax hikes in the 1992/93 Budget would further depress a weak economy, Northern Transvaal Chamber of Industries president Reuben Rutowitz warned yesterday.

Speaking at the chamber's annual meeting, he also warned against economic manipulation aimed at political advantage.

On the expected huge Budget deficit, he said: "The increasing deficit has been with us for a long time and to try and correct it in one fell swoop would be a grave error. It should be reduced to manageable proportions over a period to avoid placing unnecessary pressure on the economy and pushing the country into depression."

Rutowitz said Finance Minister Derek Kekoe's statement last year that South Africans were not overtaxed was irresponsible.

South Africans had been impoverished over a long period, particularly in the past 10 years. A factor had been uncontrolled government spending.

The increase in personal taxes between 1981 and 1991 had eroded personal incomes at a rate more than twice that caused by inflation.

Referring to recent disclosures of government corruption and financial mismanagement, Rutowitz said if the amount involved was taken into account it could be asked where the SA economy would have stood had the funds had been well managed.

On the year ahead, Rutowitz said the signs of growth were not encouraging. A better agricultural year was a prerequisite for growth.

He emphasised that to generate confidence in overseas investors and attract capital, three issues had to be tackled urgently: a satisfactory agreement on the future constitution had to be reached, violence had to be curtailed and a stable labour force had to be in place.
Working up to retirement tax

T
The lump sums pension and provident fund members are entitled to on retirement will have to be taxed more heavily in future, advocates Old Mutual (OM) general manager Garth Griffin.

With other changes this would put the minds of government at ease over "tax leakage" from retirement funds and be a move towards tax neutrality, the ostensible reason the Jacobs Committee last year proposed partly taxing pension fund and retirement annuity contributions.

But the rights pension fund and retirement annuity (RA) fund members now have to favourable tax treatment of the lump sums they can take out on retirement — and arguably one of the good reasons for their joining these funds in the first place — seems safe.

Griffin believes the entitlement to tax-free lump sums under the present arrangement would have to be preserved. "Otherwise the move won't even get to first base."

At the same time equal treatment should be given to lump sum benefits in the private and the public sector.

Speaking at an employee benefits seminar in Johannesburg, Griffin also suggested a fundamental change in retirement funding by doing away with the differences between provident and pension funds.

The big difference now between the two is the way the money is paid out eventually and its tax treatment. With a provident fund, contributions are taxed, but the lump sum payment on retirement is not. With pensions and RAs, contributions are not taxed and two-thirds of the eventual payout have to be taken as a monthly pension payment, which is taxed.

Griffin believes it is more sensible to allow people to defer the decision on whether to have a lump sum at retirement or an income-stream to their retirement date rather than forcing the issue years before they actually retire.

The suggestion that retirement funds be merged is also part of OM's submission to the Financial Services Board (FSB) last month on reviewing tax policy on retirement funds.

At a stroke the merger would put an end to the pension versus provident fund debate that was part of the 1980s confrontational era of labour relations. It would end the potbellied rush away from pension or "defined benefit" funds to provident or "defined contribution" funds, a trend not only motivated, as is popularly supposed, by labour but also by employers keen to take advantage of tax breaks of provident funds.

But first, the state must decide on its pension policy. Does it favour the payment of a lump sum or annuity benefits — the payment of monthly amounts until the beneficiary's death, as with a pension? Or is it neutral?

Griffin also surmises that mining a new seam of tax to pay for the equalisation of state old age pensions is the real reason behind the Jacobs Committee proposals.

He believes Jacobs had no mandate to raise the issue of taxing pension fund contributions. Moreover, the OM submission to the FSB remarks that countries with successful retirement provisions rely on either tax-incentives or compulsion. Compulsion is ruled out, so tax incentives must be retained.

Nonetheless, perceived tax leakage must be plugged.

The OM document notes: "...the anomalies currently being exploited with regard to lump-sum benefits on retirement need to be addressed. They challenge the integrity of the current structure, which cannot be good for its long-term growth and development."

For instance, that up to a third of the pension payout can be taken out in a lump sum which attracts low tax means a loss to the Receiver of Revenue and a gain to the pensioner.

Griffin says any amount above the actual tax-free amount is now taxed at an average rate based on other income during the year the pension fund (or retirement annuity) member gets the lump sum. There is a lot of scope for reducing that average rate. So he supports the recommendation of the Margo Commission that the average rate of tax in the three years before retirement be used.

Griffin's remarks on the "capping" of deductible contributions or benefits in money terms bring to mind the limitations of a "wealth tax."

He believes capping may be politically wise in that it stops the very wealthy getting benefits they do not need, but it won't raise much money.
'Don’t tax pensions to death'

By CIARAN RYAN

THE SA Chamber of Business has advised the government not to introduce tax on retirement benefits and to phase out discrimination in the tax treatment of public and private sector lump-sum retirement benefits.

It warns that SA is at or close to the point of diminishing returns in revenue collection.

Sacob presented its report to the Financial Services Board after finance-special adviser Japie Jacobs recommended taxing one-third of employee pension contributions and 20% of employer contributions at the company tax rate.

Resistance

Sacob rejected this because employers would be encouraged to change their remuneration packages to a salary-only basis, leaving it up to employees to plan their retirement funding. It expresses concern at the already low level (10%) of retiring people who are financially independent.

Sacob advises phasing out public sector tax exemption on lump sums from pension and provident funds by taxing all lump-sum benefits equally, allowing for a fixed prescribed tax-free amount.

"Any proposal which adversely affects the taxation of retirement benefits will involve moral issues of good faith and sanctity of contract and, under the prevailing private-sector perceptions of significant economic wastage in areas like the homelands and TBVC states, great resistance can be expected," says the report.

The proposed higher taxes on retirement benefits affect the level of personal and corporate savings, "with profound implications for economic growth, interest rates and public and consumer confidence".
Sacob warns on pension fund tax

The SA Chamber of Business (Sacob) said at the weekend it had made its submissions to the Financial Services Board on the proposed major changes to the tax treatment of employer and employee contributions to pension funds, provident funds, and retirement annuity funds.

It said it had advised government not to increase taxes on retirement benefits and to phase out discrimination in the tax treatment of public and private sector lump-sum retirement benefits.

Sacob said any proposal which adversely affected the taxation of retirement benefits would involve moral issues of good faith and, “under the prevailing private sector perceptions of significant economic wastage in areas like the homelands and TBVC states, great resistance can be expected”.

Capital gains tax ‘unlikely’ in Budget

A CAPITAL gains tax was unlikely to be introduced in the next Budget as the administrative expense often did not justify the revenue generated, Coopers Theron du Toit director Jacob van Wyk said at the weekend.

Speaking at the SA Institute of Valuers conference, he said it was most likely government would use the tax as a bargaining point in the negotiations process.

"A future government is likely to introduce such a tax, even if it is not revenue producing, as the majority of the people will perceive it as fair because it constitutes a redistribution of wealth," he said.

A property tax was also likely to be introduced. To be effective, such a tax would have to be levied at between 2% and 3% of the land value.

"If this tax was levied at 4% of all land values in SA it would generate tax of about R1bn," Finance deputy director-general Gerhard Crousse was looking at a land tax and the possibility of taxing farms, he added. However, a problem arose on the basis used for valuing various properties. A set rate would disregard the different qualities of land while a market valuation was not always appropriate, said Van Wyk.

"We can expect a new government to focus short-term expenditure on addressing social inequality and simplifying the tax system. A capital gains tax is likely to be introduced at a relatively low rate with a minimum business tax," Van Wyk said.

It was also likely other wealth taxes such as a capital transfer tax would be retained, and a property tax introduced. There could also be a reduction in personal tax rates on the back of an increase in the tax base."
Sacob responds to new pensions tax proposals

SACOB said on Saturday it had made its submissions to the Financial Services Board on the proposed major changes to the tax treatment of employer and employee contributions to pension funds, provident funds, and retirement annuity funds.

It said far-reaching changes had also been proposed in the tax treatment of lump sum retirement benefits by such funds, or by employers, as well as changes in the taxation of pensions and annuities.

Sacob said it was not clear how the proposals contained in the Margo Report would affect the present treatment of contributions to a provident fund, where employer contributions were deductible but member contributions were not.

Sacob said it also did not support the Jacobs proposals, because “with a disparity in the quantum of deductibility between employer and employee contributions — 80% versus 66.66% — they would encourage manipulation between salary remuneration and employer contributions to retirement funds.

“Restricting an employer’s deduction to only 80% of its contribution contradicts the basic deductibility principle of a bona fide business expense. Employers who are denied the full deduction of their contributions may be tempted to change their remuneration packages to a salary-only basis, thereby pushing the retirement planning function down to employee level.

“This would obviously be a regressive step, especially under existing circumstances where individuals in general are not conscious of the need to provide for retirement. There is concern that this scenario will lead to a reduction in the volume of saving for retirement.

“With estimates showing that only 10% of SA’s population are financially independent on retirement, there appear to be good grounds for concern,” Sacob said.

Although Sacob preferred the status quo to be maintained, it expressed concern regarding the following limitations:

- The present system discriminated between the public and private sectors. Lump sum benefits from government and certain other public sector pension or provident funds were entirely tax free, while tax exemptions were limited in the private sector.
- “The deferral of tax under the EERET scenario — where both employee and employer contributions are tax deductible, funds build up tax free and all benefits are taxed — can be indefinite, whereas with sufficient planning a lump sum of retirement is subjected to an average minimum rate of tax.”

Sacob said it did not support the Margo commission’s proposal that the total amount of lump sum benefits on retirement should be taxed in full, without any deduction being allowed, as it would be contrary to the widely accepted principle that the state must encourage people to provide for their retirement via tax and other incentives. — Sapa.
Relief for companies, but not for Joe Soap

Johannesburg. — Companies could expect a lower nominal tax rate once an interim government was installed, but individuals would not be as lucky, the Momentum Life Quarterly bulletin forecast yesterday.

Predicting possible economic policy over the next three years using a "middle road" scenario, the bulletin said individuals could expect tax rates at least to remain the same between now and 1996.

"The need to reduce the relative size of the deficit, coupled with pressing socio-economic spending priorities, will make a material reduction of personal tax rates very difficult in the 1994 and 1995 budgets," the bulletin said.

Nominal corporate tax rates were expected to be lowered in March 1994 to spur investment.
Govt warned on VAT

By Themba Molefe
Political Reporter

THE Government must find another way of increasing its revenue and not by raising Value Added Tax (VAT) or by a levy on pension contributions.

This is the view in labour and political circles.

Fears are growing that during the 1993 parliamentary session the Government will increase VAT and put a tax on retirement funds.

Indications are that the Congress of South African Trade Unions (Cosatu), National Council of Trade Unions (Nactu) and major political groups will take protest action if the Government were to make such changes.

A report on the national budget and social security commissioned by Nactu and prepared by the Labour Research Service (LRS) notes that the Government intends raising VAT from the present 10 percent to 12 percent or higher.

"VAT is an indirect tax which is a tax on spending, not income.

"This tax therefore does not distinguish between the rich and the poor in the economy but in fact hurts the poor more than it hurts the rich," the LRS says.

It suggests that before raising VAT the Government should reduce its expenditure and not raise taxes during the recession.

The Government should not shift the tax burden to the poor.
Momentum forecasts cut in company tax rate

Companies could expect a lower nominal tax rate once an interim government was installed, but individuals would not be as lucky, the Momentum Life quarterly bulletin forecast yesterday.

Predicting possible economic policy over the next three years using a "middle road" scenario, the bulletin said individuals could expect tax rates at least to remain the same between now and 1995.

"The need to reduce the relative size of the deficit, combined with pressuring socio-economic spending priorities, will make a material reduction of personal tax rates very difficult in the 1994 and 1995 Budgets," the bulletin said.

In addition, the introduction of some form of redistributive taxes such as capital gains or capital transfer taxes was likely in the same period.

Nominal corporate tax rates, however, were expected to be lowered in March 1994 to spur investment.

The bulletin said one way to cut the deficit — this was forecast to be around R23.3bn at the end of the 1993/1994 Budget year — was through an arrangement with the IMF.

"The interim government should be able to negotiate a standby facility with the IMF in late 1993," it said. As part of any arrangement, a new government would undertake to reduce its budget deficit over the following fiscal years.

The bulletin also forecast a new government would probably maintain the independent status of the Reserve Bank.

"This will ensure positive real short-term interest rates, and prevent structural inflationary pressures in the SA economy from pushing the inflation rate beyond 10% at any stage during the forecasting period," it said.

The review added that another debt agreement between SA and its creditor banks was probable in 1993, which should allow debt service to be repaid at the same pace as at present.

On the subject of economic growth, the bulletin forecast the economy would recover weakly in late 1993, and grow in 1994 and 1995 — if only at a subdued pace.
Goodall says govt can now save taxpayers millions.

PRETORIA — Government's intention to phase out own affairs administrations and abolish the President's Council has the potential to save taxpayers tens of millions of rand a year, says DP finance spokesman Brian Goodall.

He stressed this would happen only if staff involved in duplicated and overlapping functions were not squeezed into other overstuffed state departments.

Some could be shifted to provincial administrations to staff the expanded provincial executive committees. And, there were some functions which would have to continue even after the demise of own affairs, he said.

But there was still vast scope, Goodall said, for big administrative cost savings if government was serious about rationalisation and 'went the whole way'.

With the disappearance of own affairs, the need for the four Indian Ministers and a deputy Minister and the five coloured Ministers, a deputy Minister and four Ministerial representatives, would fall away.

Each Minister had a personal staff of between six and 10, including private secretaries, assistant secretaries, an administrative secretary and a liaison officer.

Coloured and Indian Ministers got the same pay deals as white Ministers. This consisted of a basic R125,000 a year, with a non-taxable, reimbursive allowance of R42,048. Deputy Ministers got R112,889 and a reimbursive allowance of R33,775.

Goodall said the six Ministerial representatives in the House of Assembly would also go. Each had a basic staff of a private secretary and a secretary.

The President's Council had 60 members who were paid a basic R78,000 a year.
AHII warns Keys on tax increases

AN AFRIKAANSJE Handelsinstuut (AHII) delegation which met Finance Minister Derek Keyes last week has warned that tax increases in the coming Budget could seriously damage inflation and growth prospects for the year.

It added that tax increases could possibly plunge the economy into its fourth year of declining GDP.

The delegation called for a freeze on the government's wage and salary bill to remove the need for sharp increases in tax.

In a statement released yesterday, AHII president George Buisman said the organisation had "urgently requested government and the civil service to reconsider the prospect of a general 5% salary increase and thus to obviate any substantial tax increases".

The country's economic and fiscal situation rendered any rise in the public sector's wage bill and the private sector's tax bill, unaffordable.

AHII economist Nick Barnardt, who was a member of the delegation, said the fiscal crisis was threatening to destabilise the economy.

Barnardt said the delegation had recommended a medium-term deficit reduction programme to reduce it to 8% of GDP in the next year.
Tax 'freeze' one of Cosatu's Budget aims

COSATU would be willing to help Finance Minister Derek Keys confront his budgetary constraints if his Budget allocated resources directly to finance economic reconstruction, and if government immediately stopped all expenditure on apartheid-related departments.

Cosatu general secretary Jay Naidoo said yesterday the federation wanted a "Budget freeze" with direct and indirect taxation being maintained at the same level as this tax year.

The National Council of Trade Unions is also opposed to any increase in taxes on individuals.

Cosatu wanted all bureaucratic perks and deals purged, Naidoo said. "All civil servants, including the President, should pay tax and the practice of golden handshakes and housing and travel privileges for the state elite should be abolished."

Government corruption would be stopped only by firm financial controls. Cosatu wanted the income and expenditure sides of the Budget brought under one government department, and each government department audited to identify areas of wastage and corruption.

Cosatu and others were discussing the need for an independent tax commission to rationalise government income and expenditure and make it more efficient.

While Naidoo conceded that the deficit could not be ignored, he said priorities should be identified and addressed over time.

Cosatu believed these priorities to be the housing, education, health, job and training needs of ordinary people.

The active involvement of multilateral agencies - such as the Development Bank of SA - would assist in delivering resources to people who needed them.

The restructuring of the public service was also high on Cosatu's agenda.
Zero-ratings 'will not be extended'

Govt likely to increase VAT to 12%

FINANCE Minister Derek Keys is expected to announce a 12% VAT rate when he presents his Budget next month.

Reliable sources close to government said yesterday fears that VAT would be increased from 10% to 13% — with some predictions as high as 15% — were unfounded.

While VAT would come in below the expected rate, hopes that a broader range of basic goods would be zero-rated would not be met. The sources said certain farming inputs, brown bread and maize meal were the only basic products that would be zero-rated.

An economist said an increase in indirect tax meant poorer people would be spending a greater proportion of their income. If government would not compensate through more zero-rating, it would have to keep the rate increase low.

Fuel, which is subject to a levy, would also be zero-rated. But government was expected to announce a substantial hike in the levy in order to keep the VAT rate as low as 13%.

In last year's Budget, levies on petrol were increased by 8c/l and on diesel by 6c/l. Economists said a significant rise in the levy would be in line with the policy of raising a greater proportion of revenue through indirect taxes. The petrol levy was expected to increase by about 16c/l.

The increase in VAT and in the fuel levy would increase inflationary pressure, but would help government meet its revenue requirements. There has been a big short-fall this year, and economists have warned the deficit for 1992/93 could be as high as 7.5%-8% of GDP.

Government had initially wanted to introduce VAT at 13%, but pressure from organised labour later led it to settle on a rate of 10%.

But government will not meet its R9.2bn target for VAT revenues for the full fiscal year. Central Statistical Service figures show that income from VAT is running at almost 10% below the previous year's revenue from GST. A VAT rate of 12.5%-13% would have been necessary to achieve the budgeted revenue target.

Economists said earlier that apart from VAT and the petrol levy, revenue-generating rate increases would also be spread across customs and excise duties.

The sources said that exported goods and the sale of a business would be zero-rated. Passenger transport services and services in another country would also be zero-rated.

Selected financial services, accommodation rent, supplies by businesses not for gain and educational services would be exempt from VAT.
Cosatu: Freeze taxes on individuals

Own Correspondent

DURBAN. — Cosatu has challenged the government to freeze tax increases on individuals in the forthcoming budget to ease the financial hardships being endured by millions of citizens.

In an interview here yesterday Cosatu secretary-general Mr Jay Naidoo said the country’s economy needed urgent restructuring if peace, justice and political stability were to be attained.

He said more than 150 000 mineworkers had lost their jobs in the past six months and Cosatu’s projections were that about 250 000 further mining jobs would be lost by the year 2000.

Mr Naidoo challenged the government to find more effective ways of collecting company taxes and to stop all existing “leaks” in the tax system.

He said future peace and stability depended on a massive economic restructuring programme geared to job creation.

Mr Naidoo said Cosatu has formulated a comprehensive economic restructuring programme to be presented to the government and business representatives at the National Economic Forum.

He said Cosatu’s proposals addressed short- and long-term needs, including job creation, housing and trade tariff policies.
Contractors to protest at Receiver's offices

PROFESSIONAL and technical contractors with close corporations could form a regulatory board similar to the Estate Agents Board to resolve problems in the industry, says Association of Professional and Technical Contractors (APTC) spokesman David Heath.

The move is aimed at quelling the Receiver of Revenue's concerns about collecting tax from the industry. The board would ensure that all contractors who would be willing to become members of the board, paid their taxes.

APTC members are up in arms about the Receiver of Revenue's decision to tax contractors at the company tax rate at the point of payment. This means close corporations have to pay 49% a month, as opposed to the existing annual payment at the same rate.

Members will voice their anger at a protest meeting in front of the Receiver of Revenue's office tomorrow and will hand over a letter rejecting the tax amendment due to be implemented on March 1.

About 600 contractors decided to go ahead with the protest at a meeting in Johannesburg last week.

Heath said the association was offering an alternative to the Receiver. Contractors would pay a monthly tax but at the lower rate of 16%. The board would streamline the tax payments and take the burden of tax collection off the Receiver.

Heath said government was trying to tap an easy source of revenue but it would be detrimental to the survival of the industry. Contractors were a floating pool of labour that big industry could rely on when needed. Big industry usually would not employ these contractors on a permanent basis because of difficult economic times, when work fluctuated.

The association had tried to set up a meeting with the commissioner and deputy commissioner of Inland Revenue to discuss the issue but had been turned down.
Sliding towards a banana republic

Weekly Mail Reporter (320)

As the government's budget deficit threatens to reach crisis proportions, Finance Minister Derek Keys may find he has little room for manoeuvre when he draws up the 1993/94 Budget to be presented next month.

Increases in the Value-Added Tax (VAT) rate, the fuel levy and excise duties appear certain, following President PW de Klerk's comment to public servants last month that there would have to be tax increases in the Budget.

Tax increases could bring Keys into direct conflict with the African National Congress and organised labour, despite the support he has expressed recently for wider public participation in economic decision-making.

The Budget is on the agenda of the National Economic Forum. The ANC has called for more efficient tax-collection methods and has mentioned new taxes — for example, on capital gains, wealth and property. The Congress of South African Trade Unions this week called for a “freeze” on tax rates, and for cuts in government “apartheid” expenditure and restructuring of the civil service.

Keys may not have many options in the short term. The government's deficit has spiralled as the recession has continued and revenue from VAT has lagged way behind expectation. Nedbank chief economist Edward Osborn says VAT collections have been running at up to R500 million a month lower than Budget projections.

The gap between the government's income and expenditure, estimated in the 1992/93 Budget at R15.9-billion, or 4.5 percent of GDP, is likely to turn out close to double that.

Most economists expect a figure of around R28-billion, or 8.4 percent of GDP. And this could rise to R30-billion, depending on how the government writes off agricultural debt, says Osborn.

Next month's Budget will be starting from the large deficit already run up, and the deficit will grow exponentially unless action is taken to ensure expenditure grows more slowly than revenue. A widening deficit feeds upon itself since the interest paid on the government's ever-rising debt then contributes to increased government expenditure. Interest costs are already running at more than 16 percent of expenditure.

It's an explosive situation, warns Osborn, and a “banana republic” situation could develop rapidly unless the gap is closed. If a new government inherits the unsatisfactory accounts of the present one, it might find the "Kinshasa option" — printing "funny money" to pay civil servants — the only way to extract itself from its budgetary problems.

The latest Amalgamated Banks of South Africa (Absa) Quarterly Economic Monitor outlines two options for the government: to reduce the deficit by curbing government expenditure and increasing taxes, thereby constraining growth; or to curb expenditure without increasing taxes, so that the deficit would remain high but the growth rate could improve marginally.

The African Union Handelsinstituut (AHI) this week adopted the second Absa alternative, calling on the government not to increase civil servants' pay at all and not to increase taxes sharply, on the grounds that this could exacerbate inflation and prevent growth.

Osborn argues for expenditure cuts, but also sees tax increases as inevitable. The government must do as much as possible on the expenditure side, he says, through such measures as reconstructing ministries. The recent announcement that civil service salaries would rise by only five percent means a big saving in real terms, even though with salary notches the effective increase will be closer to 10 percent, he says.

The government must also re-examine its transfers to the "self-governing" homelands and "independent" TBVC states, over which it must tighten fiscal control.

Osborn adds that a revision of the treaty governing the South African Customs Union (SACU) is essential. The SACU formula works against South Africa, which is making large payouts to Botswana, Lesotho, Swaziland and Namibia, as well as the TBVC states.

One source of increased revenue for the government will be fiscal drag — where individuals who get pay increases to compensate for inflation enter higher tax brackets and find themselves paying a higher proportion of their income in tax.

Lower inflation means that fiscal drag will make less of a contribution, but the AHI has estimated that it will net the government an extra R3-billion in the 1993/94 fiscal year. The AHI expects that a one percent increase in the VAT rate would increase government revenue by a further R4-billion.

Osborn expects VAT to rise to 12 percent or 13 percent. It is unlikely to be raised to 15 percent, as some have predicted, because "this would knock out what wind there is left in the economy", he says.
Call for tax concessions on education funding

SOUTHERN Life has called on government to change its outlook on tax concessions for education funding to offset the sharp rise in the cost of private and state education in SA.

Southern Life assistant GM, legal and tax services, Martin Sweet said: "As parents, communities and businesses are being asked to make greater contributions to education, incentives to encourage private education expenditure should be extended, not reduced."

Amendments to the Income Tax Act over the past two years – such as on bursaries – had removed some incentives for contributions to education. This made it difficult for money to be channelled to education, Sweet said.

"In 1991, the Income Tax Act was amended to remove the exempt status of amounts paid to employees and their relatives as bursaries and scholarships."

Effectively any education benefit paid to an employee became taxable, reducing its value up to 43%. But, after an outcry from the public and other pressure groups, government reintroduced the exemption – on a far more limited scale.

The problem was that the present state of exemptions did not go far enough. "As it stands an employee can get almost unlimited tax-free bursary assistance from an employer. But, the employee’s children and other close relatives get only limited tax-free assistance – equivalent to a maximum R1 200 a year."

And that was only when the employee earned less than R36 000 a year.

Sweet said when compared to current school and university fees, both the tax-free limits government had set and the category of staff that qualified for tax-free educational assistance were ludicrous.

Sweet said public education facilities were likely to be stretched to the limit as schools came under pressure to make up the skills backlog created by black education. KATHRYN STRACHAN reports.

He said the Independent Schools Council of SA had forecast that fees would have doubled at many private and state-assisted schools by the middle of the decade, once inflation and the new education system had an effect on running costs.

"At St John’s College in Johannesburg, annual tuition fees for day scholars could jump from the current R7 000 to over R14 000," he said, "And at Michaelhouse in Natal, boarder fees could rocket from the current R19 000 to a stunning R38 000 a year by the time a new boy reaches matric five years from now."
Delayed tax eases cash expenditure

CHRIS HEMUS

THE taxation expense on most companies' income statements does not represent actual tax payable for the year.

Often a deferred taxation charge or credit is included in the taxation expense. Tampering with deferred taxation, as a result of timing differences, is a tempting technique for the creative accountant.

Timing differences arise when items of income and expenditure occur in different periods in financial statements and tax computation. The most common timing difference relates to depreciation.

Taxation legislation allows the Receiver of Revenue to grant wear and tear allowances on capital assets.

Wear and tear is calculated at different rates according to the type of asset being used by a company. These rates may differ significantly from depreciation rates used by companies; and this gives rise to a timing difference between accounting income and taxable income.

Where future capital expenditure is expected to be incurred, the anticipated tax liability does not become payable, or crystallise, because new timing differences replace the previous timing differences.

The deferred taxation balance, therefore, increases continually when capital expenditure levels are maintained.

Generally Accepted Accounting Practice (AC 102) allows that deferred taxation need be provided only on timing differences to the extent that a liability is expected to crystallise within three years. This is assessed by estimating future capital expenditure levels — essentially a judgmental issue.

The creative accountant thrives on judgmental issues. AC 102 requires the future estimates of timing differences to be based on reasonable assumptions and budgets.

It is a simple matter to massage and direct these estimates towards producing the desired result. Certain versions, characterised as "more realistic" or more prudent could be argued in support of whatever deferred tax charge was required in a particular year.

The deferred tax charge affects current earnings and earnings a share — a key ratio for the creative accountant.

In addition, the deferred tax charge has no cashflow impact as the tax is paid only in future years. Deferred taxation, therefore, can provide an ideal vehicle for income smoothing as profits may be stored in good years and released in leaner years.

CHRIS HEMUS is a senior lecturer at the University of Cape Town.
How to ease the looming tax hikes

FINANCIAL pressure on government, largely due to the growing budget deficit which is likely to be between R25-billion to R30-billion this year, is expected to result in increased taxes, both direct and indirect, for fiscal 1993/94, financial planners say.

Indirect tax increases would probably involve a hike in fuel prices and the VAT rate, while direct personal taxes are expected to be raised through "bracket creep".

Old Mutual senior legal analyst Peter Stephan says the easiest and least visible means of increasing personal income tax is to leave the tax tables as they are and let bracket creep do the test.

Inflationary adjustments in salaries over the past year will, in many cases, have pushed taxpayers into higher tax brackets resulting in government collecting additional revenue while the public becomes poorer: "Ideally the tax tables should be adjusted each year by the inflation rate."

However, by leaving the tables as they are, government can get in a larger amount of additional tax in a less visible way.

Stephan notes that middle income earners — taxpayers earning between R49 000 to R80 000 a year — are hit hardest by bracket creep. Roughly 70% of all income tax is paid by these individuals.

The result of taxpayers being caught between continued high levels of taxation and inflation is that they are getting poorer each year. They are able to save less of their disposable income — some 16% up to 1000 which has since fallen to about 15.5%.

In these circumstances, Stephan emphasises the need for taxpayers to properly prepare their affairs and ensure that they are not paying more tax than they have to.

He adds that a reputable tax or financial adviser should be consulted to confirm that all exemptions and deductions allowed within the law have been utilised.

"Tax laws are complicated and continually change, making regular meetings with your tax consultant advisable."

He suggests, however, that taxpayers should consider the following points when completing their tax returns:

- Make sure you do not include any capital gains as income, as taxpayers lump everything together as income.

- Make sure you claim all exemptions to which you are entitled — most forms of dividend income are not taxable while the first R2 000 of a taxpayer’s investment income from interest is also exempt from tax.

- If you receive any allowance or maintenance from your ex-spouse, effective after March 1 1992, these payments are tax-free.

- Lump-sum gratuities paid by an employer on termination of services may be exempt up to R50 950 in certain instances.

- Make sure you claim all deductions, such as contributions to a pension fund and retirement annuities (within a certain maximum), certain medical expenses and education donations and costs of study, which are business related.

- Self-employed individuals can also claim numerous operating costs — rent, salaries, insurance, travelling and entertainment expenses to name a few.

Stephan says there are various options through which employers can provide a more tax-efficient benefit for employees. Car schemes, travel allowances, non-contributory provident funds and medical schemes should be fully investigated, he adds.

A number of companies also offer deferred compensation plans to their employees, although normally in the upper ranks, which essentially allows the employer to pay a certain amount into a fund in lieu of salary increases.

This amount can then be paid to the employee tax-free, within a certain limit, on retirement of service.

The other obvious way to reduce tax would be to increase deductions, such as contributions to retirement schemes, to the maximum permissible.

ONCE again, inevitably, another tax year draws to a close. With the flurry of Christmas and the annual summer holidays a thing of the past, it is time for all South Africans to reflect on their personal financial affairs. SEAN VAN ZYL surveys issues that each and every one of us should consider annually.

THE EFFECTS OF BRACKET CREEP

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STANDARD OF LIVING 1988


ASSUMPTIONS: Married person, two dependant children, taxable income in 1988: R46000, increase in income 19% per annum (in line with inflation).

The above decrease in disposable income is purely due to fiscal drag.

SOURCE: OLD MUTUAL

Liberty Life assistant GM, consultancy services, Gavin Came believes that retirement annuities are largely overlooked in financial planning: "RA's accounted for only 13% of the life industry's business in 1992 — in 1980, out of the 20 million people in SA, only 7-million were members of any kind of retirement fund."

Taking the tax incentives into account, Came says RAs are the ideal vehicle for long-term savings. An individual can currently deduct up to 15% of non-pensionable taxable income or R50 000 less pension fund contributions a year (subject to a maximum of R1 750) for additional retirement funding. Married women can now also claim certain retirement deductions in addition to her husband's own deductions.

Furthermore, Came adds that an employee could ask his employer to include his RA deductions when calculating his monthly income tax: "There is an immediate cash flow advantage for an employee who asks his employer to take into account his contributions to RA funds."

Normally RA deductions would be claimed back from the Receiver at the end of the tax year, thus the taxpayer suffers the loss of his money for up to 12 months, depending on when the RA was initiated.

Southern Life senior legal adviser, Leon Jordan, feels that timing is extremely important: "It is to the member's advantage if he can time his retirement from the RA fund to fall into a tax year in which his taxable income from ordinary sources is likely to be lower than other years."

He notes that investments to an RA can be made in either a lump sum or on a monthly basis. In this sense, a taxpayer would have to ensure that the beginning of the new tax year to utilise his full maximum deduction to a RA.

Although taxpayers should utilise the tax benefits available, caution should be exercised: "These structures must be examined to ensure that they do not impact badly against the investor's personal objectives."
defunct rulers

TAXPAYERS will have to fork out an estimated R850-million in golden handshakes and pensions when the tricameral system is abandoned to make way for a non-racial government.

This figure has been calculated by Democratic Party pensions expert Brian Goodall using the formula employed by actuaries in the private sector.

Only days after the start of the present session of Parliament, the former Minister of Defence, General Magnus Malan, announced his retirement.

By his own admission, he is one of the first casualties of the government's plans to dump the Own Affairs Ministers' Councils.

In his new civilian life Mr Malan will have no need of a job. He will retire a wealthy man with a handsome gratuity and two bulging pension packages.

He will receive a tax-free gratuity of R600,000 plus a parliamentary pension of R200,000 a year paid out of the State Revenue Fund. In addition he will get an army pension (details of which could not be obtained) but which is entirely separate and will be paid out of the Defence Pension Fund.

His take-home pay as a retired SADF general and ex-cabinet minister will be no less than R16,000 a month.

At the same time, in the House of Delegates the chairman of the Ministers' Council, Dr JN Reddy, has lost his position after a successful motion by the NP faction in the House calling on President de Klerk to reconstitute the Ministers' Council "on the basis of power-sharing".

This means that Mr Reddy, four of his ministers and a deputy minister lose their positions of power — but they, too, need have no financial concern as they will be taken care of by the Parliamentary Pension Fund.

Mr Reddy, for example, should he decide to follow the example of Mr Malan and retire from Parliament, will also receive a pension of R200,000 and a gratuity of R400,000. Although he has been in Parliament only since 1984, his service in the South African Indian Council is also recognised.

In his opening address to Parliament, President de Klerk announced that the all-appointed 60-member President's Council had served its purpose and would be phased out.

These men and women, many of whom have never fought an election, are expected to be granted bonus pensionable service years so as not to prejudice them financially because of the PC's early demise this year, Mr Goodall said.

The tricameral Parliament is now in its ninth year, which means that those politicians who joined the Parliamentary Pension Fund at its inception all qualify for pensions.

Mr Goodall pointed out that:

- An MP with seven-and-a-half years' service will get a pension of R189,000 a year and a gratuity of R115,000. This is the minimum period of service an MP must have to qualify for pension. The average salary of an MP is about R110,000.

- If an MP has 15 years' service his pension would be equal to his salary and he would, in addition, receive a gratuity which would be twice his salary — ie, R235,000.

- If an MP is a "holder of office" — viz. a minister, a deputy minister, a whip, leader of the opposition, he or she does not need any qualifying period, even if the MP has had only six months' service — the reason why there is such feverish jockeying for these lucrative positions when the administration in a House is about to be reshuffled.

- A "holder of office" — like a minister with, say, five years' service — would receive approximately R50,000 a month for life plus a tax-free gratuity of R157,000.

Mr Goodall has worked out that if a person in the private sector were to receive the same amount in the form of a gratuity, that private citizen would have had to fork out R97,000 to the taxman.

BY NORMAN WEST
Political Reporter
Anger at new close corporation tax law

THE 500 demonstrators outside the Johannesburg Receiver of Revenue's office were in militiam mood.

This was no ordinary mob of political hotheads. There was no toyi-toyi

ang. However, the angry group did throw fruits into the air and

whoop and clap as passing cars hoot
ed in solidarity.

A closer look revealed the gathering consisted of some rather well-

dressed professional people, standing in orderly ranks along Hissik Street,

brandishing placards with eloquent and witty messages.

"Contractors work harder and do

their best and pay their taxes on re-

quest, but Derek Keys does as he

pleases and thinks he can further

squeeze us," read one.

The demonstrators — all members of the Association of Professional and

Technical Contractors — were em-

barking on mass action to try and

force Finance Minister Derek Keys
to rescind a law compelling contrac-
tors with their own close corpora-
tions to pay 48% PAYE at source.

Association chairman Mark

Hampson said Keys had "sneaked in"

the new law" in December when ev-

everyone was on holiday. Efforts by the

association to meet officials of the

Finance Department and the Johan-

nesburg Receiver of Revenue since

then had been fruitless, he said.

If the demonstration did not bring

a response, the association was going
to take Keys to the Supreme Court on

the issue, Hampson said.

The association said the new tax

directive could lead to the collapse of

the 5 000 professionals operating on a

contract basis in the engineering in-
dustry. Hampson said it also had im-

plications for others — like freelance

journalists, computer operators and

contractors — who operated their

own close corporations.
Increase in taxes is a 'death blow'

By Mzimulu Malunga

AN INCREASE in taxes at this stage could be the death blow to the economy, says South African Chamber of Business economic policy director Dr Ben van Rensburg.

Although business is aware of the constraints Finance Minister Derek Keys is operating within, it still feels increases will extend the recession.

R30 billion State deficit forecast for 1992-93:

In view of the huge Government deficit, forecast at around R30 billion in the 1992-93 tax year, the Government has indicated it plans to increase taxes to reduce the debt.

"The Government needs to look carefully at its expenditure, particularly in respect of its efficiency, before raising taxes," Van Rensburg said.

"Given the state of the economy, the forthcoming Budget on March 17 will be crucial to determine whether the recovery is delayed or not.

"The only scope for an increase in taxes could be indirect taxation, such as duties on fuel, alcohol and VAT."
New tax to swell Govt coffers
HOUSE OF ASSEMBLY

Members present: 26 Members

Mr. H. G. O'BRIEN—Speaker

Ministers present:

Mr. C. B. McLEOD—Minister of Education
Mr. J. R. SMITH—Minister of Finance
Mr. W. M. MCLEOD—Minister of Agriculture
Mr. W. G. DUNN—Minister of Public Works
Mr. J. R. MAY—Minister of Justice

House of Assembly—Proceedings

WEDNESDAY, 10 FEBRUARY 1998

Motion: That the tables be read as ordered by the Speaker on Tuesday, 9 February 1998.

RESIDUAL PROCEEDINGS

Motion: That the House do now adjourn.
Demand stimulated by VAT speculation

RESIDENTIAL estate agents are divided on whether there is a "beat VAT" rush into the property market ahead of the expected increase in the rate to 12% or 15%.

If present legislation remains unchanged, any increase in VAT would not affect the existing home market, as VAT is not applicable to home resales between private individuals.

"The effect of the increase will be on newly built homes sold by a contractor or developer and would arise as labour costs, overheads, finance and the builder's profit now attract VAT as do related services such as agents' commissions," said NIS Devo Transvaal regional director Tom van der Merwe.

The company had detected more demand and greater interest in the market for its products and many hesitant buyers had been prompted into firm action.

It was calculated that VAT at 10% added up to 3% of the cost of a medium priced house and up to 5% for a lower priced house when it was originally introduced, he said.

"A R100 000 house would have gone up in price by about R3 000. Now, if VAT rises another 5%, the expected effect would be to push the price of the same R100 000 house by another 1.5%," Van der Merwe said.

However, Pam Golding Properties Transvaal director Ronald Ennik did not expect the expected hike to have any effect on the property market, which was reflecting a more bullish undertone.

"We did not see a pre-VAT surge in the residential market when it was originally introduced and I do not expect to see one now. The taxi war last week has had a slightly dampening effect on the market, but the Bank rate cut is helping buoy the market," he says.

Camdons MD Scott McIntyre expected a "rush of buyers" but said as yet there had been no visible signs of it.

While the group continued to field a number of inquiries, there had been no real increase in the tempo of sales. The political situation and the taxi war resulted in less prospective buyers visiting show homes on Sunday, but this was expected to be only a short-term trend.

"There is no question that there will be a rush of buyers, but this will probably only start at the end of the month. While some of this is related to VAT, there is a mild upturn in the residential market and some buyers have been waiting for a drop in the bond rate," he said.

Scots Residential Properties MD Bernard O'Rian said any increase in VAT would have little effect on the market as it coincided with the upswing in the market.

"There is renewed interest in new developments at the right price and these are selling at an unprecedented rate. We offered 50 townhouse units in Observatory at the weekend ranging from R25 000 to R219 000 and all were sold by lunch time," he said.

About 20% of the buyers were investors who put a small deposit down and either rented the property out or resold it at a profit prior to completion, while 50% were first-time buyers, he said.
NEWS IN BRIEF

No decision on VAT

GOVERNMENT still has not made any decision about the scrapping of VAT on basic foodstuffs, Deputy Finance Minister Theo Alant said in Parliament yesterday. The issue was one of the causes of last year's nationwide tax boycott. Mr. Alant refused to elaborate on what plans his department had to assist the poor.
GOVERNMENT is expected to raise top income earners' marginal tax rate from 43% to 44% in next month's Budget as part of an overhaul of the personal income tax system.

However, the level of income at which the top marginal tax rate is paid is expected to be shifted upwards from the present level of R39 000. Relief from fiscal drag is likely to be given to low and middle income earners. It is also likely that government will further simplify the tax structure with fewer and wider income bands.

Finance deputy director-general Ratian Calitz declined to confirm or deny speculation, but said the next Budget would, as in previous years, address the issue of fiscal drag and personal income taxes. He said:

"In deciding how to deal with personal income taxes, there are two factors that have to be taken into account: firstly, macroeconomic conditions and the state's need for revenue, and secondly, the principle of progressive taxation. In terms of the principle, those who have the ability to pay should pay the most tax.

Calitz said simplification of tax bands should not be done in a way that lessened the progressive nature of the tax. If tax bands were simplified without moving the top income tax bracket up, the system would become less progressive.

Economists said yesterday an increase in top income earners' taxes was to be expected to finance tax relief for low income earners. Senekal, Monton & Kishoff economist Louis Geldenhuys said: "Direct taxes like VAT hit low income earners the hardest, and it would make sense to balance an increase in VAT with income tax relief. But given the state's revenue problems, it will probably have to raise the top marginal tax rate if it wants to do something about fiscal drag at the bottom end of the scale."

Rand Merchant Bank economist Rudolf Gouws said raising the tax rate would be a disincentive. "Tax relief for lower income earners to alleviate the effects of a higher VAT rate would be a sound move, but it would be unfortunate if it was accompanied by a rise in the top marginal income tax rate."
The rich may be taxed more

Own Correspondent

Johannesburg. — The government is expected to raise top income earners' marginal tax rate from 43% to 44% in next month's Budget as part of an overhaul of the personal income tax system.

However, the level of income at which the top marginal tax rate is paid is expected to be raised from the present R80 000. Relief from fiscal drag is likely to be given to low- and middle-income earners. It is also likely that the government will simplify the tax structure with fewer and wider income bands.

Finance deputy director-general Mr Estian Calitz declined to confirm speculation, but said the Budget would address fiscal drag and personal taxes.

Economists said yesterday an increase in top income earners' taxes was to be expected, to finance tax relief for low-income earners.

Rand Merchant Bank economist Mr Rudolf Gouws said higher taxes would be a disincentive.

Govt undecided on food tax — Page 3
Gov't undecided on food tax
Lightening the load

SA's growing acceptance in the world financial community has led to the initiating of two double-tax treaties, with Taiwan and Poland.

Ernst & Young international tax partner Ray Eskinazi says double-tax treaties aim to encourage trade and investment by relieving importers, exporters and investors of onerous tax obligations thrown up when two nations each levy tax on the same income.

He says little is known about the Taiwanese treaty, initiated in December, because the text is not yet available. But he believes it contains these points:

☐ The withholding tax on dividends (non-resident shareholders' tax) will not exceed 5% if the shareholder is a company that owns 10% or more of the capital of the company paying the dividend. Otherwise, the withholding tax is 15%; and
☐ Withholding taxes on royalties and all other income are cut to 10%.

The Polish treaty, initiated in October, provides that:

☐ The withholding tax on dividends (15% in the case of SA) is reduced to 5% of the gross dividend, provided the recipient holds at least 25% of the capital of the paying company.

In all other cases, the tax is 15%;

☐ The withholding tax on interest (SA does not tax interest paid to non-residents) is reduced to 10%;

☐ The tax on royalties (now 14.4% in SA) is reduced to 10% of the gross amount; and

☐ To eliminate the possibility of double tax, SA will give a credit for Polish taxes paid and Poland will grant "exemption with progression" for income earned in SA.

This means that though the income will not be taxed in Poland, it may be taken into account in determining the rate at which Poland will tax other income.

Both treaties must still be ratified.
SA's little-known tax advantages

David Lermer is senior international tax consultant at Coopers Thorne de Toln. Before relocating to SA a year ago, he worked in the London office of Coopers & Lybrand, where he specialised in UK and international tax.

Few overseas investors realise that SA taxes neither residents nor nonresidents on income earned outside SA, unlike many developed countries that tax residents on their worldwide income. In addition, dividends are exempt from normal taxation and there is no tax on capital gains.

SA's tax system has the basic characteristics to attract foreign investment in the form of international holding companies. Other countries have had to create these characteristics with special privileges and tax exemptions.

Attracting the holding companies of multinational groups is big business, and the Netherlands, Luxembourg, Belgium and Gibraltar are leaders in this field. SA, with its large domestic market, is often referred to as the powerhouse of Africa and it can become an investment stepping stone to the rest of Africa. With proper structuring, offshore income can often generate little or no global tax and result in real cash savings for the foreign investor in SA.

But there are several obstacles to overcome:

- Foreign perceptions of SA must improve;
- Capital gains tax and tax on dividends should be avoided or, if introduced, a special tax regime should be created similar to the relief available to holding companies in the Netherlands, Luxembourg, Belgium and Gibraltar;
- Tax incentives for expatriate executives should be introduced. This suggestion is not made without a little regret, since another positive aspect of our tax system is that, in general, it does not distinguish between residents and nonresidents. But the economic reality is that the country lacks the executives and managers needed to lead and sustain growth during the Nineties.

Belgium, the Netherlands and Gibraltar have lowered taxes on relocated executives and people who have management or special skills. If developed countries see a need to attract skilled labour and foreign investment by providing a favourable tax regime for foreign executives and management, so should SA, especially during its transition.

The high level of personal tax is a disincentive to foreign businesses wishing to relocate key staff here since, invariably, a salary equalisation calculation is required. This means that the employer incurs the extra cost of guaranteeing a similar take-home pay to what the employee had overseas. This additional cost can render a project commercially unattractive; and
- SA needs to negotiate more tax treaties with other countries. The Netherlands has about 50 treaties compared with SA's 19 — including treaties with the TBVC states (see preceding report).

From the perspective of a holding company, the lack of treaties means dividends withholding tax, on repatriation of profits from the holding company, can be high.

In SA, Non-Resident Shareholders' Tax is 15%, but this is not seen as a big obstacle. While more tax treaties are being negotiated, an overseas investor often can structure his affairs to use SA's treaty network and reduce the rate of Non-Resident Shareholders' Tax to 5% and possibly lower.

An alternative route would be to follow Gibraltar's lead — it has no tax treaties. It applies no withholding tax on dividends to EC parent companies and a 1% withholding tax on dividends to non-EC parent companies.

During treaty negotiations, which can take years to complete, an interim measure could be introduced reducing Non-Resident Shareholders' Tax on dividends to parent companies to 5% or lower.

While SA's tax code can serve to attract investors, exchange controls certainly discourage investment. Foreign investors need to believe that their investment is secure and that should they wish to divest, they would be allowed to repatriate funds (including capital amounts) to their home country. In general, our exchange control system already allows this and it is foreign perceptions that need to be changed.

In Ireland, exchange-control authorities give undertakings on repatriation before an overseas investor commits any amount. It is understood that as part of the negotiation for the transfer of Hong Kong to China in 1997, the Chinese authorities have guaranteed the status quo for the business community in Hong Kong, including the free movement of income and capital into and out of the colony.

Certificates containing an exemption from the requirement to repatriate all overseas earnings could be approved for holding companies investing in the country, thus putting SA on the same footing as many other countries.

Perhaps more important would be government's statement — and its effect on foreign perception — that a foreign investor granted a certificate would be free to move capital brought into SA and profits of a capital or income nature, without exchange control intervention.

This statement would need a wide spectrum of political support to be credible in the eyes of a foreign investor. The status quo regarding the currency medium of a transaction, in financial or commercial terms, would not be affected and would continue to depend on the nature of the transaction, provided that the holding company would be allowed to invest overseas in the same medium in which the funds were introduced or generated in SA.

The relief inherent in SA's tax system is one of the world's best-kept secrets. It's time to sell it to the world.
BUSINESS Nactu says State must find other sources of revenue

Labour vehemently opposed to VAT hike

By Mzimkulu Malunga

As this budget date approaches and debates on tax increases hot up, labour believes the Government has to prioritise cutting unnecessary expenditure instead of effecting tax hikes to raise revenues.

On March 17 Finance Minister Derek Keys will be in the spotlight when he presents the national Budget.

A report released by the National Council of Trade Unions advocates alternative means of boosting revenues as opposed to increasing indirect taxes such as VAT — which hit the poor hardest.

Central to Nactu’s argument is the belief that the Government is using the taxpayers’ money against the taxpayers themselves.

“Revelations of covert operations being funded with the taxpayers’ money or of the consistent corruption and maladministration in the State-funded bantustans are a frequent occurrence,” argues the report.

The Government contributed over R12 billion to the TBVC states and self-governing territories during the 1992-93 financial year.

Cutting spending on defence and the tri-cameral parliament — both of which consume a substantial share of the budget — could put the Se1ve on a much healthier financial footing.

The deficit for the current financial year is hovering at R30 billion — about nine percent of the national income.

The report also highlights unnecessary tax exemptions and focuses on pension funds.

“The pension fund exemption is a particularly regressive one and the rich benefit more from this system than the poor. In fact, the unemployed and low-wage earners get nothing at all,” says the report.

The total scrapping of pension fund tax exemptions or a drastic reduction could contribute towards solving the Government’s financial crisis.

Increasing VAT while the economy is in a recession will not only have a negative effect on consumer spending but will deliver the death blow to industry and commerce.

The collapse of industrial and commercial sectors will lead to further retrenchments as the consumer demand dampsens.

Increasing tax substantially on property owners on any additional fixed properties they may possess, such as second homes, is one alternative measure the Government can explore.

Also, the implementation of agricultural land tax could contribute a great deal to the national coffers.

On agricultural land tax the report argues: “These properties have in the past been heavily subsidised by the Government for political reasons. Now would be a good time for the recipients of this unfair advantage to start paying back.”

Revenues collected here can be used for the development of small-scale farmers.
LABOUR brokers who want to avoid paying PAYE on their earnings do not have much longer to apply to the Receiver of Revenue for exemption.

A tax directive compelling companies employing independent contract workers, many of them specialists in the construction field, to deduct tax at 48 percent on monthly payments to the contractors comes into effect on March 1.

Dayalan Naicker, tax partner with Delloitte & Touche in Durban, says there is a turnaround time of about two weeks between the time an application goes to the Receiver and receipt of a reply.

Penalise

After a "white-collar" demonstration against the directive outside the Receiver's office in Johannesburg last week, Naicker said the tax move was intended to bring into the PAYE net those who had found a way out of it by becoming "independent contractors."

"It is not the intention of the Receiver to penalise the entrepreneur running a business from home who sells his services to independent third parties."

"Rather, it is intended to curb the growing occurrence of people opting out of the employer-employee contract by contracting their services on a labour-broker basis. For all intents and purposes, they are in the position of regular employees, sometimes even receiving pension and medical aid benefits, but avoiding PAYE payments and instead become provisional taxpayers."

Many of them were professionals, such as engineers and draughtsmen, who formed close corporations (CCs) and companies and contracted their labour out, usually for fixed, renewable terms.

Naicker said that under the new rules, the contractors would be able to claim the PAYE paid as a deduction from the tax liability of their companies or CCs.

Brokers could end up paying more tax. In any case, their cash flow would be affected because they would face deductions monthly instead of provisional payments twice a year.

He cited the case of a contractor receiving R100,000 a year. Previously, the contractor would have drawn it all from the CC, absolving the business from paying tax, and would have claimed deductions on income tax of costs incurred in the CC.

From March 1, after PAYE, he would be left with R52,000. The CC would declare this as remuneration and deduct it as an expense, paying tax on the R48,000 balance at the company tax rate of 48 percent. This would mean a further R23,000 in tax, leaving R28,960.

"Alternatively, he could declare the full R100,000 as the taxable income of the CC although it would pay him only R32,000 in cash after the employer company had deducted PAYE. The full R100,000 would be claimed by the CC as remuneration paid to the member (the contractor) as a tax-deductible expense, leaving the CC with no tax liability."

Freelancers

"The CC would then owe the member some R48,000, which it would claim from the Receiver as overpaid tax. But the member would be forced to wait until his annual tax return had been assessed to receive a refund, leaving him out of pocket and with a cash flow problem."

The tax directive also affects such diverse professionals as freelance journalists and executives employed by management companies contracting out services to senior people, a device often used in listed holding companies.

Management companies have incurred two taxes which only a few years ago did not exist — regional services levies and VAT on their fees.
to March 1 1993. It caused considerable confusion among nonresident taxpayers, which is why the practice note was issued.

Coopers Theron da Toit tax partner Koos van der Merwe says the purpose of NRTF was to control tax evasion on fees earned in Bophuthatswana by subcontractors or professionals from SA or other neighbouring states. In the past, the fee income was often not declared there — and probably not declared anywhere else either.

NRTF is normally payable within 14 days of accrual to the agency, at a rate of 40% for companies and 25% for others (individuals or partnerships).

NRTF is not payable if the agency can prove that it is registered as a taxpayer in Bophuthatswana. But it will apply to payments of director’s fees to an unregistered nonresident director. The legislation also provides for certain exemptions for payments made by hotel and casino businesses. NRTF paid by agencies which subsequently render tax returns in Bophuthatswana are treated as payments of provisional tax.

Van der Merwe says the following issues have been clarified by the practice note:

- As no NRTF is payable on fees earned by a registered Bophuthatswana taxpayer, agencies which expect to earn fees from Bophuthatswana should register in advance;
- The implementation date is set as January 1 1993, overruling the statutory amendment;
- NRTF will apply only to fees earned from a Bophuthatswana source or deemed source in terms of the income tax and double tax agreements with neighbouring states;
- Foreign governments or their (undefined) agencies which do not pay tax in their own countries will not be liable for NRTF; and
- The requirement that a company registered in Bophuthatswana must have its head office there to escape NRTF is waived.

The Bophuthatswana Commissioner for Inland Revenue has issued an important practice note clarifying the scope of nonresident tax on fees (NRTF) — a withholding tax payable on all fees earned by any nonresident “agency” providing services in Bophuthatswana.

The amending legislation was promulgated as long ago as July 23 1992 and backdated
Severe tax
Star 13/1/93
blow next
month

MAGNUS HEYSTEK
Finance Editor

A HUGE tax shock is in store for hundreds of thousands of people who receive income from retirement annuities. Those who will be hardest hit will be pensioners. From the beginning of next month, recipients of "A" income will have to submit tax returns to the Receiver of Revenue and will be assessed in terms of the PAYE system and not SITE.

In addition, their RA income will be lumped together and added to any other income, substantially increasing aggregate taxable income.

This move is a result of an effort by the Inland Revenue authorities to clamp down on revenue-splitting by personal taxpayers. The ability to split the income from a number of retirement annuities has been one of RAs' major attractions.

It is also seen as an effort by Inland Revenue to increase its cash flow in a depressed economy. Tax increases could be as high as 300 percent.

This is a double blow to pensioners already experiencing declining incomes, as interest paid on fixed investments has dropped substantially in the past 12 months.

● See Your Money:
Page 14

At present each payment from an annuity is subject to SITE. As most are below R50 000 a year, the recipient is subject to SITE only. In addition, the SITE is calculated independently on each payment by the companies or funds making the payment.

Most people tend to have several annuities which means several payments are received.

Average rates of tax on these payments tend to be low, but when all the payments are lumped together this will mean a sharp increase.

In terms of an amendment to the Income Tax...
Tax increases could be as high as 300 percent.
This is a double blow to pensioners already experiencing declining incomes, as interest paid on fixed investments has dropped substantially in the past 12 months.

○ See Your Money:
Page 14

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Most people tend to have several annuities which means several payments are received.

Average rates of tax on these payments tend to be low, but when all the payments are lumped together this will mean a sharp increase.

In terms of an amendment to the Income Tax Bill, which has gone virtually unnoticed so far, all RA income will be subject to PAYE.

SITE (Standard Income Tax on Employees) applies to people earning less than R50 000 a year and, once SITE has been applied, no additional taxes are levied.

An example

In addition, people taxed under the SITE system do not have to submit returns.

Take this case of a pensioner who receives a pension of R40 000 a year and a retirement annuity of R30 000 a year (any amount will do for the purpose of this example as long as each item is less than the SITE limit of R50 000 a year). It can be assumed most pensioners and people receiving income from RAs earn less than these amounts.

Assuming a pensioner is married and over 65, the SITE on a pension of R40 000 would be R3 675; that on the RA income R1 075 — a total of R4 750.

From March 1, the taxpayer will be assessed on his total income of R70 000 for the year. The tax on this will be R15 775, an increase in tax of R10 825 or 219 percent.
Duty tax blamed for jobs loss rise

BRUCE CAMERON
Business Staff

GOVERNMENT import taxes on primary products were undermining local businesses and stimulating unemployment, Cape Town luggage and bag manufacturer Vittorio Levy said this week.

Mr Levy said his factory was struggling to compete with imported products from the East because of the import duty of 27 percent on his basic primary product—nylon material.

Mr Levy said many luggage manufacturers in South Africa were reducing staff and importing cheaper products from the East and reselling them on the local market because of the costs of local manufacture.

The finished products were cheaper in spite of the 40 percent duty and 15 percent surcharge on them because of lower quality, cheaper labour costs and high tax in South Africa.

"I am quite happy to compete with the imported products, but we need the duty removed on our primary material."

Mr Levy said he had taken up the issue with the Department of Industry and Trade with little response.

Mr Levy said a removal of the duty also would enable him and other manufacturers to compete on the export market.
Scheme for export zones to get exemption from VAT

THE government proposes exempting export processing zones (EPZs) from VAT, customs duties and export levies, according to a draft proposal released this week.

EPZ users will be subject to South African laws and all output must be exported from the South African customs area to qualify for EPZ benefits. No tax holidays are planned, as is common in many successful EPZs around the world.

The finance and operation of the EPZs will be left to the private sector. All EPZs must be located within 50km of an airport or international port and approval must be obtained from an EPZ Board.

Normal South African corporate tax rates apply, drawing into question the ability of the proposed EPZs to attract local and, particularly, foreign capital in competition with countries offering generous tax breaks, such as Mauritius, Argentina and Mexico.

The compensation is that EPZ companies qualify for General Export Incentive Scheme (GEIS) benefits, ranging from 2% to 10% of export value, the Regional Industrial Development Programme (RDP) grant (equal to 10.5% of operational assets in the first two years and a profit-based incentive for three years) and the Export Marketing Assistance Scheme — all of which are currently available to South African businesses.

Only newly incorporated companies may establish in EPZs, eliminating the possibility of existing firms relocating to take advantage of the benefits.

Non-residents must invest through the financial menu in compliance with Reserve Bank regulations. Dividends, royalties and interest may be remitted in commercial rands.

The obligation to buy and sell assets through the financial menu is a frequently cited reason for SA's inability to attract foreign capital.

Weak

1. Low interest loans from the Industrial Development Corporation and financing from the Small Business Development Corporation are also offered as incentives.

2. The draft proposal on EPZs is unlikely to attract a stampede of investors.

With the exception of exemption on customs duties on imports, export levies and VAT on imports of plant, equipment, raw materials and components — and the implied relaxation of restrictive regulations where this is accepted by local authorities, business and organised labour — the proposal has little new to offer investors and is particularly weak on incentives.

Plant and machinery qualify for 20% depreciation over five years, buildings for 5%, wear and tear on office equipment 16% and motor vehicles 20%. Scientific research qualifies for a 50% deduction, according to the draft proposal.
Proposal to tax pension funds axed

OWN CORRESPONDENTS
Johannesburg. — The Jacobs committee had dropped the proposal to tax pension funds, Finance special adviser Japie Jacobs said yesterday.

He told an AIC/Euro-money banking industry conference in Johannesburg the proposal, which was widely criticised, had been a highly emotional and sensitive issue and had proved to be extremely difficult to implement. "It may help to put the minds of some people at rest if I mention that the proposal that part of the employee's and employer's contribution to a pension fund be non-deductible for tax purposes is dead, if it ever lived."

Life assureds had expected government to limit tax breaks on pension contributions for top-income earners in the budget. However, Jacobs' statement seemed to indicate the idea had been put on the backburner.

Life Offices Association spokesman Jurie Wessels said it had become clear government could not limit tax breaks on pension contributions without overhauling the entire system. "Nothing can be done before the public and private sector's pension taxations have been placed on an equal footing."

President F W de Klerk said earlier this month the status quo on public servants' taxation would remain in place.

Jacobs said the four-fund approach for taxation of the long-term insurance industry and the abolition of the sixth schedule were generally accepted but banks felt the reduction in the investment period from 10 to five years was likely to cause greater competition for them in this area.

He said the Melanet committee had been appointed to advise on the implementation of the Jacobs committee recommendations and its report should reach government by the end of March. This would allow appropriate legislation to be passed during the current parliamentary session.

Supervision of agents

Jacobs also dealt with the supervision of agents and principals in the financial market. He said supervisors could not protect the public against losses caused by the failures of financial institutions.

In the case of an agent, he said, the risk of the investment rested entirely with the investor and not the agent. "It is up to the investor to ensure that his savings have been invested prudently and profitably."
Plan killed to tax pension fund contributions

By Sven Lünsche

The Jacobs Committee has shelved its controversial proposal to tax a portion of employer and employee pension contributions.

Dr Japie Jacobs, chairman of the committee, told a banking industry conference yesterday that the tax proposals had met widespread resistance from interested parties.

"It may help to put the minds of some people at rest if I mention that the proposal that part of the employee's and employer's contribution to a pension fund be non-deductible for tax purposes is dead," he said.

However, the committee's other key recommendations — the creation of one regulatory body for the financial services industry and replacing the Sixth Schedule — could be legalised before the end of the year.

In terms of the committee's proposals, employees would have had to pay tax on one-third of their pension fund contributions and employers on 20 percent of their contribution at the company tax rate of 46 percent.

The proposals were widely criticised and were also in apparent contradiction with the key findings of the Moston Committee on the retirement industry, which called on the state to support retirement provision actively through laws and other means.

Commenting on these revisions to the other issues of his report, Jacobs said the Malamet Committee, appointed to investigate the implementation of the Jacobs proposals, should reach the government by the end of March.

"This means there is scope for appropriate legislation to be passed by Parliament during the current session," Jacobs said.

Jacobs said a financial regulation policy board could be established soon to co-ordinate the supervisory functions of the two supervisory offices for the financial services industry — the Financial Services Board and the Registrar of Deposit-Taking Institutions.

While this had met with resistance from some banks, it could be an interim step to the eventual merger of the two offices.

The Government was also likely to reject bank proposals that they engage in business similar to that conducted by insurers through their own divisional structures rather than subsidiaries, as suggested by Jacobs.

"While this is their choice, they must be aware of the fact that different classes of business need to be registered and supervised in terms of different Acts."

However, the key proposals to level the playing field from a tax point of view between banks and insurers were generally accepted by both industries.

These included the "four-front" approach to the tax base of life insurers, which will allow them to run four separate funds for tax purposes, and replacing the sixth schedule of the Income Tax Act.

The latter has paved the way for insurers to issue tax-exempt investments with no life cover and an investment period that has been brought down from 10 to 5 years.

At the same conference, the former deputy chief executive of Absa, Piet Liebenberg, said he did not expect the regulatory authorities to allow large scale concentration of the banking industry.

He expected further rationalisation within the industry only by means of takeovers between smaller and medium-sized banks and internal streamlining.

Liebenberg also predicted that merchant banks could soon become active brokers on the JSE, while bigger banks looked set to take a stake in member firms on the stockmarket.
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Keys calls for fiscal checks in constitution

From GRETA STEYN
JOHANNESBURG. — Finance Minister Derek Keys yesterday placed economics on the political agenda by calling on constitutional negotiators to build fiscal responsibility into a new constitution.

He told the Frankel, Pollak, Vinderine investment conference SA should include a clause in the constitution preventing the use of borrowings to finance current expenditure. There should be no borrowing for current expenditure at a regional level. “It should be written into the constitution that regions should be self-financing other than on capital expenditure,” 

ANC spokesman Tito Mboweni rejected the idea of building financial limits into the constitution. “We agree that there should be formal limits, but the constitution should not be used for that aim.”

Keys said the whole “government machine” needed to be redesigned to free up resources. “We cannot do what needs to be done simply by being frugal.” A better designed structure should come about as a result of political negotiations.

Keys also said the deficit in next month’s Budget would be tackled “in a responsible manner and with conviction”, but not in a way that slowed down progress towards an economic environment that favoured growth and risk-taking and provided rewards for those who did.

HOWEVER, over the past decade the economy’s productive capacity had stagnated and if growth was to be generated, it was imperative that structural and not simply cyclical problems be addressed, he said. The supply side of the economy needed to be strengthened and human resources enhanced so as to increase labour productivity.

Keys warned that before undertaking structural adjustment it was crucial that there was strict fiscal discipline, a goal already embarked upon by the authorities.

However, speaking at the same conference, Reserve Bank Governor Chris Stals called for “austerity measures in the Budget to help bring inflation to its knees”.

He called on businesses to constrain price increases and for labour to support average wage and salary rises with corresponding increases in productivity.

The fight against inflation was not to make the millions of unemployed a chance to earn a decent living in a stable financial environment. He rejected the notion of a trade-off between inflation and economic growth.

He also rejected the idea of devaluing the rand to exchange-rate saving. This would make it difficult to pursue existing money-supply objectives and would require an upward adjustment of interest rate levels.

On the financial rand, he said one of the key elements in phasing out the unit would be getting rid of the foreign debt standstill.

The rand had become increasingly volatile as it was now also a speculative currency.
News in brief

Plea for VAT exemption

The Transvaal Agricultural Union (TAU) has asked Finance Minister Mr Derek Keys to exempt certain basic foodstuffs from Value Added Tax (VAT).

In a statement yesterday TAU president Mr Dries Bruwer said essential foodstuffs, such as meat and dairy as well as grain products, should not be subjected to VAT. Apart from the fact that VAT placed an additional burden on consumers, it also increased pressure on the producer because VAT decreased the buying power of consumers.

Source: 17/2/93
Keys asked to exempt foodstuffs from VAT

PRETORIA. — The Transvaal Agricultural Union has asked Finance Minister Mr. Derek Keys to exempt certain basic foodstuffs from Value-Added Tax.

TAU president Mr. Dries Bruwer said essential foodstuffs such as meat and dairy products, as well as grain products, should not be subjected to VAT.

Apart from placing an extra burden on consumers, VAT increased pressure on the producer as it decreased the buying power of consumers.

Mr. Bruwer said this meant the producer indirectly had to the extra cost, which was impossible owing to the agricultural sector's financial position.

He said the request was made as it was in the interest of all South Africans to obtain food at affordable prices. — Sapa
brown bread. It was part of its commit-
phases is not on playing policeman."

No VAT on food TAU
GERALD REILLY
PRETORIA — The Trans-
vaal Agricultural Union (TAU) has made an urgent
appeal to Finance Minister
Derek Keays to freeze certain
basic foods from VAT.

In a statement yesterday,
TAU president Dries
Bruwer said the TAU’s gen-
eral council believed this
would be in the interests of
the vast majority of the
population (620).

It was vital that basic
foods be maintained at affor-
dable prices.

Essential foods such as
meat and dairy products, as
well as staple grain pro-
ducts, should be relieved of
the price-boosting influ-
ence of VAT.

Aside from the fact that
VAT on these foods would
place a heavy additional
burden on consumers, it
would also place producers
under further pressure be-
cause buying power would
be reduced and demand
would shrink.

Housewives’ League im-
mmediate past president Lyn
Morris said if basic foods
were not zero-rated it
would be a blow to lower
income groups as well as
producers.

“However, to be realistic
government needs to boost
its income and — provided
it is not squandered — it is
difficult under current con-
ditions to argue for VAT
concessions.”

Inbreeding cited for high
number of heart attacks
KATHRYN STRACHAN

“According to medical
experts, the three groups
most affected are the Jew-
ish, Afrikaner and Asian
communities most given to
inbreeding,” said
Prowse.

“These groups suffer
from a condition known as
familial hypercholester-
aemia, and there are fre-
cent early deaths from
heart attacks — often strik-
ing people in their early
40s and 50s.”

Prowse said in order to
reduce the incidence of
coronary heart disease, a
concerted effort to reduce
cholesterol levels was
needed. Other controllable
risk factors were blood
pressure and smoking.

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AD120994
Estate duty set to rise as revenue falls

THE estate duty rate was expected to increase from 15% to 20% in the Budget because of the low level of current revenue collections, tax experts said yesterday.

The move was seen as a step towards overhauling tax on capital transfers, with government expected eventually to replace estate duties and the donations tax with a capital transfer tax.

An Inland Revenue spokesman said estate duty revenue had fallen from R185m in 1985 to about R10m at present. Increasing the exemption limit to R1m and granting a rebate to the first spouse had had a “dramatic effect on collections”. Although the revenue collected from capital transfers was very small in comparison to the total revenue, “every million helped”.

Government had accepted the Margo commission’s recommendation that estate duties and the donations tax be replaced by a capital transfer tax. While unlikely this year, this was government’s ultimate goal, the spokesman said.

Since interim measures had been introduced in 1988 government had researched a capital transfer tax and had submitted discussion documents to the tax advisory committee.

Institute of Life and Pension Advisors tax spokesman Abri Meiring said it would make sense to increase the estate duty rate to 20% as an interim measure. Some form of wealth tax could be introduced in 1994, Meiring said. This could be in the form of a capital gains tax, a capital transfer tax or a land tax. A capital transfer tax was the most likely because it would be very easy to administer.

Anglo American group tax consultant and SA fiscal think tank chairman Marius van Blerk said the estate duty and donations tax needed to be given more teeth. It would make sense to increase the rate to 20% and to merge the donations tax and estate duties into a single capital transfer tax.
No relief for fees.

Tax relief would not be granted for school fees as a tax deduction that benefited the wealthy but not the needy could not be justified, Minister of Finance Derek Keys said yesterday.
FINANCIAL SERVICES

Sighs of relief

An acceptance by Japie Jacobs, special adviser to the Finance Minister, that his controversial pension tax reforms cannot fly has been welcomed by the life offices. Yet some assurers, Old Mutual among them, while disliking the Jacobs proposals, agree that taxation of retirement funds could be modified to accelerate government cash flow. Old Mutual GM Garth Griffin is one who believes some changes could be justified.

Others believe the pensions furor took the industry's eyes away from the main thrust of Jacobs's report. "It's a pity there's been so much comment about a four-page section when the other 140-odd pages show excellent insight into how financial services overall should be regulated," says Southern Life assistant GM Tony Davey.

Jacobs tried to develop an "holistic" approach to regulating all financial services. Some institutions likely to be affected were called to a meeting in Pretoria last week but no details of the discussion have emerged.
Higher tax only option, says expert

A DRASTIC cut in Government expenditure was vital, Sanlam chief economist Johan Louw said in Cape Town yesterday. Writing in Sanlam's latest economic survey, Louw said: "On top of that, Finance Minister Derek Keys will have virtually no option but to increase taxes in his first Budget.

"The alternative is an unacceptably large deficit in Government finances, even after expenditure has been reduced," he said.

At the same time Keys had to be careful not to seriously dampen general economic activity, "so the increases are expected to be mild."

Sanlam expected the following change to taxes to be made:

- VAT: An increase from the present 10 percent to 13 percent. However, a larger range of basic foods and services would be exempt from VAT — alternatively, the rate might be increased to 12 percent without further exemptions.
- Fuel levy: An increase of about 10c a litre.
- Higher excise duties.
- Corporation tax: No change.

Louw said these proposals would result in a revenue increase for the State of about 16 percent. This would mean a deficit before lending in the order of R22 billion, or 6 percent of GDP.

The deficit before borrowing for the 1992/93 financial year was likely to be about R30 billion, or 8 percent of GDP. A deficit of R16 billion was budgeted.

Regarding the economy, Louw expected no noteworthy recovery before late in 1993.

He said favourable developments such as the lower inflation rate and lower interest rates had been overshadowed by the negative influences.

These included the continuing violence and unstable political situation, poor export opportunities due to limited foreign growth, the low gold price, lower domestic spending due to the impoverishment of consumers, and disappointing fixed investment.

The drought also remained a factor and the Budget was expected to have a mildly dampening effect on general economic activity.

"At this stage a real economic growth rate of about 0,5 percent is expected for 1993, compared with an estimated rate of minus 2 percent for 1992, minus 0,4 for 1991 and minus 0,5 for 1990," Louw said.
Foreigners get interest tax free

THE Minister of Finance Derek Keys has announced that non-residents will be exempt from tax on interest received and accrued before June 1992.

On June 3 1992 Keys exempted from tax the interest receipts and accruals of individuals not ordinarily resident in SA.

Non-residents have since expressed concern about the fact that the Commissioner for Inland Revenue maintains the authority to tax untaxed interest received or accrued before June 1992.
PLAN PROPERLY to earn the most from RA contributions

Big Benefits:
- Retirement annuities can be planned in various ways in order to gain maximum tax relief.

The introduction of retirement annuities in 1996 afforded self-employed people the opportunity to effect individual pension plans while enjoying tax relief on their contributions.

Currently, the deductibility of current contributions to a retirement annuity fund is limited to the greater of 15% of income derived from non-retirement-funding employment; or R3 500 less any deductible pension fund contributions; or R1 750.

Where the taxpayer is a married woman the amounts of R3 500 and R1 750 in the formula will be R1 750 and R875 respectively.

Qualify
- Any contributions which do not qualify for deduction from the taxpayer's income for that year may be carried forward to current contributions in the next year of assessment. This applies when a member continues to contribute more to his retirement annuity fund than is deductible, which should be recorded and taken into consideration to increase the tax-free portion of the lump sum benefits received on death or retirement.

A taxpayer may make a single premium contribution to a retirement annuity fund that could be deductible. He may also vary his contributions each year by effecting a series of single premium retirement annuity funds after having calculated his maximum deduction in respect of each year.

In addition, reinstatement contributions of up to R1 000 to a retirement annuity fund are deductible (R900 in the case of a married woman).

Any portion of a reinstatement contribution which has been disallowed because it exceeds the amount of the deduction allowable in one year may be carried forward and considered as a contribution to the next year.

Reita Roux, manager of the tax division at Deloitte & Touche, explains how complicated the subject is: "Employees who are lucky enough to be members of a non-contributory pension scheme may obtain a tax planning advantage by contributing a full R3,500 annually to a retirement annuity fund."

"This would be fully deductible for tax purposes if this way, executed by the company could enjoy the membership of both a pension fund and a retirement annuity fund, have the full cost of the pension fund deducted in the company each of them would also be permitted to claim R3 500 annually in respect of retirement annuity fund contributions.

"Where a husband remains taxable on certain forms of income derived by his wife, she has a choice whether to claim her contributions as a deduction against her income or to permit his husband to claim the deduction. Where the husband claims a deduction, the limits applicable to him and not those applicable to the married woman, will apply."

In years of assessment ending on or before February 28 1991 the Commissioner for Inland Revenue adopted the practice of allowing a husband to deduct contributions made by his wife up to the maximum determined by his taxable income if his wife had no taxable income or insufficient taxable income from which to deduct her own contributions. This practice was discontinued in March 1991.

"As a result of recent changes in legislation, a married woman who has made contributions now has the option either to claim the deduction herself, or to have the option deemed to have been made by her husband for tax purposes."

The option is only available if the wife became a member of the retirement annuity fund before March 1993. This concession will, however, only apply until February 28 1997. "Unfortunately is not clear whether a member includes a contributing member as well as a paid-up member," Roux said.
TAXING QUESTION OF RETIREMENT

Taxes and Retirement

When looking at the financial planning aspects of retirement, one cannot ignore the impact of taxes. Understanding how taxes will affect your retirement can help you make informed decisions about how to manage your finances during retirement.

1. **Retirement Income Tax**
   - **Social Security Benefits**: A portion of Social Security benefits may be taxable depending on your overall income. For high-income individuals, up to 85% of their benefits can be taxable.
   - **Pension Income**: All pension income is taxable unless it is from a qualified retirement plan.
   - **Annuity Income**: Income from an annuity is taxable as you receive it, unless the annuity is a qualified plan.

2. **Tax-Deferred Contributions to Retirement Accounts**
   - Contributions to traditional IRAs, 401(k)s, and other qualified plans are tax-deductible. However, withdrawals are taxed as ordinary income.
   - **Roth IRAs**: Contributions are made with after-tax dollars, so withdrawals are tax-free (if certain conditions are met).

3. **Non-Qualified Retirement Plans**
   - **Keogh Plans**: Available for self-employed individuals, Keogh plans allow for higher deductions compared to traditional IRAs.
   - **Simplified Employee Pension Plans (SEPs)**: Allow for unlimited contributions based on the business's earnings.

4. **Other Retirement Tools**
   - **Annuities**: Can provide a guaranteed income stream and may have tax benefits.
   - **Life Insurance Policies**: Can be used to fund retirement by building cash value tax-deferred.

By understanding these tax implications, you can better plan for your retirement and ensure that your financial goals are met in a tax-efficient manner.
LABOUR BROKERS

Much ado

The public outcry over the new labour broker requirements in the Paye system is out of all proportion to the effects of the changes. If a CC is being run honestly, a taxpayer forced back into the Paye net will lose no more than a timing benefit in paying tax on earnings.

The benefit was achieved despite differences in the top marginal rates of tax for individuals (43%) and CCs (48%). This is because the CC can produce zero profit, by paying (tax deductible) directors' fees out of gross earnings. As directors' fees paid by private companies and CCs are taxed only on provisional and not monthly Paye, the timing benefit is usually substantial.

The new requirements that Paye be deducted at 48% from the CC's earnings have put an end to this benefit, unless it can get an exemption certificate from Revenue.

There are two reasons for Revenue's move.

One is that taxpayers can be tempted to spend all their gross (ie pre-tax) income and may be without funds when the time comes to pay provisional tax. This problem persuaded inland revenue departments worldwide to adopt Paye systems.

The second reason is that there is another dimension to the use of CCs to receive earnings. To reduce the costs of small entrepreneurs, CCs need not have auditors. This concession makes it easy for an unscrupulous taxpayer, receiving remuneration through a CC, to channel personal expenditure through its books and claim deductions. This is a form of evasion which hard-pressed assessors find hard to police. The practice has cost Revenue vast sums in recent years.

Worse still, there is a category of artisans and technicians — mostly temporary residents doing contract work in SA — who have managed to avoid tax altogether, by channeling their earnings through a CC, drawing the money out and leaving the country without paying provisional tax.

The remaining (honest) taxpayers have to foot the bill for those who fail to pay. —
Overhaul of tax system proposed

Consumer Reporter

The Congress of South African Trade Unions (Cosatu) has made several proposals it says will restore the legitimacy and credibility of the budgeting process.

Cosatu said in a media release yesterday that it would submit these proposals for discussion at the Co-ordinating Committee on VAT (VCC) Budget summit on Monday.

Its proposals include:

- The appointment of a tax commission to review the entire tax system to make it more equitable and efficient, and to relieve the tax burden on the poor.
- The appointment of an audit commission to supervise all government spending programmes, to investigate mismanagement, waste and corruption and to make recommendations on how to avoid them in future.
- VAT body seeks summit - Page 13
VAT body seeks Budget summit

Consumer Reporter

The Co-ordinating Committee on VAT (VCC) has called for an urgent Budget summit between trade unions, political organisations, business and church groups.

The VCC wishes to discuss the March 17 Budget and the "lack of progress" in persuading the Government to zero-rate basic foods and services. VCC chairman Bernie Fanaroff said yesterday that the summit would look at the "legitimacy and credibility" of the Budget in the light of high food prices, and the Government's failure to improve poverty relief programmes and to exempt basic foods and services from VAT.

Fanaroff said although the VCC believed that progress towards reaching an agreement with the Government had been made last year on zero-rating basic foods, nothing had been done since then.

Although the VCC would be meeting other Ministers and relevant corporations soon to discuss zero-rating of basic services, medicines and medical services, it was clear this would not be accommodated in the Budget.

Fanaroff said the VCC would not support an overall increase in the VAT rate.
Transition blues

There has been a sharp increase in the number of Revenue staff opting for early retirement — 126, up from 52 in 1991 and 36 in 1990 — though resignations have diminished because of poor job prospects in the private sector. Inland Revenue chief director Theofanis Prinsep says the early retirements of 1992 (from a total complement of 8,359 at the end of last month) were mostly of junior employees, but included six deputy directors. The 126 also includes early retirements because of ill-health.

Rumour has it in the accounting profession that many Revenue staffers — certainly at the Johannesburg office — have been anxious to take early retirement for fear of what the future might hold under a new government which might want to practise some form of affirmative action. Market forces are already causing a net influx of black staff, a healthy and overdue development provided it is not based on artificial preferment.

Commonsense would dictate that the hour is ripe to implement the idea of an independent charter for employment at Inland Revenue (FM 17 January 1992). This would enable Revenue to reconstruct its salary structure and other conditions of employment to attract highly qualified professionals from the private sector — a move which would pay off in increased levels of tax collection.

This argument is proved by the extra collections brought in by the “army worms” — young accountants working at Inland Revenue in lieu of military service.

The move could also provide for recruitment strictly on the basis of merit and remove the service from political pressure for affirmative action based on ethnic affiliation without proper regard for merit. Considering the desperate need of this and any future administration for revenue (a priority for overriding patronage), this proposal should enjoy the support of all mainstream political parties.
Protests planned against tax hikes

Keys to meet Cosatu for Budget talks

FINANCE Minister Derek Keys has called an urgent meeting with Cosatu today to discuss the Budget as disclosures of government corruption fuel the labour movement's opposition to increased VAT, PAYE or petrol tax.

Cosatu is believed to be preparing a series of actions at the offices of the Receiver of Revenue around the country to highlight its demands to end government corruption and for a Budget directed at creating jobs and providing housing and education.

A spokesman for Keys was not able to comment on the meeting.

A Cosatu spokesman confirmed Keys was due to meet union leaders in the second week of March, but had asked for the meeting today. He would not comment "at this stage" on Cosatu's planned actions around the Budget.

However, a Cosatu source said high-profile Cosatu leaders were planning occupations of Receiver offices during the week before the Budget announcement.

And lunchtime demonstrations, meetings and rallies - planned for March 16 - were being discussed in Cosatu structures.

He said Cosatu was particularly irked by the role of the IMF, which it believed was pressing government not to zero-rate basic foodstuffs. "The IMF gives us one impression and then goes to government with another agenda," he said.

Cosatu was opposed to any allocations to the "bantustan, tri-cameral, Parliament and secret operations" and wants to stop all golden handshakes, he said.

Meanwhile, the Co-ordinating Committee on VAT has called a meeting of a wide range of organisations to discuss the Budget. It said yesterday Cosatu, the ANC, the PAC, small business organisations and churches, among others, would meet in Johannesburg because of "the continuing crisis of poverty and the crisis of legitimacy and credibility of the Budget".

The meeting would discuss the lack of progress in the zero-rating of food and basic services, continuing high food prices and government's failure to improve the poverty relief programme.

The committee said it had made it clear to government that it would not support any overall increase in the VAT rate and that money to pay for zero-rating should come from an end to wasteful government spending and corruption.

Although the committee would soon be meeting Ministers and relevant corpora
tions to discuss zero-rating of basic services, medicine and medical services, it was clear that these would not be accommodated in the Budget.

It said the key issue at the meeting was likely to be the disclosures of "gross mismanagement, waste and corruption in government spending".

Proposals included the establishment of a tax commission to review the tax system with a view to making it more equitable and efficient, and an audit commission to supervise all government spending programmes.
Interest you earn is tax free

26/1/93

Unit trusts are a grey area:

WHEN an investor reaps the profits of his savings in unit trusts, the actual growth of the funds are not taxable. All dividends and the first R2 000 of the entire interest income earned are tax free.

"The increase in value on units in a unit trust can be compared to that on a house," says Cilliers Smith, a senior marketing manager at Sanlam Unit Trusts.

"When a house is sold and the capital appreciation is realised, the profit is not taxed."

Since unit trusts are regarded as medium to long term investment mechanisms, they are generally regarded as tax efficient.

Profits accruing from the sale

According to Smith, the Income Tax Act does not make specific provisions in respect of the profit accruing from the sale of units.

He says unit trusts are a grey area as far as tax is concerned.

He says an investor could be exempted from paying tax if he can prove to the taxman that his intentions are of a long-term nature.
THE Co-ordinating Committee on value added tax will hold an urgent meeting today to discuss the Government's Budget to be presented to Parliament on March 17.

The meeting, which will be attended by representatives from the Congress of South African Trade Unions, National Council of Trade Unions, African National Congress, Pan Africanist Congress, small business organisations, churches and many other bodies, will start at 10am at the Johannesberger Hotel in Johannesberg.

Key speakers will be Mr. Jay Naidoo, general secretary of the Congress of SA Trade Unions, and Mrs. Ina Perlman, executive director of Operation Hunger.

Dr. Bennie Farnroff, chairman of the co-ordinating committee, said the meeting was necessary because the committee was concerned about continuing poverty and the Value Added Tax on food and basic services.
Public has lost faith in taxes, says Sacob

WIDESPREAD corruption uncovered in government departments had undermined the sense of "value for money" the public expected for their tax contributions, Sacob president Spencer Sterling said yesterday.

He said strong action had to be taken to restore the public's faith in the worth of their tax contributions, and called for stricter control measures and prosecution of the recommendations had never been put into use, Sterling said.
Tax increases predicted

The Budget next month will hold important signals for business on the direction of inflation, says Econometrix director Dr Azar Jammie. To deal with the huge deficit, Finance Minister Derek Keys's plan would probably be made up of a mix of borrowing more money, cutting Government expenditure and increasing taxes, Jammie told businessmen in Johannesburg this week.

He said VAT would probably go up to 15 percent and personal taxes would also be raised, particularly on the top earners, as a quid pro quo to persuade organised labour of the need to increase VAT. It was important to raise taxes to fight inflation in the long term. If Keys were to borrow more money to finance the deficit, expected to be R30 billion, without raising taxes, the country risked falling into a debt trap.

As debt continued to mount, it would eventually reach a stage where the Government could not raise taxes fast enough to pay the interest on the debt. In an attempt to get out of this fix, more money would have to be printed, leading to soaring inflation. However, Jammie expected that inflation would remain at its current levels of around 10 percent for the next two years because monetary supply had stabilised.

Businesses should build their financial strategy with a keen eye on inflation rate movements, he cautioned. If inflation was going to rise, businesses should then invest in equities and build up stock levels to become non-liquid.

If inflation were to drop further, managers should invest in gilt and property and avoid building up stock. Because of the expected lacklustre economic performance, Jammie advised business managers to keep stock levels low and be wary of investing in equities because returns were unlikely to be sparkling.
PAC, Govt to meet in Gaborone today

Crucial issue of Apla high on agenda:

By Themba Molefe
Political Reporter

THE Pan Africanist Congress and the Government meet in Gaborone today in a face-to-face encounter which includes the Azanian People's Liberation Army (Apla) high command and South Africa's seccorocrats.

The PAC's armed struggle will be at the top of the agenda, both sides have confirmed, with the Government describing Apla's insurgency as "terrorist".

The one-day meeting precedes a multiparty planning conference in Johannesburg on Friday which already hangs in the balance after attempts to woo both the PAC and the Azanian People's Organisation floundered last week.

This follows the African National Congress's unsuccessful attempt at shuttle diplomacy which tried to get a commitment from both Azapo and the PAC.

Azapo who indicated it would not be at Friday's talks which it sees as an attempt to revive Codesa. The organisation wants a united front of the ANC, PAC and itself before facing the Government.

The Government's team at today's meeting with the PAC will be led by Law and Order Minister Mr Henns Kriel, whose delegation will comprise Deputy Minister of Justice and of Defence Mr Danie Schutte and Deputy Minister of Constitutional Development Mr Fantu Schoeman.

The SAP, SADF and National Intelligence Service will be represented by their most senior generals while Apla chief commander Mr Sabelo Phama and Apla political commissar Mr Romero Daniels will lead their delegation from Tanzania.

PAC secretary-general Mr Benny Alexander will be joined by foreign affairs secretary Mr Gora Elshahim, political affairs secretary Mr Jaki Seroke, legal affairs secretary Mr Willie Seriti and national organiser Mr Maxwell Nkadyvhanani.

The reason for the talks being held outside South Africa was to facilitate the attendance of Apla chiefs.

VAT Budget alarm

Committee won't support increase in VAT:

By Ike Motsapi

THE Co-ordinating Committee on value added tax will hold an urgent meeting today to discuss the Government's Budget to be presented to Parliament on March 17.

The meeting, which will be attended by representatives from the Congress of South African Trade Unions, National Council of Trade Unions, African National Congress, Pan Africanist Congress, small business organisations, churches and many other bodies, will start at 9am at the Johannesburger Hotel in Johannesburg.

Key speakers will be Mr Jay Naidoo, general secretary of the Congress of SA Trade Unions, and Mrs Ina Perlman, executive director of Operation Hunger.

Dr Bennie Fanaroff, chairman of the co-ordinating committee, said the meeting was necessary because the committee was concerned about continuing poverty and the Value Added Tax on food and basic services.

News in brief

Girlfriend gang-raped

FOUR men — two of them armed with knives and one with a firearm — tied up a man and raped his 29-year-old girlfriend when they parked at The Wilds near Hillbrow, Johannesburg, at the weekend.

Police spokeswoman Warrant Officer Andy Pickie said Hillbrow police were investigating. He appealed to couples not to park in deserted places and to lock their car doors if they did.

Mercenary soldiers

REPORTS from both factions involved in the civil war in Angola are that former SA Defence Force members have turned mercenary and are fighting for Unita and that country's government forces — at a price.

The Ministry of Defence has reportedly released the names of at least four soldiers of fortune who have left the country to fight in Angola's renewed civil war.

That country was plunged into civil war again after Unita leader Dr Jonas Savimbi refused to accept the outcome of elections in Angola but October.

Defence Minister Mr Gene Louw warned that any members of South Africa's permanent or citizen force who became mercenaries were violating the country's laws.
VAT committee will tell Keys to probe corruption

THE Co-ordinating Committee on VAT will go into talks with Finance Minister Derek Keys on March 9 demanding inquiries into taxation and corruption, an emergency relief scheme and a fund to implement a public works programme.

Cosatu proposals aimed at addressing poverty, waste and corruption were backed by a wide range of organisations at a summit in Johannesburg yesterday, called in anticipation of Keys’s Budget speech on March 17.

Yesterday’s meeting agreed to call for zero-rating basic foodstuffs, establishment of an emergency feeding scheme, implementation of public works programmes and equalisation of pensions.

It also agreed to call for an independent audit commission to investigate mismanagement and corruption by government, and an independent tax commission aimed at achieving an equitable, effective and efficient distribution of tax.

The Cosatu proposals called for commissions to report to the transitional executive council by September 1993.

Cosatu proposals for the stabilisation of basic food prices, transparency on how petrol tax is used and an end to “golden handshakes” and buy-backs on state pensions were accepted.

Committee spokesman Bernie Fanaroff said the ANC delegation to the summit had registered its opposition to increases in VAT or taxes as a means to make up a budget deficit.

Fanaroff said 3.92% of the 10% VAT levy was going to fund corruption, if estimates of R1bn lost through corruption were correct.

The summit was attended by government economic adviser Japie Jacobs who had emphasised government’s need to address the question of growth and deficit.

“The only way we can interpret that is to mean we’re going to be paying more,” Fanaroff said.

The committee will meet Health Minister Rina Venter on March 4, Eskom on March 9 and the Food Logistics Forum on March 29.

Sapa reports the committee has also recommended that government should assist small businesses “in respect of the effects of VAT”, and that there should be parity in state pensions.

Fanaroff said VAT had not decreased retail prices nor increased capital investment as the government had promised.
Court told of ‘R4.5m deal for tax break’

FORMER Allied MD Kevin de Villiers denied in the Rand Supreme Court yesterday that he had signed a R4.5m sponsorship contract so the banking group could obtain tax benefits it was not entitled to.

The agreement, arising out of Allied’s sponsorship of SA yachtman John Martin, was concluded by De Villiers and marketing company Tytherley Investments in September 1990, before the merger that formed Absa the following year.

Tytherley Investments, represented by MD Peter Mancer, is suing Absa for R1.5m – part payment of the R4.5m contract.


Tax break$10

ship. His involvement began with the second stage in early 1990 when he had concluded two contracts with Mancer and his company. Mancer had then approached him and offered the Allied exclusive European television rights to the 1991 BOC yacht race for R4.5m.

De Villiers said he had told Mancer that if the bank took up the R4.5m offer, the two existing contracts, worth R2.1m, had to be done for free.

He said he had also negotiated with Mancer a protracted period for payment of the R4.5m.

He had been aware the company could qualify for tax deductions on marketing expenditure abroad and had understood that for every R1m spent, the Allied would effectively pay R250 000.

De Villiers had not believed he would get the agreement past the Allied board without clearance from the Receiver of Revenue that the deal would qualify for a deduction.

He and Mancer had attended what De Villiers described as a “reconnaissance” meeting.

Abra is defending the action, claiming the agreement was never meant to be a binding contract.

The banking group alleges the contract was a device created to enable Allied unlawfully to claim deductions under the Income Tax Act, which allowed exporters added tax benefits on marketing expenditure abroad.

De Villiers said he had not been involved in the first leg of the John Martin sponsor-

"I wasn’t a tax expert, but to my mind the rules weren’t always very clear and a lot depended on how the Receiver interpreted them. If he was well disposed he couldn’t break the rules, but he could interpret them favourably. My feeling was that the Receiver was well disposed."

The Receiver had subsequently confirmed that the acquisition of European TV rights would qualify for a deduction. Under cross-examination it was put to De Villiers by Absa counsel M Talentis, SC, that by acquiring the two earlier contracts worth R2.1m for free, Allied had in fact bought the TV rights for R2.4m.

"That’s one interpretation," De Villiers replied.

"It is not an interpretation, Mr de Villiers," Talentis said, "it’s a commercial reality."

De Villiers repeated that this was an interpretation and as far as he was concerned he had entered into a R4.5m contract and obtained the other two contracts for free.

Evidence continues today.
Probe State 
graft call by 
VCC people

Corruption 'responsible for one third of VAT': Nov 3, 1983

THE VAT Coordinating Committee (VCC) yesterday called for an independent audit commission to investigate mismanagement and corruption by the Government.

VCC spokesman Dr Bernie Fanning said Government mismanagement and corruption were responsible for an estimated one third of the 10 per cent Value Added Tax.

The VCC also adopted a proposal for the establishment of a tax commission "to achieve an equitable, effective and efficient distribution of tax."

The commission should aim to relieve the unequal burden of tax presently placed on the poor, said Fanning.

Both commissions were proposed by the Congress of SA Trade Unions. — Sapa.
Apologise over VAT, Govt urged

By Zingisa Mkhuma
Consumer Reporter

The Government should apologise to the public for turning value added tax into a revenue-collecting machine, VAT Co-ordinating Committee (VCC) spokesman Dr Bernie Fanaroff said yesterday.

Fanaroff, who was speaking at a Budget summit in Johannesburg, said the main purpose of VAT was to bring down production costs and increase capital investment, but the Government had turned it into a revenue-collecting machine.

The summit was held to discuss the March 17 Budget and the "lack of progress" in persuading the Government to zero-rate basic foods and some services.

Fanaroff, however, said an agreement on zero-rating could still be reached with the Government after further talks.

He added that the cost of Government corruption and mismanagement was equivalent to 3 percentage points of the 10 percent of VAT.

The summit was attended by delegates from the ANC, PAC, Cosatu, Nactu, church groups and small-business organisations.

VCC and Cosatu delegates will meet Finance Minister Derek Keys on March 9. Cosatu's proposals, which were adopted at the summit, will then be tabled.

The proposals include the zero-rating of basic foods, electricity, water, medicine and medical services; assistance for small business in respect of the effects of VAT; the urgent establishment of an emergency feeding scheme; and the immediate equalisation of pensions.

Other proposals are the disclosure of how tax on petrol is used, the stabilisation of basic food prices, and that expenditure on areas of corruption and waste be cut.
Call for VAT investigation

JOHANNESBURG: —

The VAT Co-ordinating Committee (VCC) yesterday called for an independent audit commission to investigate government mismanagement and corruption.

VCC spokesman Dr Bernie Fannaroff said government mismanagement and corruption were responsible for an estimated one third of the 10% VAT.

The VCC also proposed the establishment of a tax commission “to achieve an equitable, effective and efficient distribution of tax”. — Sapa
Hints of tax increases

Budget will be unpopular, warns Jacobs

CAPE TOWN — This Budget could well go down as the most unpopular in living memory, Finance special adviser Japie Jacobs said yesterday.

Hitting strongly of the inevitability of tax increases, he said the effect of the Budget would be deflationary. Unemployment levels were expected to rise.

He told Sanlam financial advisers it was a pity the first Budget presented by Finance Minister Derek Keys would be in such difficult circumstances. "We are very, very reluctant in a period of recession... even stagnation, to increase taxes but we cannot finance services at prevailing standards. We will have to adjust and reduce government consumption expenditure gradually in order to make more resources available for productive investment. Our long-term goal is to bring "individual and corporate tax rates down but conditions are not right to do this now."

Jacobs stressed the Budget would tackle structural economic problems. The most important of these were the Budget deficit of about 9% of GDP and government dis-saving (currently 7% of GDP).

"The impact of the Budget cannot be stimulatory. It will reduce dis-saving but its overall impact on the economy will be somewhat deflationary."

The effect of economic restructuring would inevitably be that the economy would go down for two years and unem-

LINDA ENSOR

ployment would probably increase. To compensate, government would consider public works and job-creating programmes in circumstances where an early economic turnaround was not likely.

Jacobs said he had held discussions with World Bank economists this week, and they felt confident about the economy as long as fundamental problems were addressed correctly. Referring to the new US economic package, he said increasing taxes was unpopular but necessary to put the Budget on the proper basis.

Jacobs said pension fund taxation would not be touched on in the Budget, but he would not comment on speculation regarding a tax on dividends, on state pension funds or on a further decrease in marketable securities tax.

He said the long-term economic model assumed an average annual economic growth rate of 3.5% over the next five years, reaching 4.5% by 1997. It was hoped by 1997 to absorb the annual increase in the labour force of about 600,000.

General savings would have to increase from the 17% of GDP to 20% — implying a growth of nine percentage points in GDP, equal to about R35bn. A further aim was to increase fixed investment to 23% of GDP (7% state and 15% private sector).

See Pages 3 and 10
Sacob cautions on tax increases

CAPE TOWN — Tax increases in the Budget should be avoided or kept to a minimum in the light of the precarious state of the economy, Sacob director-general Raymond Parsons said at a news briefing yesterday.

He noted in order to place the economy on a more productive basis, the tax burden should not increase and urged government to accept that the best way to address the Budget deficit was through economic growth.

Parsons argued that an increase in the VAT rate and in other direct and indirect taxes at a time when the economy was contracting was likely to heighten the severity of the recession. Sacob believed a VAT increase would place more pressure on disposable incomes and have inflationary consequences.

While Sacob estimated an increase in VAT rate to 15% would raise an additional R3,5bn and increases in fuel and other indirect taxes could add about R1bn, increased taxes would reduce collections in other areas.

Parsons said one of the major tasks of the upcoming Budget was to guard against “overkill” as wrong decisions could easily push the precarious economy further into recession.

Finance Minister Derek Keys was faced with a difficult balancing act. “On the one hand he needs to give attention to the structural issues, and on the other he is faced with demands for additional government consumption expenditure set against a narrow tax base that has little, if anything, to give.”

Parsons believed government had little option but to try and reduce its spending in real terms further, and might have to accept a deficit higher than 6% if it was unable to do so.

To achieve a deficit before borrowing of 6% of GDP — assuming there were no tax increases, GDP grew 1%, an average inflation rate of 9.5% and about R5bn in additional tax revenue — government expenditure would have to be cut by 9.4% in real terms. This appeared unlikely.

The two other alternatives proposed were for no tax increases and a 3% real cut in government spending which would bring the deficit down to 7.8% of GDP or for R5bn in additional tax and a 3% cut in real spending in which case the deficit would fall to 6.5% of GDP.

The worst combination would be higher direct and indirect taxes and a cut in government spending.

Parsons said the business community would judge the Budget on the basis of two criteria, namely the extent to which it helped rebuild business and consumer confidence and the extent to which it recognised present realities but also provided a clear indication of the direction to be pursued in future.

Parsons stressed of equal importance to the Budget were political developments and he urged that when multiparty political negotiations resumed, they should include an economic dimension.
PRETORIA — Food Logistics Forum joint chairman Raymond Ackerman yesterday made a “last gasp” plea to Finance Minister Derek Keys on behalf of the forum to free more basic food items from VAT.

Ackerman said the forum had repeatedly stressed to government the crucial need for unloading the tax from essential foods.

Obviously if this were agreed to some other source would have to be bled to compensate for lost revenue.

“But so be it. Unemployment and poverty and resulting hunger are spreading in this country and the least a compassionate government can do is to cheapen basic foods,” Ackerman said.

Economists said yesterday government was likely to give way for two sound reasons — humanitarian and political.

Ackerman stressed to scrap VAT on basic foods would be a goodwill gesture which would greatly improve the environment for negotiations.

Earlier in the week the Co-ordinating Committee on VAT called for a zero rating of basic foods and the establishment of an emergency feeding scheme.

Econometrix director Azar Jammine said the likelihood of a variable VAT system being imposed was strong.

This would allow a freeing of a range of basic foods from VAT but would necessitate an increase of as much as 15% in items not classified as luxuries.
Your Free Gift

Armies • Direct Benefits

BY MINHANLU MINHAN

Unpopular Tax Places Minister in VAT

May turn to blows

VAT budget blues

NEWS FEATURE

Swords drawn to flesh Government after revelations of existing money

The VAT system is said to be a major source of revenue for the Government.

The media has reported that the Government has been relying heavily on VAT to fund its operations.

However, critics argue that the VAT system is regressive and unfairlyburdensome on lower-income earners.

The Government has been stated to be considering measures to increase the VAT rate or expand its base.

This move is expected to generate controversy, with some predicting it may lead to a political backlash.

The Finance Minister has been accused of using VAT as a way to shore up the Government's finances.

The opposition has called for a moratorium on the introduction of new VAT measures until the impact on the economy can be properly assessed.

The Finance Minister has defended the move, saying it is necessary to fund important social programs.

However, many are concerned about the potential impact on businesses and consumers.

The VAT system has been in place for several decades and has become a significant revenue source for the Government.

Its introduction and changes have often been met with controversy and debate.

The Finance Minister has stated that the Government is committed to ensuring that the VAT system remains fair and effective.

The opposition has been critical of the Finance Minister's handling of the VAT system, accusing him of prioritizing revenue over the interests of the public.

The debate over VAT has been ongoing for years, with both sides presenting compelling arguments.

The Finance Minister has emphasized the importance of maintaining a strong and stable economy, while the opposition has called for a more equitable approach to taxation.

The VAT system continues to be a key focus of debate in the country, as the Government seeks to strike a balance between revenue generation and social responsibility.

The Finance Minister has promised to address concerns and work towards a fairer and more efficient VAT system.

The debate over the VAT system is likely to continue for some time, as the Government grapples with the challenges of revenue generation and social welfare.

The VAT system has played a significant role in the country's economic development, and its reform is expected to have far-reaching implications for the future.
Court told of 200,000 office staff.

Budget introduced higher fuel prices, higher excise tax on beer and wine, and increased excise tax on tobacco. The economy is in the doldrums.

President Nixon has lowered the minimum wage, but the President's action is devoid of substance. The economy is in the doldrums.

The economy is in the doldrums.

President Nixon has lowered the minimum wage, but the President's action is devoid of substance. The economy is in the doldrums.
Sacob warns Govt against ‘overkill’ on VAT and tax

By Sven Lüsche

The SA Chamber of Commerce (Sacob) has come out strongly against a rise in the VAT rate in the forthcoming Budget.

In a briefing to parliamentarians and correspondents in Cape Town yesterday Sacob Director-General Raymond Parsons said: “It would be unwise to increase VAT at this time and we urge that any increase that may have to be introduced is kept as low as possible.”

However, Parsons admitted that some tax increases could be unavoidable given the precarious state of the fiscal deficit.

Sacob was particularly concerned at the timing of a VAT rate hike.

“Imposing a higher VAT rate on a contracting economy is likely to increase the severity of the recession and could result in only a minimal increase in collections and reduced collections from other taxes.

“It could also re-politicise VAT just when the system had been accepted by both consumers and businesses,” Parsons added.

Target

In nominal terms he estimated that lifting VAT from 10 to 13 percent (assuming that further exemptions are limited) could raise R3.5 billion with a further R1 billion coming from other tax adjustments.

Against a backdrop of declining disposable incomes, increased taxes would undoubtedly reduce collections below the targeted R4.5 billion.

Sacob admitted, however, that in the absence of tax increases a meaningful reduction in the government’s deficit before borrowings was virtually impossible.

Without tax increases, Parsons estimated that — assuming GDP growth of one percent and average inflation of 9.6 percent — the state will raise an additional R9 billion in fiscal 1993/94 from existing taxes.

“To achieve a deficit before borrowing of not more than six percent of GDP, this implies that government would have to contain spending to around R105 billion — a reduction of 9.4 percent in real terms.”

Given that even Finance Minister Derek Keys’ commitment to a real spending cut of three percent has drawn widespread scepticism, Parsons admitted that this was an impossible task.

“Some increases in taxes might therefore be contemplated,” he said.

Preferably though Keys should try and reduce spending still further and may have to accept a deficit higher than six percent.

“The deficit is also a structural problem that has developed over a number of years.”

Time frame

“It is therefore inappropriate to try to correct this problem in a single Budget and we recommend that a broad commitment is made to reduce the deficit to internationally acceptable level over three years,” Parsons said.

He also warned that the Budget generally had to guard against “overkill” given the precarious nature of the economy.

“The Budget should aim at rebuilding consumer and business confidence, recognise present economic realities and provide a clear indication of the direction to be pursued in the future.”

Sacob also used the opportunity to revise some of its economic forecasts for 1993.

The Chamber now expects GDP to increase by a mere 0.5 percent, gross domestic expenditure to fall by 0.5 percent and inflation to reach nine percent by year-end (see table).
Don't up VAT says big business

Organised business opposed a rise in the VAT rate. The SA Chamber of Business said in Cape Town yesterday it would be unwise to increase VAT when the economy was still slowing down.

Finance Minister Derek Keyes is expected to raise VAT from 10 to 13 percent in this month's budget.

Report — Page 14
Tax increases will not be ‘staggering’

By AUDREY D'ANGELO
Business Editor

ALTHOUGH Finance Minister Derek Keys will have no choice but to raise taxes in the budget the increases will not be as “staggering” as some people fear, Rand Merchant Bank director and chief economist Rudolf Gouws said in Cape Town yesterday.

He pointed out, at a seminar organised by the Association of Corporate Treasurers of SA, that this country is already “way out of line” in the severity of personal and company taxation.

Although the nominal marginal tax rate for individuals, at 43%, is slightly lower than the international average of 44% it takes effect at a far lower level than in other countries.

Gouws said only Germany and Japan had higher nominal company tax rates than SA. And the loss of allowances had meant a steep rise in effective rates of company taxation.

“We are way out of line in effective rates of company tax and therefore the incentive for foreign companies to invest in SA is very poor.”

Pointing out that SA was now entering a fifth year of recession, Gouws said that normally “raising taxes and cutting (government) expenditure is the last thing you should do in a recession.”

But the size of the government’s deficit before borrowing meant that Keys would have no alternative.

“I think he’s going to finesse it — something in the middle,” Gouws forecast. “That is the best thing he can do.

“I don’t think we are going to get quite the staggering tax increase some people are expecting. Nevertheless a tax increase is something we can’t avoid.”

Gouws said Keys would also be unable to take drastic action to restructure the economy before the transition period to a government of national unity was over.

At this stage “his hands are tied.” This was one of the reasons it was crucial for the political process to be speeded up.

But both Gouws and Willie Breytenbach, professor of political science at the University of Stellenbosch, said that they were more hopeful of the future, because the major players seemed to be reaching consensus.

However, Breytenbach warned that expectations were higher than the economy could afford and this meant a real danger of populist economic policies leading to high inflation.

He said fears that the ANC would nationalise property were unfounded. And the ANC accepted federalism except that they refused to use the word — they called it “region- alism”.

The Western Cape was President F W De Klerk’s power base and demographic factors meant the National Party would continue to control it at least until the year 2000. Whites and coloured people were in the majority in the province.

And the total number of white, coloured and Asian voters in SA would be higher than their percentage of the population suggested, because a higher percentage of the black population was under 18.

De Klerk had the support of the bourgeoisie, business and the bureaucrats. The bureaucrats did not like what he was doing but they knew he was the only one who would look after their interests.

The fact that the Western Cape would remain “white-friendly” was the reason property values had held up so well — particularly in the Stellenbosch area, where houses had been priced out of the reach of young academics.

Breytenbach forecast that the ANC would split into the ‘haves’, including the union members, and the ‘have nots’.

It was increasingly being perceived as a Xhosa-speaking black African party.

It had the majority of black support — although Natal would be dominated by Inkatha. But it was losing support to the PAC, which was growing...
China spends R9m on office block

THE Great Wall Group, a trading company founded by the mainland Chinese government, has bought a film office block in Bedfordview to start its business venture in SA.

The office will be opened officially at a function this evening.

China's trade with SA previously was conducted discreetly through Hong Kong until political changes in SA prompted it to introduce direct trading links last year.

Exhibitions are now planned in both countries, starting in Johannes- burg in April with a trade expo organised by the China Council for the Promotion of International Trade.

The Great Wall Group will be involved in an exhibition in SA in September, when 100 corporations will display a variety of goods including textile, industrial, chemical, hardware products. SA businessmen will be invited to exhibit in Beijing in March 1994.

"We came here with the express purpose of facilitating trade and eco- nomic co-operation with SA," said the group's business manager Qingguo Jiang. "Apart from the Bedfordview offices, we have R2m in other assets and are looking into other real estate opportunities and joint investments with local businessmen. We also are hoping to invest in factories and manufactur- ing plants."

And China and SA Trading GM Cheonlong Liu said: "About 200 Chi- nese businessmen will come to SA to meet their counterparts and discuss business."

De Klerk rejects mine loss claim

CAPE TOWN: The government was not liable for losses suffered by SA company Swisshoward Diamond Mines, President F W de Klerk said in Parliament yesterday.

Replying to a question by William Landers (LP, Durban Suburbs), he said government had told Swisshoward Director Josias van Zyl there were no acceptable grounds for the appointment of an independent invest- igation into the alleged confiscation of the company's interests when the Lesotho government revoked its mining leases as part of the Lesotho Highlands water scheme.

Van Zyl had been told to direct any complaints to the Lesotho authorities. The Swisshoward issue is pending before the Lesotho high court.

The question had been why govern- ment had not intervened after SA nationals had suffered a R1m loss. De Klerk said he had to establish if the loss had been suffered, and then if intervention was required. — Sapa.

**Tax hike will slow economy**

PRETORIA: The tax hike to be imposed in the March 17 Budget will slow down an already almost static economy further and stagnation will continue into 1994, economists say.

Stellenbosch Bureau for Economic Research economist Nils de Jager said yesterday consumer confidence was at a low ebb anyway and would be depressed further as disposable incomes shrank.

Sales would decline further, spare industrial capacity, now at about 20%, was likely to increase, as would unemployment and crime.

The conventional Keynesian medi- cine for a rundown economy, De Jager said, was to increase state spending directed at creating jobs and to reduce taxation. However, in government's present Catch 22 situation, this was impossible.

It could be said taxation was being raised to pay interest on govern- ment's massive debt which had reached 9% or nearly R3bn.

Interest on the debt was the largest single Budget item, even exceeding the education vote.

De Jager said the debt problem had been aggravated by government writing off R1.8bn in drought aid in the coming financial year instead of over three years at first intended.

But, De Jager added, perhaps the most worrying consequence of higher taxation was the impetus it would give to greater unemployment.

Abasa senior economist Adam Ja- cobs said tax hikes would contrac- tion the economy further and could result in government's tax take from com- panies and individuals actually de- creasing in spite of the hikes.

"We are caught in a vicious circle with company profits and taxpayers' incomes threatened by declining con- sumer demand and growing un- employment," he said.

Jacobs said another serious conse- quence would be a further shrinking of personal savings.

Chamber call for wage restraints

MARIANNE MERTEN

THE Northern Transvaal Chamber of Industries has urged that wage restraint be included in Finance Minis- ter Derek Key's model for economic restructuring, it said in a statement yesterday.

The Key's model, due to be published this week, is thought to address economic restructuring to promote the productivity of resources.

Wages have risen over the past three years despite negative growth to such an extent that it has increased the unit cost of production, a chamber spokesman said.

Wage increases had created a structural economic problem which could not be addressed by only looking at wage restraints, but other factors such as export incen- tives and government control needed to be examined.
Unless the life assurance industry comes up with a practical alternative, retirement annuities are to be taxed on the Paye basis and not on Site, from the start of this month.

In 1988, in its continuing search for ways to reduce its administrative burden, Revenue placed annuities, receivable from RA policies, into the Site net. Under this system, the life company from which the retiree bought an annuity, made a final tax deduction according to a sliding scale (see table). This relieved the taxpayer of the obligation to submit a tax return and automatically routed the amount owing to Revenue.

However, the system gave taxpayers the opportunity to reduce tax, by purchasing several annuities from different life offices, thereby splitting their income. Revenue became concerned about the loss, actual and potential.

So it amended the Income Tax Act (in the 1992 Amendment Act) to place annuity income derived from RAs on to the Paye basis.

Old Mutual's Abri Meiring, chairman of the LOA taxation committee, says the life industry has been told that if it can devise and manage an administrative structure to detect splitting of annuity income, Revenue would be willing to continue with the Site system.

Proposals along these lines are soon to be considered by LOA member offices.

Gavin Came, of consultancy services at Liberty Life, says the problem of revenue losses through annuity splitting must be seen in perspective. Firstly, he believes annuity splitting never occurred on a large scale.

He says an individual shopping around for an annuity will generally be much more concerned with achieving the best level of benefits he can attain for his personal needs than with minimising his tax rate. So he will select a single annuity, instead of splitting his retirement credit to minimise tax.

Secondly, and more important, most RA policies are purchased by people who have shown good sense in retirement planning, notably professionals. By and large, these taxpayers also enjoy substantial incomes. So, when they take an annuity, they will usually have accumulated other income-earning assets.

They will, therefore, have to aggregate their income from all sources, some of which may have been taxed on a Paye basis, and file a tax return reflecting total income, regardless of what they do with their annuities. (The Site deductions of tax on the annuities would, of course, comprise a tax credit.)

Martin Kourie, of Momentum Life, concedes the difficulty of policing the Site system to prevent splitting. But he feels the switch to Paye will prejudice taxpayers who also receive pension or employment income, which would have been taxed on a Site-only basis but for the existence of RA income. This class of taxpayer will incur a large additional tax liability without being guilty of income-splitting. The example reflects an additional tax liability of R21 000.

### AN ADDED BURDEN

<table>
<thead>
<tr>
<th>Income sources</th>
<th>R</th>
<th>Tax on SITE only payer</th>
<th>Tax payable under PAYE</th>
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<td>Pension</td>
<td>40 000</td>
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<td>26 429</td>
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<tr>
<td>Interest</td>
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<td>4 975</td>
<td>26 429</td>
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The example involves no RA splitting. It allows for the loss of duplicated rebates on the SITE basis. The calculation is for a married taxpayer over 65.

Source: Momentum Life
Income tax loopholes to be drawn tight soon

LOOPHOLES in the Income Tax Act that could have cost the fiscus hundreds of millions of rand would be closed during the current session of Parliament, Inland Revenue spokesman Trevor van Heerden said yesterday.

One loophole meant companies could claim double deductions for certain expenditures or allowances— notably repairs, legal expenses, entertainment, and employee contributions to pension, provident funds and housing. When this first came to light, the Income Tax Act was changed to prevent these claims with effect from 1 January last year.

However, Van Heerden said certain tax consultants were advising clients to claim a double deduction of expenditures for the years before the amendment became effective. Inland Revenue had been inundated with demands to reopen assessments to claim refunds.

Van Heerden said an unreported case which found in favour of double deduction was used as a precedent to make a case for reopening assessments. It was therefore decided to make the amendment retroactive, thereby ruling out any possibility of double deduction.

The tax change would mean final assessments (older than three years) would not be reopened to disallow double deductions where they had already taken place.
Revenue system revamp sought

COSATU wants an independent tax commission established — including "civil society" representatives — to draw up a more effective and equitable tax system for the "transitional executive council" by September.

It expects the commission recommendations to be included in the 1994 Budget. Cosatu's proposals for a tax commission are supported by the DPSA, straining against VAT, which had done nothing to stimulate the economy, was merely a revenue instrument for a government guilty of the most monstrous corruption and waste.

It was completely unacceptable for government to increase VAT — hitting poor people hardest — while corruption, golden handshakes and perks among civil servants continued and comprehensive audit of all government departments was demanded. He warned of budget demonstations, but doubted there would be industrial action.

Naidoo said Cosatu was not negotiable.
On 3 June 1992, I announced an amendment to the Income Tax Act, 1962, to exempt from tax the interest receipts and accruals of individuals who are not ordinarily resident in the Republic of South Africa and companies which are managed and controlled outside the country. Emigrants also qualify provided they do not carry on a business in South Africa. The exemption was granted with effect from 3 June 1992.

Before this announcement, the taxation of non-residents’ interest income received widespread coverage in the media. It was argued, on the basis of an impression created by an announcement in 1988 about the withdrawal of non-residents’ tax on interest, that non-residents were not subject to South African taxation. A number of non-residents had stopped declaring their interest after the 1988 announcement and were not taxed on this income.

Since the announcement of 3 June 1992, non-residents have expressed concern about the fact that the Commissioner for Inland Revenue maintains the authority to act on untaxed interest received or accrued before 3 June 1992.
As a result of problems experienced in obtaining income tax returns and collecting tax from non-residents and concern that non-residents may decide to withdraw their investments from South Africa, I have decided to recommend to Parliament this year that section 10 of the Income Tax Act, 1992, be amended as follows:

Section 10 of the Income Tax Act, 1992 (Act No. 141 of 1992), is hereby amended by the addition to paragraph (c) of subsection (2) of the following proviso:

"Provided that any interest received or accrued before that date shall be exempt from tax, unless an assessment was raised with a date of assessment before that date and such interest was assessed to tax under such assessment."

The proposed amendment means that no further assessments will be issued on or after 3 June 1992 in respect of interest received by or accrued to non-residents before 3 June 1992. Where assessments in terms of which non-residents' interest earnings have been taxed, have been issued on or after 3 June 1992, tax refunds will be made by the Commissioner for Inland Revenue upon written application by the taxpayer or his authorised representative.

Issued by: The Finance Ministry, Cape Town.

Contact: Mr J. J. Louw. Tel. (012) 315-5388, Pretoria.

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GOVERNMENT NOTICES

ADMINISTRATION:
HOUSE OF ASSEMBLY

DEPARTMENT OF LOCAL GOVERNMENT,
HOUSING AND WORKS

No. 324  5 March 1993

RENT CONTROL ACT, 1976

EXEMPTION OF CERTAIN DWELLINGS, GARAGES,
PARKING SPACES AND SERVANTS’ ROOMS
FROM RENT CONTROL

I, Jacobus Theron Albertyn, Ministerial Representative for South-Western Cape, Administration: House of Assembly, in accordance with the powers granted to me by Government Notice No. 1469 of 8 December 1989, hereby declare under section 51 (g) of the Rent Control Act, 1976 (Act No. 80 of 1976), that—

(a) the dwellings mentioned in the Schedule hereto, are, as from the date on which the occupation of an existing lessee of such a dwelling is lawfully terminated or the date on which the monthly income of such lessee, as defined in Proclama-

As gevolg van probleme ondervind met die verkryg-
ging van inkomstebelastingopgewese en die invoer-
dering van belasting vanaf buitelanders asook kommer dat buitelanders moontlik hul beleggings uit Suid-Afrika mag onttrek, het ek besluit om van-
jaar by die Parlement aan te beveel dat artikel 10 van die Inkomstebelastingwet, 1992, soos volg gewysig word:

Artikel 10 van die Inkomstebelastingwet, 1992 (Wet No. 141 van 1992), word hierby gewysig deur die volgende voorbehoudsbepaling by paragraaf (c) van subartikel (2) te voeg:

"Met dien verstande dat enige rente ontvang of toegeval voor daardie datum van belasting vrygestel is, tensy 'n aanslag met 'n datum van aanslag vroeër as daardie datum gedoen is en bedoelde rente onder daardie aanslag vir belasting aangeslaan is."

Die voorgestelde wysiging beteken dat geen verdere aanslae op of na 3 Junie 1992 uitgereik sal word nie ten opsigte van rente wat voor 3 Junie 1992 deur buitelanders ontvang is of aan hulle toegeval het. Waar aanslae ingevolge waarvan buitelanders se renteverdienste belast is, op of na 3 Junie 1992 uitgereik is, sal terugstelings van belasting deur die Kommissaris van Binnelandse inkomste op skriftelike aanvraag deur die belastingplichtige of sy gemagtigde verteenwoordiger, gedoen word.

Uitgereik deur: Die Ministerie van Finansies, KAAPSTAD.


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GOVERNMENT NOTICES

ADMINISTRASIE:
VOLKSRAAD

DEPARTEMENT VAN PLAASLIKE BESTUUR,
BEHUISING EN WERKE

No. 324  5 Maart 1993

WET OP HUURBEHEER, 1976

VRYSTELLING VAN SEKERE WONINGS, MOTOR-
HUISE, MOTORSTAANPLEKKE EN BEIDIENDE-
KAMERS VAN HUURBEHEER

Ek, Jacobus Theron Albertyn, Ministeriële Verteenwoordiger vir Suidwes-Kaapland, Administrasie: Volksraad, handelende kragtens die beloofde my verleen by Goewermentskennisgewings No. 1469 van 8 Desember 1989, verklaar hierby kragtens artikel 51 (g) van die Wet op Huurbeheer, 1976 (Wet No. 80 van 1976), dat—

(a) die wonings genoem in die Bylase hiertoe, met ingang van die datum waarop 'n bestaande huurder van so 'n woning se okkupasie wettiglik beëindig word of die datum waarop sodanige huurder se maandelikse inkomste soos omskryf
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<td>Mining leases &amp; ownership</td>
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<td>South African Development Trust Fund</td>
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Reconciliation with statement published by Government Printed in Government Gazette No. 198 in Government Gazette No. 15 of 12 February 1993:
| In Transit/Overseas, 31 December 1992 | | | |
| Collections as above | | | |
| In Transit/Overseas, 31 January 1993 | | | |
| In Transit Revenue Account: Administrators | | | |
| Received into Exchequer Account | | | |
Bursaries: children of employees hardest hit

TAX exemptions for bursaries and scholarships applying to children of employees are still inadequate, and should be reconsidered in the light of the education crisis, says Dave Dickens of International Compensation. "Although the Department of Inland Revenue has relented on certain aspects of the taxation of scholarships and bursaries, children of employees are still hit hardest," he says.

According to the draft circular notes circulated by the department, only employees earning less than R56,000 a year are entitled to a tax-free bursary to the value of R1,200 per dependent. "Our special survey on company-sponsored educational assistance revealed that this area of corporate social responsibility was directed specifically at low-income employees for tertiary education purposes," says Dickens. "The present ceiling of R1,200 for bursaries is absurd, because tertiary education fees alone can amount to more than R4,000 per annum."

Dickens states that the most important criterion for the awarding of company bursaries was financial need, and in many cases, multinationals in South Africa were compelled to offer this form of educational support in terms of the now defunct Sullivan Code. "Where the bursaries are most needed, the most restrictions apply," he points out. "We are currently motivating very strongly to the Department of Inland Revenue to reconsider this aspect of the Act."
Mr's question: To pay or not to pay?
CIB’s R50-million Bank guarantee

RESERVE Bank Governor Chris Stals says guarantees to Cape Investment Bank depositors could amount to about R50-million more than half of which could be recovered when CIB’s final liquidation comes through.

The Reserve Bank agreed to compensate CIB depositors to the tune of R5-million each when CIB was placed in provisional liquidation. “This is part of our function as lender of last resort. Every bank runs into liquidity problems at some point.”

Reserves fall by R490m

Gold and forex reserves fell R143-million or 5.6% in February after dropping R500-million in January. This dashes hopes of another cut in the bank rate as it gives the Reserve Bank little room to relax its monetary policy, says Nedcor chief economist Edward Osborn.

The Reserve Bank sold 15% of its gold holdings in January, which Mr Osborn says is probably to finance debt repayments, part of which fell due in February. The balance is to be paid in August and December this year.

3.2% more in revenue

Revenue collected for the Exchequer during the first 19 months of the 1992/3 financial year reflects an increase of 3.2% compared with the corresponding 10 months of the previous financial year. The CSIR reports that this amounts to only 14.8% of the 13.2% increase budgeted for.

Productivity building plan

The CSIR has launched a programme to help increase productivity in the depressed building and construction industries. The council says that for every 1% increase in productivity in the R32-billion industry, savings of R300,000 can be achieved each day.

A new range of electronic information tools has been developed for the smallest to largest companies. Quantity surveyors, architects, engineers, contractors, manufacturers and suppliers of equipment will all have co-ordinated tools for increasing productivity and cost effectiveness.

Netsys wins major deal

Phedoria-based communications specialists Netsys International has won a contract against five large international companies, including conglomerates from France and the US, to supply a R5-million SA-designed and built computer.
Get ready to pay higher taxes

THE budget Finance Minister Derek Keys presents next Wednesday will hit the pocket of every single South African.

Taxes will go up while steps will probably be announced that will lead to even higher unemployment.

The reality the budget will bring home is that the SA economy is in a critical state.

It is simply not producing sufficient revenue to finance state expenditure.

There are many reasons for this state of affairs, not the least being a bloated and greedy state bureaucracy.

The other is the years of recession caused mainly by our volatile and unstable political situation.

Business confidence is at a very low level and too much money is leaving the country.

Up till now the shortfall in revenue has been made good by massive borrowings by the state. But this cannot continue indefinitely and that is the key reason why Keys will have to increase taxes.

The main source of new income is likely to be a boost in the VAT rate to at least 12 percent.

Our personal and company tax rates are already among the highest in the world. Any further increases may well be completely counterproductive as the average taxpayer can only be milked up to a point before he stops increasing his income generation or even tries to hide as much of his income as possible. This leaves Keys with very little room to manoeuvre.

Yet it is essential that we tackle certain structural problems in the budget. The most important is without doubt the enormous budget deficit, currently equal to about nine percent of our Gross National Product (GNP).

An alternative to tax increases to finance the deficit is, of course, that state expenditure be cut by a similar percentage.

This is always easier said than done and will depend on the negotiated political dispensation SA is heading towards. Yet no matter who controls the state and its civil service, if we wish to resume economic growth it is essential that the state’s share of the economic cake be reduced.

What we will probably see is a combination of the above: higher taxes on the one hand and a cut in the growth of government expenditure on the other.

Hopefully Keys will be able to bring down the deficit to more manageable proportions. This is going to be a complicated balancing act and he will probably end up being unpopular with all parties!

Long term the solution lies in economic growth. People who have work and companies which show good profits can pay taxes to fill the state coffers.

But, as our politicians and other leaders are discovering, economic growth cannot be attained in a climate of uncertainty.
POLITICAL and labour leaders should exercise extreme caution when threatening non-payment of taxes, business and management consultant Mashudu Ramano says.

"Ramano, head of Ramano and Associates, said at the weekend that although the outcry against SITEx overpayments and calls for PAYE boycotts might be justified, it was important not to undermine the ability of government to raise taxes.

Unionists and politicians should educate people to adopt a responsible attitude towards tax. It was a vital vehicle, even for future governments, to run SA on an economically sound footing. A culture of non-payment in respect of taxes would be dangerous for a future SA, he said.

There was an uproar last year on political and labour fronts over tax overpayment, with employers being cited as the main culprits for excessive deductions from workers' pay packets and the Receiver of Revenue being accused of "fleeing low-paid workers" of millions.

Ramano also took a swipe at tax accountants who advocated tax avoidance schemes. "The practice of forever trying to find ways not to pay creates a conflictual relationship between tax accountants and government. This can be unhealthy for not only the present government, but also the future one."

"The authorities must have revenue to provide for and run the country, and this will be extremely difficult if the people have taken up a culture of non-payment," said Ramano.

Ramano said his company had developed, in conjunction with tax expert Matshuru Matshuru, a tax education programme covering PAYE, SITEx and other tax matters.

The course is to be launched next month and was conceived in 1991. "We have consulted widely with labour, political and business leaders and it should help people to adopt a healthier attitude towards tax and enable present and future government to run an economically sound SA," Ramano said.

He called on government to set aside funds for tax education programmes since most people in SA knew little or nothing about tax.

"Employers, too, should see to it that not only their salary department staff are educated in tax, but their entire staff. It is as much the responsibility of government as it is of the private sector to have a healthy economy," he added.
Protest against high tax on married women

COSATU is to stage a lunch-time picket today outside the Receiver of Revenue offices in Johannesburg to protest against high tax rates for married women.

This is one of the Cosatu events to mark International Women’s Day today.

Cosatu gender co-ordinator Dorothy Mokgalo said a charter of women’s rights would also be launched.

The charter contains demands on maternity rights, including 12 months’ fully paid maternity leave, job security, an end to victimisation for pregnancy, removal of sexual violence, sexual harassment at work, education and training and the establishment of child care centres.

Mokgalo said the lack of child care facilities at union meetings and congresses prevented women workers from participating fully in these events. Cosatu is tackling this problem as well as rescheduling meetings to accommodate women.

A march on John Vorster Square will be held this afternoon to deliver a memorandum on women and violence.
Japan in era of change

Critical days ahead for

Project raises high tax on married women

BUSINESS DAY, Monday, March 8, 1993

GROUP FINANCIAL STATEMENTS

AND DEPRECIATION OF PROPERTY
PRELIMINARY PROOF ANNOUNCED 1992

W & B HOLDINGS LIMITED

Incorporated in the Province of New South Wales (Registration number of AD/007998)

(continued in the next column)
Tax breaks for small business?

JOHANNESBURG.—Bad news in the budget was expected to be tempered by tax breaks for small business and public investment spending aimed at job creation, sources said last week.

The moves are understood to be part of Finance Minister Derek Keys’s long-term restructuring plan, due for release this week. It is expected that small businesses with a turnover of below R1m will pay a few percentage points less income tax than other businesses, while there may also be personal income tax relief for individuals employed by these enterprises.

Public sector investment projects are expected to be undertaken in a labour-intensive way to maximise job creation. Sources said it was not yet clear whether specific amounts would be set aside for job creation, or whether the issue would be tackled by maximising the labour content on public investment projects.

The National Economic Forum’s short-term working group is studying job creation proposals, with small business and public works key features of the suggestions received.

While only minor aspects of the Keys plan are expected to be translated into action this fiscal year, Keys will show how the budget fits in with the long-term strategy.
Lower company tax ‘crucial’ to Keys’s plan

CAPE TOWN — A plan to reduce the nominal rate of company tax from 48% to 40% by 1997 formed a vital part of Finance Minister Derek Keys’s economic model due for release today.

This was said yesterday by tax advisory committee member and Wits University Centre for Applied Legal Studies director Prof Dennis Davis at a Cape Town Chamber of Industries/Deloitte & Touche seminar on taxes in a new SA.

He added that the model included a plan to narrow the wide gap between the nominal and effective rates by cutting down on tax allowances and incentives.

Davis said he had read through the model’s proposals for a fundamental re-structure of SA’s tax system. This would involve government becoming more aggressive in its treatment of corporate tax allowances and tax planning schemes in order to fuse the nominal and effective tax rates. He estimated that in 1992 the fiscus “gave away” over R1bn in allowances.

Davis said there was greater likelihood of SA attracting foreign investment if its nominal tax rate was 40% rather than 48%.

There was a marked disparity between the nominal rate and the effective rate which often fluctuated between 20% and 30%.

The model also recommended a shift in emphasis towards indirect taxes so that by 1997 they represented 66% of total tax revenue. This would be achieved by increasing VAT and excise duties.

Keys’s model proposed that the tax burden on individual taxpayers be reduced, with the maximum rate falling from 48% to 40%. Fiscal drag would be dealt with by reducing tax brackets.

The model assumed that GDP growth would reach 4.5% by 1997 and that the percentage of tax revenue of GDP would fall from its high of 30% to 24.4% by 1997.

Company tax 8/3/93

while government dissaving would be eliminated. Davis said the tax to GDP ratio in SA was far higher than should be the case for a developing country.

He felt a key omission from the model was proposed ways of decreasing the wastage in government expenditure and increasing its efficiency.

Davis said the model’s proposals were not very different from ANC thinking on taxes. He said the ANC accepted it could not increase the percentage of tax revenue to GDP but would focus on restructuring the tax system using a multiple-rated VAT system as a key tool.

There was concern within the ANC over income earners in the middle to lower brackets bearing too great a tax burden.

Davis said that in the 1989/90 fiscal year, 79% of all direct income tax was levied on persons earning between R20 000 and R80 000 a year. About 45% of personal income tax was collected in that year from those earning R20 000-R40 000.

There was also consensus on simplifying the tax system, getting rid of allowances, and on the need to reduce the gap between the nominal and effective tax rates.

Keys has said previously that the model provided for an increase in government and parastatal investment from 4% of GDP to 7%, while private sector fixed investment would rise from 12% to 15%.
New tax on dividends is unlikely to gain a tax benefit.

CAPE TOWN — The reintro
duction of a tax on divi
dends was highly unlikely in the forthcoming Budget as it would require an in-depth examination of alternative systems beforehand, Tax Advisory Committee member and Wits University Centre for Applied Legal Studies director Prof Denis Davis said yesterday.

Speaking at a Cape Town Chamber of Industries/ Deloitte & Touche seminar on taxes in the new SA, Davis said there was consensus by the Tax Advisory Committee that it would not be possible to simply reintroduce the old "chaotic" dividend tax.

Any dividend tax would have to examine the use made of pension funds for tax planning purposes.

Alternative systems of dividend taxation such as advance corporation tax in the UK and the franked system of dividends in Austra
ilia would have to be investigated before the tax was introduced again in SA.

However, Davis said there could be no doubt a dividend tax could be ex-

pected in future as it was considered unacceptable to allow redistribution to wealthy shareholders at the expense of lower and middle income groups.

He believed a government of national unity would not drastically change the tax system as its policy would probably be a compromise. In any event the ANC's tax policy did not differ dramatically from what existed.

The ANC and government shared the view that there was little room to impose further taxes on lower and middle income earners.

Within these constraints a new government would have to focus on enhancing the efficiency of the system and closing loopholes.

Davis expected the tax avoidance section of the Income Tax Act (Section 103) to be fundamentally changed as it was too vague at present.

Changes would probably put the onus on the taxpay
er to prove he did not structure his tax planning mere-
About 100 women staged a picket outside the Receiver of Revenue offices in Johannesburg yesterday to mark International Women's Day and delivered a memorandum addressed to Finance Minister Derek Keys which called for an end to the taxation of voteless people.
Bad news for taxpayers likely in Budget next week

BRUCE CAMERON
Business Staff

A TOUGH Budget is certain next week as the government takes its first tentative steps to implement an economic blueprint to pull the economy out of its longest recession since the great depression of the early 1990s.

Finance Minister Mr Derek Keys yesterday unveiled the model which aims to resolve the country's economic woes within five years.

But in his first Budget his options are limited by conditions he has inherited and taxpayers can expect bad news.

Premises of major tax reductions in the model cannot be met in this Budget but a swing away from direct to indirect taxation will be initiated with an increase of two to three percent in VAT and a higher petrol levy.

But, in a move to protect the poor, Mr Keys is expected to abolish VAT on a range of basic food next Wednesday.

Key elements of the model are:

- To switch the negative current growth rate to a positive 4.5 percent by 1997;
- To tailor government spending to meet its revenue;
- To cut tax rates, particularly company rates, from 48 to 40 percent over the next five years;
- To reduce inflation to five percent by 1997;
- A substantial increase in capital investment by the private and public sectors, adding a further R31 billion at 1985 constants;
- The creation of an extra 1.3 million jobs;
- The removal of barriers and protective tariffs to help push exports with export-driven growth seen as the starting point for revival of the economy;
- The reduction of government interference and participation in commerce and industry;
- Getting rid of expensive apartheid structures, particularly in areas such as education; and

See page 13.
COSATU Warna of 'a very bleak future' to Wyman's new offer

COSATU Warna, led by Velile, warning of MPs that it will not accept the new offer made by Wyman.

The congress of South Africa Trade Unions (COSATU) has today warned MPs that it will not accept the new offer made by Wyman.

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Little likelihood of tax cut

By Sven Lüüsche

One aspect of the Normative Economic Model that is bound to receive widespread approval is its commitment to reducing the total tax burden over five years.

Yet, looking ahead to next week’s Budget, lower tax rates are unlikely to be introduced before the 1994-95 fiscal year.

Instead, taxpayers should expect a number of hikes, mainly in the form of indirect taxation. These include:

- An increase in VAT to 12 or 13 percent, accompanied by a small extension to the number of foodstuffs that are zero-rated.
- A rise in the petrol levy, probably of about 10c a litre, increasing the total petrol price by 10c to 20c a litre.
- An increase in some customs and excise duties, with tobacco and beer especially strong candidates.

There is also likely to be an increase in real income tax paid by individuals, though tax drag, as inflation-adjusted wage increases push taxpayers into higher tax bands.

These measures seem to run counter to the economic model’s commitment to lower tax rates.

But economists say that, given the vast fiscal deficit — expected to reach R30 billion, or nine percent of gross domestic product (GDP), for 1993-94 — large tax reductions are simply impossible.

They will be possible only once Finance Minister Derek Keys has achieved substantial expenditure cuts.

In his model, he aims at balancing current expenditure and revenue by the end of the programme’s term in 1997 and effectively limiting state borrowing for capital expenditure only.

Judging by his record so far most state departments are well on the way to implementing Keys’s three percent real expenditure cuts through staff retrenchments and low wage increases — this is the one area where he is most likely to succeed.

For the rest, he must be hoping the spending cuts will allow sufficient leeway to introduce the desired tax cuts over the remaining four years until 1997.

The most ambitious target, when viewed against the likelihood of an ANC-dominated government in the not-too-distant future, is a decline in the corporate tax rate from 48 to 40 percent.

Reducing the lower ceiling of individuals’ marginal rate from 48 to 40 percent will prove meaningful only if it is accompanied by efforts to eliminate the effects of fiscal drag, to which the model is committed.

The easing of the model’s tax targets is shifting the share of direct tax in total tax revenue from its present level of 55 to 50 percent by 1997. The expected increase in VAT next week will go a long way to achieving this aim.

Overall, however, economists believe that Keys is sincere in his attempt to reduce the overall tax burden.

The report concedes that “The tax-paying public in general, and its entrepreneurs in particular, perceive the current levels of personal and company taxes as too high, compared with the public benefits they perceive to flow from government expenditures, and to the levels of such taxes in other middle-income countries.”

<table>
<thead>
<tr>
<th>Keys’s tax proposals</th>
<th>1992</th>
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<td>40</td>
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<td>Change in the tax structure (% direct)</td>
<td>55</td>
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</tbody>
</table>
Plan to raise growth to 4.5%

Staff Reporter

FINANCE MINISTER

Mr. Derek Keys yesterday unveiled a five-year plan to raise South Africa's growth rate to 4.5% by 1997 through cutting taxes, slashing government spending and raising fixed investment.

The strategy also envisaged an inflation rate of 5% by 1997, with employment growth and income redistribution. If the aims are reached over the next five years, 1.3 million formal jobs would have been created.

After the announcement yesterday, Cosatu officials met Mr. Keys and presented to him proposals for the independent tax and audit commissions. It envisages for the monitoring of state expenditure.

The delegation also outlined Cosatu's demands concerning the VAT zero-rating of basic foodstuffs, water, electricity and medical services and its opposition to any increase in either direct or indirect tax.

A statement issued by Cosatu after the meeting yesterday said the planned tax commission could be charged with reviewing the entire tax system by September 1993 to enable its recommendations to be embodied in the 1994/5 budget.

● Keys unveils SA's five-year growth plan — Page 9
Don't increase VAT, urges Cosatu

Staff Reporter

COSATU today welcomed the lifting of VAT from basic foods and appealed to Finance Minister Mr Derek Keys not to increase the VAT rate.

The organisation, representing millions of workers, said the government should concentrate on controlling corruption, wastage and duplicated expenditure before considering increasing the tax burden.

The basic foodstuffs zero-rated for VAT purposes are: rice, fresh fruit and vegetables, fresh milk and certain cultured milk, brown wheaten meal, eggs, and legumes and pulses (peas and beans).

Cosatu questioned why fish and white bread were not being exempted and criticised Mr Keys for refusing to zero-rate medicines, medical services, electricity and water.

The zero-rating of basic foods should not be seen as a trade-off for an increase in the general VAT rate, Cosatu said.

The organisation remained "implacably opposed to any increase in the VAT rate, or other taxes affecting the poor and working people."

"Leaks to the media have attempted to prepare people for an increase in VAT to between 12 and 14 percent. We want to warn the government our people are not prepared to accept it."

Mrs Ina Perlman, executive director of Operation Hunger — South Africa's largest food aid charity — said the decision to zero-rate more basic foods could "only be applauded."

Mrs Perlman said a "huge concern" was the increasing numbers who did not qualify for relief and could no longer afford to feed families."

• See page 4
Vaat Relief

More foods to be zero-rated
Govt drops VAT on some basic foods

FINANCE Minister Derek Keys last night announced the zero rating of VAT on certain basic foodstuffs from next month — a move that will mean an immediate 10% reduction in some food prices.

The decision, aimed at helping the poorest sections of the community, came after months of difficult negotiations with the Cosatu-led VAT Co-ordinating Committee (VCC). Keys described the deal with the VCC as “a meeting of the minds of two parties formerly at loggerheads”. The VCC said the zero rating was “the best that could be achieved at the present time”.

Keys’s decision flies in the face of IMF advice to keep the system pure but goes a long way towards lessening the threat of mass action after the Budget.

The following foods would be zero rated: from April 7: rice, fresh vegetables (dehydrated, canned and bottled vegetables are excluded), fresh fruit, vegetable oil used for cooking (excluding olive, soya-bean and cotton seed oil), milk (excluding condensed, flavoured, sweetened, evaporated and concentrated but including ultra-high temperature treated milk), cultured milk, brown wheaten meal, raw eggs and bean family vegetables.

The VCC regretted the decision not to zero rate red and white meat, white bread and fish.

An issue of major concern to Keys and the VCC was whether the price reductions would be passed on to consumers. Keys said the Food Logistics Forum had made a valuable contribution to bringing the “unbridled” rise in food prices during 1993 under control. “We appeal to them to play an equally valuable role now in ensuring that the prices of the products concerned reflect their changed VAT status.”

The VCC said it would approach the food industry and retailers to ensure the price decreases were passed on to consumers.

The VCC had also tried to secure zero rating of electricity, water, medical services and medicines as well as to extend the tax breaks to small businesses. Keys said, however, that it would be a “wasteful, expensive and inappropriate remedy” and that direct attention by the different authorities would be the correct approach.

The Finance Department had facilitated the committee’s access to these authorities, but would not be further involved.

The VCC said it had discussed with Escom ways of providing cheaper electricity to poor communities. Escom would propose to the National Electrification Forum plans for block tariffs which provided a cheap lifetime supply of electricity to households which consume little power.

Cosatu, on the other hand, was left to wonder whether the zero rating of foodstuffs should now be seen as a trade-off for an increase in the general VAT rate. Noting that the rate was expected to rise to 12%-14%, Cosatu said: “We want to warn the government our people are not prepared for this, and are not prepared to accept it.” It also regretted the decision not to zero rate medicines.

Keys said there were problems associated with the zero rating of products — it weakened the efficiency of the VAT system and distorted relative prices.
Vat lifted from some foodstuffs

water and electricity:

By Mzimkulu Malunga

The government yesterday announced tax exemptions on a number of basic foodstuffs, including eggs, fresh milk, brown wheatmeal, rice, fresh fruit and vegetables, legumes and pulse.

The move follows negotiations earlier with the Vat Co-ordinating Committee, which included Cosatu.

The country's largest labour federation welcomed Keyes' decision to zero-rate basic foodstuffs but was concerned at the Finance Minister's reluctance to do the same for the other items.

"We find it anomalous that he is resisting zero-rating medicines, despite the fact that the relevant Minister, Rina Venier, supports zero-rating of medicines," Cosatu said.

Cosatu met with Keyes on Tuesday to express its opposition to any increase in Vat and stressed the need for additional zero Vat-rating on basic foodstuffs, water and electricity tariffs, medicines and medical services.

However, in a surprise statement a week before the budget, Keyes said: "On all of these issues (electricity, water, medical services and medicines) the Department of Finance maintains its view that a change in the rating for Vat purposes would be a wasteful, expensive and inappropriate remedy."

Earlier the head of the ANC's economics department, Trevor Manuel, said if the government wanted to increase indirect tax it should exempt basic foodstuffs from Vat.

He was reacting to the Government's proposed economic model for South Africa in the next five years, tabled by the Finance Minister on Tuesday.

Mr Mahlomola Skhosana, assistant general secretary of the National Council of Trade Unions, said his organisation had not yet received the full report and would comment at a later stage.

The document received a cautious welcome from a number of other organisations as a valid contribution to the ongoing economic debates.
ANC-led government unlikely to raise taxes
Basic food exemption from VAT welcomed

The Argus Correspondent

Johannesburg. — The government has bowed to pressure from consumer groups and trade unions by exempting a range of basic food from VAT.

But in exchange it is probable that an increase in VAT on all other goods and services from 10 percent to between 12 and 14 percent will be announced in the budget on Wednesday.

Finance Minister Derek Keys said in a statement that rice, vegetables, fruit, vegetable oils, milk, cultured milk, eggs and brown bread would be zero-rated with effect from April 7.

Mr Keys said the deal was struck after successful negotiations between the Department of Finance and the VAT Co-ordinating Committee (VCC), an umbrella body of various interest groups led by Cosatu.

Responding to the announcement, the VCC’s Mr Bernie Fanaroff said the committee had accepted the zero-rating on basic food “as the best that could be achieved at the present time”.

Economists said yesterday that Mr Keys, in exchange for agreeing to the zero-rating, would raise VAT by between two and four percent when he presented his budget next week.

In a statement separate from the VCC announcement, Cosatu said its acceptance of the zero-rating of basic food should in no way be seen as a trade-off for an increase in VAT.

The trade union federation warned that an increase in VAT “would not be accepted by our people”.

“It is Cosatu’s view, which we expressed to Minister Keys on Tuesday, that the billions extra they want to raise via VAT and increased personal taxes should rather be recovered via control of corruption, wastage and duplicated expenditure,” Cosatu said.

In its statement the VCC also regretted the government’s decision not to exempt other food, such as meat, white bread and fish, as well as medicines, medical services, water and electricity.

But the VCC disclosed that Eskom would soon be proposing a cheap supply of electricity to households which consume less electricity as part of the block tariff system.

Defending the decision not to extend the zero-rating to other goods and services, Mr Keys said it would weaken the efficiency of the VAT system and distort relative prices.

“A change in the VAT rating for basic services is wasteful, expensive and an inappropriate remedy. Direct focused action by the responsible authorities is the preferred alternative,” the Minister said.

Mr Keys and the VCC said they would approach the Food Logistics Forum, which represents large chain groups, to ensure the zero-ratings were passed on to consumers through an immediate 10 percent cut in prices.
Three die as plane falls apart

Three people were killed when a small plane crashed into a house yesterday in Scarsdale, N.Y.

The plane was a single-engine Cessna 182, operated by a private pilot. It was en route from LaGuardia Airport in New York City to a destination in Connecticut.

The plane crashed into a house in the 4200 block of Westchester Avenue around 5:45 p.m., according to officials.

Rescue crews responsive reported at least two people were killed and several others injured.

The cause of the crash is under investigation by the National Transportation Safety Board.

Officials said the plane appeared to have hit a power line before crashing into the house.

The plane was carrying two passengers and the pilot, who was from New York City.

Rescue crews were able to free one of the passengers from the wreckage, but the other two died at the scene.

The house was heavily damaged and a large area around it was cordoned off for safety reasons.

Several neighbors said they heard the plane pass over their homes and then crash into the house.

The crash occurred near a busy intersection, causing traffic delays in the area.
The VCC’s Bernie Panaroof said the committee had accepted the zero-rating on basic foodstuffs “as the best that could be achieved at the present time”.

Economists said yesterday that Keys, in exchange for agreeing to the zero-rating, would raise VAT by between two and four percentage points when he presented his Budget to Parliament next week.

In a statement separate from the VCC announcement, Cosatu said its acceptance of the zero-rating of basic foodstuffs should in no way be seen as a trade-off for an increase in the general VAT rate. The trade union federation warned the Government that an increase in VAT “would not be accepted by our people”.

“It is Cosatu’s view, which we expressed to Minister Keys on Tuesday, that the billions extra they want to raise via VAT and increased personal taxes should rather be recovered via control of corruption, wastage, duplicated expenditure, etc.” Cosatu said.

The VCC, in its statement, said it regretted the Government’s decision not to exempt other foodstuffs, such as meat, white bread and fish, as well as medicines, medical services, water and electricity. The VCC disclosed, however, that in the ANC’s soon to be proposed a cheap supply of electricity to households which consumed less electricity as part of the block tariff system.

Defending the decision not to extend the zero-rating to other goods and services, Keys said it would weaken the efficiency of the VAT system and distort relative prices. “A change in the VAT rating for basic services is wasteful, expensive and an inappropriate remedy. Direct, focused action by the responsible authorities is the preferred alternative.”

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DEPARTMENT OF FINANCE

PRESS STATEMENT

by the

COMMISSIONER FOR INLAND REVENUE

CONCERNING THE DOUBLE DEDUCTION OF EXPENDITURE

Section 23B was introduced into the Income Tax Act to prohibit the allowance of any double deduction of expenditure or allowances except in instances where the Act expressly allows it. Taxpayers had, for example, claimed expenditure under the general deduction formula of section 11 (a), read with section 23 (g), and again under a specific section of section 11. This was clearly not what the legislature had intended nor was it the official practice of Inland Revenue to allow it. Section 23B was introduced with effect from the commencement of years of assessment ending on or after 1 January 1992.

It has come to my attention that certain tax consultants are advising their clients to claim a double deduction of certain expenditure for years of assessment prior to the year in which the amendment took effect. This would give these taxpayers an unintended and unwarranted benefit which is to the detriment of the fisc and ultimately to other taxpayers who cannot or do not claim a double deduction of expenditure.
It is my intention to recommend to the Minister of Finance and of Trade and Industry that the Income Tax Act be amended with retrospective effect to make the provisions of section 23B effective from the date the Income Tax Act, No. 58 of 1962, came into operation. The effect of the proposed amendment will be:

(1) Assessments which are final, i.e. older than three years, may not be reopened to disallow the double deduction.

(2) Assessments may not be reopened to allow a double deduction or make a refund.

(3) Where assessments have, for whatever reason, not been raised, a double deduction will not be allowed.

Issued by: The Commissioner for Inland Revenue, Pretoria.

Enquiries: Mr T. F. van Heerden.
Tel. (012) 315-5304.

PROCLAMATION
by the
State President
of the Republic of South Africa

No. 13, 1993

ESTABLISHMENT OF A SPECIAL COURT IN TERMS OF THE MAINTENANCE AND PROMOTION OF COMPETITION ACT, 1979 (ACT No. 96 of 1979)

By virtue of the powers vested in me by section 15 (2) of the Maintenance and Promotion of Competition Act, 1979 (Act No. 96 of 1979) (the Act), I hereby establish a special court for the hearing of an appeal by Richards Bay Bulk Storage (Pty) Ltd against Notice No. 1011 published in Gazette No. 14367 of 6 November 1992 by the Minister for Public Enterprises in terms of section 14 (1) (c) of the Act, and for the hearing of such other appeals that may in future be lodged from time to time in terms of the Act.

Given under my Hand and the Seal of the Republic of South Africa at Cape Town this Twenty-second day of February, One thousand Nine hundred and Ninety-three.

F. W. DE KLERK,
State President.

By Order of the State President-in-Cabinet:

D. J. DE VILLIERS,
Minister of the Cabinet.

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Dit is my bedoeling om by die Minister van Finansies en van Handel en Nywerheid aan te beveel dat die Inkomstebelastingwet met terugwerkende krag gewysig word om die bepalings van artikel 23B van toepassing te maak vanaf die datum waarop die Inkomstebelastingwet, No. 58 van 1962, in werking getree het. Die uitwerking van die voor-gestelde wysiging sal soos volg wees:

(1) Aanslae wat finaal is, d.w.s wat ouer as drie jaar is, sal nie heropen kan word om die dubbele aftrekking terug te tel nie.

(2) Aanslae sal nie heropen kan word om 'n dubbele aftrekking toe te laat of om 'n terugbetaling te maak nie.

(3) Waar aanslae vir watter rede ook al nog nie gehef is nie, sal 'n dubbele aftrekking nie toegelaat word nie.

Uitgereik deur: Die Kommissaris van Binnelandse Inkomste, Pretoria.

Navrae: Mnr. T. F. van Heerden.
Tel. (012) 315-5304.

PROKLAMASIE
van die
Staatspresident
van die Republiek van Suid-Afrika

No. 13, 1993

INSTELLING VAN 'N SPEISIALE HOF KRAGTENS DIE WET OP DIE HANDHAWING EN BEVOORDELING VAN MEDEEDINGING, 1979 (WET NO. 96 VAN 1979)

Kragtens die bevoegdheid my verleen by artikel 15 (2) van die Wet op die Handhawing en Bevoering van Mededinging, 1979 (Wet No. 96 van 1979) (die Wet), stel ek hiermee 'n speciale hof in vir die verhoor van 'n appèl deur Richards Bay Bulk Storage (Edms.) Bpk. teen Kennisgewing No. 1011 gepubliseer in Staatskoerant No. 14367 van 6 November 1992 deur die Minister vir Openbare Ondernemings kragtens artikel 14 (1) (c) van die Wet, en vir die verhoor van sodanige ander appèlêe wat in die toekoms van tyd tot tyd kragtens die Wet aangeteken mag word.

Gegoe onder my Hand en die Seel van die Republiek van Suid-Afrika te Kaapstad, op hede die Twee-en-twintigste dag van Februarie Eenduisend Negehonderd Drie-en-negentig.

F. W. DE KLERK,
Staatspresident.

Op las van die Staatspresident-in-Kabinet:

D. J. DE VILLIERS,
Minister van die Kabinet.
GOVERNMENT NOTICES

DEPARTMENT OF FINANCE
No. 394 12 March 1993
REPUBLIC OF SOUTH AFRICA
DEPARTMENT OF FINANCE: INLAND REVENUE
OFFICE OF THE COMMISSIONER FOR INLAND REVENUE

PRACTICE NOTE: No. 16
Date: 12 March 1993

INCOME TAX:

DEDUCTION IN TERMS OF SECTION 12C OF
THE INCOME TAX ACT (THE ACT) IN RESPECT
OF CERTAIN FOUNDATIONS OR SUPPORTING
STRUCTURES

1. Section 11 (e) of the Act contains (in paragraph (iiA) of the proviso) a provision allowing a deduction to be granted under that section in respect of certain foundations or supporting structures which have been designed to support specific pieces of machinery, etc. Because there is no corresponding provision in section 12C of the Act, the argument has been put forward that such foundations or structures cannot qualify for the deduction under that section.

2. The reason for the above-mentioned provision in section 11 (e) is to be found in paragraph (ii) of the proviso, which places a general prohibition on the granting of a deduction in respect of structures or works of a permanent nature. Section 12C, however, contains no such prohibition on a deduction in respect of such structures or works of a permanent nature. On the contrary, it is settled law that the expression "plant", as used in section 12C, can include permanent structures. See, for example, Blue Circle Cement Ltd v CIR, 1894(2) SA 764(A) (46 SATC 21), in which the following dictum of Lindley, L. J., in the English case of Yarmouth v France (1887) 19 QBD 647 is cited with approval:

"There is no definition of plant in the Act: but, in its ordinary sense, it includes whatever apparatus is used by a business man for carrying on his business, not his stock-in-trade which he buys or makes for sale; but all goods and chattels, fixed or movable, live or dead, which he keeps for permanent employment in his business."

3. Having, therefore, established that foundations can constitute plant, the main test to be met under section 12C is thus whether it is used directly in the manner envisaged in this section. As a general rule, where the machinery mounted on the foundation qualifies for the deduction, so too will the foundation.

ISSUED BY THE COMMISSIONER FOR INLAND REVENUE, PRETORIA.

GOEWERMENSKENNISGEWINGS

DEPARTEMENT VAN FINANSIES
No. 394 12 Maart 1993
REPUBLIC VAN SUID-AFRIKA
DEPARTEMENT VAN FINANSIES:
BINNELANDSE INKOMSTE
KANTON VOOR DIE KOMMISSARIS VAN
BINNELANDSE INKOMSTE

PRAKTYKNOTA: No. 16
Datum: 12 Maart 1993

INKOMSTEBELASTING:

AFTREKKING INGEVOLGE ARTIKEL 12C VAN
DE INKOMSTEBELASTINGWET (DIE WET)
TEN OPSIOTE VAN SEKERE FONDAMENTE
OF STEUNENDE BOUWERK

1. Artikel 11 (e) van die Wet (in paragraaf (iiA) van
de voorbehoudsbepaling) bevat 'n bepaling dat
'n aftrekking ingevolge die artikel toegestaan mag
word ten opsie van sekere fondamente of
steunende bouwerk wat ontwerp is om onder
steuning te gee aan 'n spesifieke deel van masji-
nerie, ensovoorts. Aangesien daar geen
corespondentie tussen die voorbehoudsbepaling en ar-
tikel 12C van die Wet is nie, word die argument
gepoort dat sodanige fondasies of bouweke nie
' n aftrekking kragtens die artikel kan kwali-
fiseer nie.

2. Die rede vir die bovengenoemde bepaling in artikel 11
(e) word gevind in paragraaf (ii) van die
toepassing van die voorbehoudsbepaling wat 'n algemene beperking
plaa op die toestaan van 'n aftrekking ten
opsie van 'n fondamente of bouwerk van 'n permanente
aard. Artikel 12C bevat egter nie so 'n beperking
aan ten opsie van 'n aftrekking op sodanige struk-
tuur of bouwerk van 'n permanente aard nie.
Inteendeel, dit is gesteëde reg dat die uitdrukking
"installasie", soos in artikel 12C gebezig,
permanente bouweke kan insluit. Vermeld,
byvoorbeeld, Blue Circle Cement Ltd v CIR,
1984(2) SA 764(A) (46 SATC 21), waarin die vol-
gende uitspraak van Lindley, L. J., in die Engelse
saak van Yarmouth v France (1887) 19 QBD 647
met goedkeuring aangehaal is:

"There is no definition of plant in the Act: but, in
its ordinary sense, it includes whatever
apparatus is used by a business man for
carrying on his business, not his stock-in-
trade which he buys or makes for sale; but
all goods and chattels, fixed or movable, live
or dead, which he keeps for permanent
employment in his business."

3. Aangesien daar dus vasgestel is dat fondamente
installasies uitmaak, is die algemene toets
om aan die vereiste van artikel 12C te voldoen
de feit of dit registreers gebruik word op die wyse
soos boog in genoemde artikel. As 'n algemene
regel sal 'n fondament vir die aftrekking kwali-
fiseer indien die masji wat op die fondament
monter
t is, vir die aftrekking kwali-
fiseer.

UITGEREK DEUR DIE KOMMISSARIS VAN BINNE-
LANDSE INKOMSTE, PRETORIA.
Stop ad hoc tax changes, says Sacob

Zero rating could cost govt R850m

THE zero rating of VAT on certain basic foodstuffs will cost the cash-strapped government R850m in revenue — almost twice the size of the poverty safety net originally designed to counteract VAT’s effect on the poor.

Sacob said yesterday this week’s measures would cost the state R850m and meant government would have to raise the VAT rate by one percentage point merely to maintain present revenues. Economists said a VAT rate of at least 13% would be necessary to raise the revenue that 12% without zero rating would have achieved.

“Given the present high fiscal deficit, the zero rating will remove the scope of the Minister to progress with the planned lowering of direct tax rates, or even to compensate individuals for the effects of bracket creep,” Sacob said.

The move to zero rate basic foodstuffs came in response to the VAT Co-ordinating Committee’s argument that VAT placed an unbearable burden on the poor. However, the IMF argued that direct assistance to the needy was the correct response to the problem. Economists said the R850m lost revenue would translate into an equal injection into the pockets of the most needy. They said targeted assistance would be more effective.

Government’s opposition to demands for zero rating was weakened by the failure of its aid programme, which received R448m in last year’s Budget. Sources in non-government organisations said the state’s delivery of aid could be substantially improved if it allowed the organisations to play a greater role in the scheme.

Sacob said zero rating offered no benefit to those without incomes and its impact on people in rural areas was likely to be limited. Sacob called for a detailed investigation to determine the full extent of the poverty problem, and the best ways to address it, so that “ad hoc and ill-conceived” changes to the tax system could be avoided in future.

Economists speculated Finance Minister Derek Kekana’s confidence that inflation’s fall to single digits was not a flash in the pan indicated he would not raise the VAT rate to more than 12%. They said the food zero rating would lead to a 0.4 percentage point reduction in the inflation rate. However, this would be more than counteracted by a hike in the overall VAT rate. A VAT rate of 13% with food zero rating is estimated to add 1.5 percentage points to the rate of increase in the consumer price index. Without food zero rating, a 13% VAT rate would have translated into an inflation rise of about two percentage points. A 12% VAT rate without zero rating would have had more or less the same effect on inflation and a 13% VAT rate with zero rating.

Increases in fuel prices and customs and excise duties in the Budget are expected to bring the total Budget-related rise in the CPI rate of increase to almost two percentage points. This would take the rate up to more than 11%, but a renewed downward trend from that level was possible.

See Pages 3 and 10
The introduction of the concept "labour broker" to the Income Tax Act has implications for public company directors paid through wholly owned private subsidiaries.

Paye is deducted at source if directors' fees are paid by the public companies. But, in the past, when payment was routed through the service company, the directors were taxed provisionally, which gave them an important timing benefit.

The private company made good the amount by charging the public company a service fee adjusted to make up the tax-deductible directors' fees plus incidental overheads. Thus it made neither profit nor loss and paid no tax.

The amendment will oblige public companies to deduct Paye from payments to the service company, at the company tax rate of 48%, unless the service company can obtain from Revenue exemption from the labour broker requirements.

All public company directors will have to accept payment from the public companies.

The implications are that they will now have Paye deducted at source, instead of paying tax in arrears, and those who have used tax shelters will not be able to shop around for appropriate schemes towards the end of the tax year.

Though most shelters have been knocked down by amendments to the Act and Income Tax Special Court judgments, advisers can come up with new ones.

Another problem frequently overlooked is the Vat-liability of fees paid to the private service company by the public company. A few group service companies are probably in default — with grave consequences in penalties looming.
Hopes that the ANC is coming to terms with economic reality are repeatedly dashed by public pronouncements from people who really should know better. The logical case for not taxing individuals’ dividend income — which has already been taxed at underlying corporate level — is impeccable and abolition of this tax has been one of the few positive tax reforms of recent years.

Yet this week, legal professor and ANC adviser Dennis Davis said that the tax will have to be re-introduced because “it is unacceptable to allow redistribution to wealthy shareholders at the expense of lower and middle income groups.”

Since when is rewarding the providers of risk capital “redistribution”? Only those who do not understand the nature of profits could make such an absurd assertion.

Making matters worse, Davis continued that the “tax leakage and tremendous abuse” regarding pension funds will have to be eliminated. Given existing laws, most private-sector FM readers would be only too happy to find out how to “abuse” the pension fund system.

Or is the mere desire to provide adequate retirement income by one’s own savings, rather than rely on the handouts of a benevolent socialist state, in itself an abuse?

Finally, Davis warned that it will probably be necessary to place the onus on taxpayers to prove that they have not structured their arrangements merely to gain a tax benefit. Apart from the intrinsic difficulty of proving a negative, the authorities already have quite enough discretion in this direction — as their arbitrary and inconsistent treatment of film and other tax shelters has made clear.

Clearly, there are still elements within the ANC who consider a punitive tax policy an acceptable method of redistribution of wealth. At the same time, others are calling on the business sector to invest and create jobs. Can they not see that these attitudes are incompatible?

It is no coincidence that SA’s transition from a low- to a high-tax society has been accompanied by a deterioration in relations between the taxman and his clients (the fact that much of the tax revenue so painfully collected has been stolen or wasted by the kleptocracy only makes matters worse). The higher taxes are, the more it makes sense to minimise one’s liability — and it is no man’s patriotic duty to pay a cent more in tax than he has to.

In the circumstances, Davis’s attempted reassurance that there will be no drastic changes in the tax system in the new SA “because the ANC’s tax policy does not differ dramatically from what exists” could be counterproductive.
INCOME TAX:

TAXATION IMPLICATIONS OF BURSARIES AND SCHOLARSHIPS (APPLIES FROM COMMENCEMENT OF YEARS OF ASSESSMENT ENDED OR ENDING ON OR AFTER 1 JANUARY 1992 UNLESS OTHERWISE INDICATED)

1. STATUTORY PROVISIONS

1.1 Section 10 (1) (q), which was added to the Income Tax Act, 1962 (the Act), by section 10 (1) (p) of the Income Tax Act, 1992, provides for the exemption from income tax of any bona fide scholarship or bursary granted to enable or assist any person to study at a recognised educational or research institution subject to the following conditions:

If such scholarship or bursary has been granted by an employer or an associated institution (as defined in paragraph 1 of the Seventh Schedule to the Act) to an employee (as defined in the said paragraph) or to a relative of such employee in circumstances indicating that the scholarship or bursary would not have been granted had that employee not been an employee of that employer, the exemption shall not apply—

(i) if any remuneration to which the employee was entitled or might have in the future have become entitled was in any manner whatsoever reduced or forfeited as a result of the grant of such scholarship or bursary, i.e. a salary sacrifice,

(ii) in the case of a scholarship or bursary granted to enable or assist any such relative of any employee so to study, if the remuneration derived by the employee during the year of assessment exceeds R36,000; and

(iii) to so much of any scholarship or bursary contemplated in paragraph (ii) as in the case of such relative exceeds R1,200 during the year of assessment.

1.2 Where a scholarship or bursary is granted subject to a salary sacrifice [paragraph 1.1 (ii), section 23 (j) (which was inserted in the Act at the same time as section 10 (1) (q)] provides that where a taxpayer is an "employer" or "associated institution" (as respectively defined in the Seventh Schedule to the Act) no deduction will be made in respect of the cost to the taxpayer of providing such scholarship or bursary. (See also paragraph 4.2.)
2. INTERPRETATION OF WORDS AND PHRASES

2.1 "Bona fide scholarship or bursary" refers to financial or other assistance granted to a person to enable him to study at a recognised educational or research institution. It would include a grant which is in terms of a written agreement conditional on the fulfilment of stipulated requirements; for example, the grantee is required to obtain a qualification or take up employment with the grantor on completion of the course of study.

2.1.1 The grant must be made to enable the grantee to pursue a course of study for the purpose of gaining or expanding his knowledge, intellect or skills.

2.1.2 A reward or reimbursement of study expenses (borne by a person) after completion of his studies does not constitute a scholarship or bursary as the grant must have been made to enable or assist the grantee to study.

2.1.3 The tax position relative to scholarships, bursaries and study loans is dealt with in paragraph 4 of this Practice Note.

2.1.4 A direct payment of fees, for example to a university, for the purpose of an employee’s studies is regarded as falling within the ambit of a scholarship, bursary or grant.

2.2 "A recognised educational or research institution" comprehends a "college" or "university" as defined in section 18A of the Act, or a school or any other educational or research institution wheresoever situated which is of a permanent nature, open to the public generally and offering a range of practical and academic courses.

2.3 "To study" relates to the formal process whereby the person to whom the scholarship or bursary has been granted gains or enhances his knowledge, intellect or expertise. It is not a requirement that a degree, diploma or certificate be awarded on completion of the course of study.

2.3.1 Where research is undertaken by a person for the benefit of another person, for example, an employer, a business or sponsor, the relevant expenditure incurred by the employer, business or sponsor for the purposes of such research will not constitute a bona fide scholarship or bursary granted to enable or assist the researcher to study. See paragraph 4.2.3 for the tax implications.

2. VERTOLKING VAN WOORDE EN UITDRUKKINGS

2.1 "Bona fide-studiebeurs" verwys na die finansiële of ander bystand wat verleen word aan 'n persoon om hom in staat te stel om by 'n erkende opvoedkundige of navorsingsinrigting te studeer. Dit sal 'n toekenning insluit wat ingevolge 'n skriftelike ooreenkoms voorwaardelik toegeneem is op die voorwaarde dat bepaalde vereistes nagekome word, byvoorbeeld, van die bevoordeelde word verswaar om 'n kwalifikasie te verwerf of om 'n betrekking te aanvaar by die toekener na voltooiing van die studiekursus.

2.1.1 Die toekenning moet gemaak word ten einde die bevoordeelde in staat te stel om 'n studiekursus te volg met die doel om sy kennis, intelëk of vaardigheid te verbeter of uit te brei.

2.1.2 'n Beloning of terugbetaling van studieuitgawes (wat deur 'n persoon aangegaan is) na voltooiing van sy studies maak nie 'n studiebeurs nie aan gesien die toekenning gemaak moes gewees het ten einde die ontvanger in staat te stel om te studeer of om hom behulpsaam te wees met sy studies.

2.1.3 Die belastingposisie met betrekking tot studiebeurse en studielening word in paragraaf 4 van hierdie Praktynota aangespreek.

2.1.4 'n Direkte betaling van gelde, byvoorbeeld aan 'n universiteit, word vir die doeleindes van 'n werknemer se studies beskou as binne die omvang van 'n studiebeurs of toekenning te val.

2.2 "'n Erkende opvoedkundige of navorsingsinrigting" omvat 'n "kollege" of 'n "universiteit" soos omskryf in artikel 18A van die Wet, of 'n skool of enige ander opvoedkundige of navorsingsinrigting van 'n permanente aard waar ookal geleë, wat oop is vir die algemene publiek en 'n reeks praktiese en akademiese kursusse aanbied.

2.3 "Te studeer" het betrekking op die formele proses waardeur die persoon aan wie die studiebeurs toegeneem is sy kennis, intelëk of vaardigheid verbeter of uitbrei. Dit is nie 'n vereiste dat 'n graad, diploma of sertifikaat by voltooiing van die studiekursus toegeken moet word nie.

2.3.1 Waar 'n persoon navorsing onderneem met voordeel van 'n ander persoon, byvoorbeeld 'n werkgewer, 'n besigheid of 'n borg, sal die betrokke uitgawes aangegaan deur die werkgewer, besigheid of borg vir doeleindes van sodanige navorsing, nie 'n bona fide-studiebeurs wat toegeken is ten einde die navorsing in staat te stel of hulp te verleen met sy studies, uitmaak nie. Kyk paragraaf 4.2.3 vir die belastingimplikasies.
2.3.2 A scholarship or bursary granted to a visiting academic for the purpose of lecturing students does not satisfy the study requirement as the object of the grant will be to impart and not to gain knowledge.

2.4 “Remuneration” means remuneration as defined in the Fourth Schedule to the Act. This also applies to any amounts paid to directors of private companies for the purposes of this exemption.

3. CLOSED AND OPEN SCHOLARSHIPS OR BURSARIES

For the purpose of the exemption scholarships and bursaries may be categorised as open or closed.

3.1 Open scholarships or bursaries

These are scholarships or bursaries which are competed for by, or are awarded on merit (academic or otherwise) to, anyone applying therefor and are not, to any extent, confined to the employees or relatives of employees of a particular employer, organisation or other institution.

3.2 Closed scholarships or bursaries

These are scholarships or bursaries which are confined to employees, or relatives of employees, of an employer or an associated institution.

Both scholarships or bursaries under 3.1 and 3.2 may be subject to a condition that, upon completion of his studies, the scholar/bursary holder or bursar take up employment with the grantor or repay the scholarship or bursary if he abandons his studies or fails to complete them with a specified period.

4. TAX IMPLICATIONS

4.1 Open scholarships or bursaries are fully exempt from tax if they are bona fide awarded to enable the scholarship/holder or bursar to study at a recognised educational or research institution. However, where an employee or relative of an employee is awarded a scholarship or bursary under an open scheme and such award is, for example, subject to a salary sacrifice, the exemption under section 10(1)(q) will not apply as the scholarship or bursary will not have been bona fide granted. The exemption will also not apply as there is an express proviso to preclude an exemption where there is a salary sacrifice.

4.2 Closed scholarships or bursaries granted to an employee of relative of an employee that are subject to a present or future salary sacrifice by the employee [see paragraph 1.1(i)] are not exempt from tax. Moreover, in terms of section 23(j) of the Act the employer is not entitled to a deduction in respect of the cost of such scholarship or bursary. If there is no salary sacrifice the scholarship or bursary awarded to an employee will be exempt from tax and the provisions of section 23(j) will not apply.

2.3.2 ’n Studiebeurs wat toegeken is aan ’n besoekende akademikus om lesings vir studente aan te bied, voldoen nie aan die studievereiste nie omrede die oogmerk van die toekennin die meedeling van kennis is en nie die verkryging daarvan nie.

2.4 “Besoldiging” beteken besoldiging soos omskryf in die Vierde Bylae by die Wet. Dit is ook van toepassing op enige bedrag betaal of betaalbaar aan ’n direkteur van private maatskappye vir die doeleindes van hierdie vrystelling.

3. OOP EN GESLOTE STUDIEBEURSE

Vir die doeleindes van die vrystelling word -studiebeurse as oop of geslote geklassifiseer.

3.1 Oop studiebeurse

Hierdie is studiebeurse waarvoor meegeding word deur, of wat toegeken word op grond van meriete (akademies of andersins). Aan, enige persoon wat daarvoor aansoek doen en wat nie, in enige mate, beperk is tot werknemers of familieledes van die werknemers van ’n bepaalde werkgewer, organisasie of ’n ander instelling nie.

3.2 Geslote studiebeurse

Hierdie is studiebeurse wat beperk word tot werknemers, of familieledes van die werknemers, van ’n werkgewer of ’n verwante instigering.

Beide studiebeurse onder 3.1 en 3.2 kan onderhewig wees aan ’n voorwaarde dat die beurshouer by voltooing van sy studies ’n betrekking moet aanvaar by die werkgewer of om die studiebeurs terug te betaal indien hy sy studies staafl of waar hy in gebreke bly om dit binne ’n bepaalde tydperk te voltoo.

4. BELASTINGSIMPLIKASIES

4.1 Oop studiebeurse is ten volle van belasting vrystel of indien dit bona fide toegeskik is ten einde die beurshouer in staat te stel om by ’n erkende opvoedkundige of navorsingsinrigting te studeer. Waar daar egter aan ’n werknemer of ’n familieledel van ’n werknemer ’n studiebeurs onder ’n oop skema toegeken word en sodanige toekennin is, byvoorbeeld, onderhewig aan ’n salarisopoffering, sal die vrystelling ingevolge artikel 10(1)(q) nie van toepassing wees nie aangesien die studiebeurs nie bona fide toegeken is nie. Die vrystelling sal ook nie van toe- passing wees nie aangesien daar ’n uitdruklike voorbehoudsbepaling is dat ’n vrystelling uitgesluit word waar een salarisopoffering voorkom.

4.2 Geslote studiebeurse wat toegeken is aan ’n werknemer of ’n familieledel van ’n werknemer en wat onderhewig is aan ’n huide of toekomsige salarisopoffering deur die werknemer [kyk paraafl 1.1(i)], is nie van belasting vrystel nie. Daarbenewens is die werkgewer ingevolge artikel 23(j) van die Wet ook nie geregtig op ’n aftrekking ten opsigte van die koste van sodanige studiebeurse nie. Indien daar geen salarisopoffering is nie, sal die studiebeurs aan ’n werknemer toegeken, vrystel wees van belasting en artikel 23(j) sal nie van toepassing wees nie.
4.2.1 Where a scholarship or bursary is awarded to a relative of an employee and there is no present or future salary sacrifice by the employee and the remuneration derived by the employee during the year of assessment does not exceed R36,000, an amount of so much of the scholarship or bursary as does not exceed R1,200 is exempt from tax. The R1,200 exemption limit applies to each relative of the employee who is granted a scholarship or bursary.

4.2.2 Scholarships or bursaries granted under a closed scheme to a relative of a retired or deceased employee will be subject to the limitations referred to in paragraph 4.2.1 if they were granted prior to the employee's retirement or demise. Where they are granted or paid after one of those events has occurred they will be treated as if they had been granted under an open scheme (see paragraph 4.1) unless an agreement was entered into prior to an employee's retirement between the employee and the employer in terms of which the employer will provide a scholarship or bursary for a relative of the employee subsequent to the employee's retirement.

4.2.3 Where a person undertakes research for the benefit of another person (see paragraph 2.3.1) the payment received in this regard by the first-mentioned person will be taxed as income in his hands and he will not qualify for the exemption under section 10 (1) (q). The person paying the amount will qualify for a deduction subject to the provisions of sections 11 (a) and 23 of the Act.

4.3 Any recoupment which arises in respect of a scholarship or bursary granted by a taxpayer, where the amount of the scholarship or bursary has been allowed as a deduction against the income of such taxpayer will, in terms of section 8 (4) (a) of the Act, be included in the taxpayer's income in the year of assessment when recouped.

4.4 Study loans

4.4.1 A loan does not constitute income for tax purposes and is, therefore, not taxable. Personal study loans obtained from a financial institution or from any other source unrelated to employment are not taken into consideration for purposes of section 10 (1) (q) of the Act, nor are study expenses incurred by the holder of the loan, including the interest payable thereon, deductible from the income of the borrower. Such privately-funded loans, are, therefore, neither taxable nor tax deductible.

4.2.1 Waar 'n studiebeurs aan 'n familielid van 'n werkster toegeken word en daar geen huidige of toekomstige salarispof- fering deur die werkster is nie en die vergoeding van die werkster vir die jaar van aanslag gaan nie R36 000 te bowe nie, sal soveel van die studiebeurs as wat R1 200 nie te bowe gaan nie, van belasting vrygestel wees. Die R1 200- vrystellingspark sal van toepassing wees op elke familielid van die werkster aan wie 'n studiebeurs toegeken is.

4.2.2 Studiebeurse wat onder 'n geslote skema aan 'n familielid van 'n afgetrede of gestorwe werkster toegeken is, sal onderhewig wees aan die beperkings waarna verwys word in paragraaf 4.2.1 indien dit toegeken is vir die werkster se afrede of afsterwe. Waar dit toegeken of betaal is nadat een van bo- genoemde gebeurtenisse plaasgevind het, sal dit behandel word asof dit onder 'n cop skema (kyk paragraaf 4.1) toege- ken is tenby 'n ooreenkomste vir die werkster se afrede tussen die werkster en werkgever aangegaan is waar- volgens die werkgever 'n studiebeurs aan 'n familielid van 'n werkster na die werkster se afrede sal voorsien.

4.2.3 Waar 'n persoon navorsing doen tot voordeel van 'n ander persoon (kyk paragraaf 2.3.1), sal die betaling wat deur eersgenoemde persoon ontvang word, belas word as inkomste in sy hande en sal hy nie vir die vrystelling ingevolge die bepalings van artikel 10 (1) (q) kwalifi- seer nie. Die persoon wat die bedrag betaal, sal kwalifiseer vir 'n aftrekking on- derworpe aan die bepalings van artikels 11 (a) en 23 van die Wet.

4.3 Enige herwinning wat ontstaan as gevolg van 'n studiebeurs deur 'n belastingplichtige toegeken en waar die bedrag van die studiebeurs as 'n aftrekking teen die belastingplichtige se inkomste toegelaat is, sal ingevolge die bepalings van artikel 8 (4) (a) van die Wet ingesluit word in die belastingplichtige se inkomste in die jaar van aanslag waarin die herwinning ontstaan.

4.4 Studieleningen

4.4.1 'n Lening maak nie inkomste vir belas- tingdoelinde nie uit nie en is derhalwe nie belasbaar nie. Persoonlike studieleningen verkry vanaf 'n finansiële instelling of vanaf enige ander bron wat nie aan indiensneming gekoppel is nie, word nie in aenmerking geneem vir die doelinde van artikel 10 (1) (q) van die Wet nie. So ook kwalifiseer studie-uitgawes aange- gaan deur die houer van die lening, asook die rente daarop betaalbaar, nie as 'n aftrekking van die leiner se inkomste nie. 'n Sodanige privaatgefun- deerde lenings is dus nie belasbaar of aftrekbaar vir belastingdoelinde nie.
4.4.2 In terms of paragraph 11 (4) (b) of the Seventh Schedule to the Act no value is placed on a taxable benefit derived by an employee in consequence of the grant by any employer of a loan for the purpose of enabling that employee to further his own studies.

4.4.3 Any scholarship or bursary which is granted subject to repayment due to non-fulfillment of conditions stipulated in a written agreement will be treated as a bona fide scholarship or bursary as indicated in paragraphs 4.1 to 4.2.2 until such time as the non-compliance provisions of the agreement are invoked. In the year of assessment in which such provisions are invoked the amount or amounts of the scholarship or bursary will be regarded as a loan and, if relevant, any benefit which an employee may have received by way of an interest-free or low-interest loan will constitute a taxable benefit in terms of paragraphs 2 (f) of the Seventh Schedule to the Act and not qualify for the exemption contained in paragraph 11 (4) (b) of the Seventh Schedule to the Act as such loan was not granted to enable the employee to study.

4.4.4 Where an employee who had obtained a loan from his employer to enable him to study is absolved from repaying the loan, he will have received a taxable benefit in terms of paragraph 2 (h) of the Seventh Schedule to the Act.

4.5 Reimbursement of study expenses

Where, as mentioned in paragraph 2.1.2, an employer rewards an employee for a qualification or for having successfully completed a course of studies, or reimburses him for study expenses borne by him, such reward or reimbursement of study expenses will represent, in the case of the reward, taxable remuneration, and in the case of the reimbursement of expenses, a taxable benefit in terms of paragraph 2 (h) of the Seventh Schedule to the Act.

4.6 Taxable scholarships or bursaries granted to employees and relatives of employees

These arise under the following circumstances:

(i) The employee sacrifices a part of his present or future remuneration in order to obtain a scholarship or bursary for himself or for a relative.

(ii) Where, under a closed scheme, an award is made to a relative of an employee and the employee’s remuneration exceeds R36 000 per annum.

4.4.2 Ingevolge die bepalings van paragraaf 11 (4) (b) van die Sewewe Blye by die Wet, word geen waarde geplaas nie op die belasbare voordeel verkry deur ‘n werknemer as gevolg van ‘n toekenning van ‘n lening deur ‘n werkgever aan sy werknemer ten einde daardie werknemer in staat te stel om sy eie studies te bevorder.

4.4.3 Enige studiebeurs wat toegeken word onderhewig aan die voorwaarde dat dit terugbetaal word en die voorwaardes soos uiteengesit in ‘n skriftelike ooreenkoms nie nagerek word nie, sal as ‘n bona fide-studiebeurs beskou word en word sodoende in paragraaf 4.1 tot-4.2.2 tot op sodanige tydperk as wat die nie-nakomingsbepalings van die ooreenkom in werking tree. In die jaar van aanslag waarin hierdie bepalings van krag word, sal die bedrag of bedraag van die studiebeurs as ‘n lening beskou word en, indien van toepassing, sal enige voordeel wat ‘n werknemer moontlik mag ontvang het by wyse van ‘n rente of lae rente lening ‘n belasbare voordeel ingevolge paragraaf 2 (f) van die Sewewe Blye by die Wet uitmaak en nie vir die vrystelling ingevolge paragraaf 11 (4) (b) van die Sewewe Blye by die Wet kwaliseer nie aangesien sodanige lening nie toegestaan is om die werknemer in staat te stel om te studeer nie.

4.4.4 Waar ‘n werknemer wat ‘n lening van sy werkgever ontvang het ten einde hom in staat te stel om te studeer, van die terugbetaling daarvan kwytgeskied word, sal hy ingevolge paragraaf 2 (h) van die Sewewe Blye by die Wet ‘n belasbare voordeel ontvang het.

4.5 Terugbetaling van studie-uitgawes

Waar, soos reeds genoem in paragraaf 2.1.2, ‘n werkgever die werknemer beloon vir die verwerwing van ‘n kwalifikasie of vir die suksesvolle voltooiing van ‘n studiekursus, of studie-uitgawes wat deur hom gedra is, terugbetaal, sal sodanige beloning of terugbetaling van studie-uitgawes, in die geval van ‘n beloning, belasbare vergoeding verteenwoordig, en in die geval van die terugbetaling van studie-uitgawes, ‘n belasbare voordeel ingevolge paragraaf 2 (h) van die Sewewe Blye by die Wet.

4.6 Belasbare studiebeurs toegeken aan werknemers en familieledene van werknemers

Hierdie geskied onder die volgende omstandighede:

(i) Die werknemer staan ‘n gedeelte van sy huidige of toekomstige salaris af ten einde ‘n studiebeurs vir homself of ‘n familieled te verkry.

(ii) Waar, ingevolge ‘n gesliste skema, ‘n toekenning aan ‘n familieled van ‘n werknemer gemaak word en die werknemer se jaarlikse besoldiging R36 000 te bowe gaan.
STAAATSKOERANT, 12 MAART 1993

5. STUDY LOANS ETC. TAKEN OVER BY NEW EMPLOYER

5.1 Where—

(i) in consideration for the grant by any employer (referred to as the former employer) to an employee of any bursary, study loan or similar assistance, the employee assumed an obligation to render services to the former employer for an agreed period;

(ii) in consequence of the employee having terminated his services with the former employer before the expiry of the said period and having taken up employment with another employer (referred to as the present employer), the employee thereupon became liable to pay an amount to the former employer;

(iii) such amount was paid to the former employer on the employee’s behalf by the present employer; and

(iv) the employee has in consideration for such payment by the present employer assumed an obligation to render services to the present employer for a period which is not shorter than the unexpired portion of the period during which he had been obliged to render services to the former employer,

no value will be placed on the value of any taxable benefit to the employee derived by reason of the payment referred to in item (iii) and consequently the payment by the present employer to the former employer will not be a taxable benefit under the Seventh Schedule to the Act.

5.2 These provisions operate with effect from the 1991 year of assessment. The amount so refunded, if allowed as a deduction to the former employer, will be taxable as a recoupment in the hands of such former employer.

93728—B
6. OTHER FORMS OF STUDY ASSISTANCE

6.1 Specialised training courses

6.1.1 Expenditure in connection with in-house or on-the-job training or courses presented by other undertakings for or on behalf of employers does not represent a taxable benefit in the hands of the employees of the employer if the training is job-related and ultimately for the employer's benefit. The tape of training envisaged under this heading could include the following:

(i) Computer and word processing courses.
(ii) Management and administration courses.
(iii) Bookkeeping courses.
(iv) Sales courses.
(v) Courses in operating office and technical equipment.
(vi) Language courses for employees whose home language is not one of the official languages.
(vii) Public relations courses.
(viii) In-house courses presented by banks, building societies and insurance companies for their employees.

This list is not exhaustive and in cases of doubt the local Receiver of Revenue should be consulted in the first instance.

6.1.2 Training, research and education of the nature described above must be distinguished from professional and formal education resulting in qualifications attaching to the person of an employee. Where admission to a particular profession or the ability to perform certain specialised duties is dependent on an employee obtaining an appropriate qualification and the employer meets the employee's costs of obtaining the required qualification, which costs would normally be borne by the employee himself, the employee will, subject to the provisions of section 10 (1) (q) and the relevant paragraphs of this Practice Note, be regarded as having received a taxable benefit.

6.1.3 If in terms of a law such as the Manpower Training Act, No 56 of 1981, an employer is required to pay the fees payable in respect of prescribed classes or courses attended by his employees or to refund such fees paid by them, the fees will not constitute a taxable benefit in the employees' hands. The employer will qualify for a deduction in respect of these payments in terms of section 11 (a) of the Act.

6. ANDER VORME VAN STUDIEBYSSTAND

6.1 Gespesialiseerde opleidingskursusse

6.1.1 Uitgewees in verband met interne of indienseopleiding of kursusse wat aangebied word deur ander instansies namens die werkgever verteenwoordig nie 'n belasbare voordeel in die hande van die werknemers van die werkgever nie, mits die opleiding beroepsgeoriënteerd is en uiteindelik die werkgever bevoordeel. Die tipe opleiding wat hier beoog word, kan die volgende insluit:

(i) Rekenaar- en woordverwerkingskursusse.
(ii) Bestuurs- en administratiewe kursusse.
(iii) Boekhoudingskursusse.
(iv) Verkoopskursusse.
(v) Kursusse om kantoor- en tegniese toerusting te bedryf.
(vi) Taalkundige kursusse vir werknemers wle se huistal nie een van die twee amptelike tale is nie.
(vii) Kursusse in verband met openbare betrekkinge.
(viii) Interne kursusse wat deur banke, bouverenigings en versekerringsmaatskappye aan hulle werknemers aangebied word.

Hierdie lys is nie omvattend nie en in geval van twyfel moet die plaaslike Ontvanger van Inkomste in die eerste plaas geraadpleeg word.

6.1.2 Opleiding, navorsing en opvoeding van die aard soos hierbo beskryf, moet onderskei word van professionele en formele opleiding wat lei tot 'n kwalifikasie wat eie aan die werknemer is. Waar die verwerving van 'n gepaste kwalifikasie deur die werknemer as 'n voorwaarde gestel word vir die toeteling tot 'n specifieke beroep of die vermoë om bepaalde gespesialiseerde pligte te verrig en die werkgever dra die koste om die vereiste kwalifikasie te bekom, welke koste gewoonlik deur die werknemer self gedra moet word, sal die werknemer, onderhavig aan die bepaling van artikel 10 (1) (q) en die toepaslike paragrafe van hierdie Praktyknota, geag word 'n belasbare voordeel te ontvang het.

6.1.3 Indien daar ingevolge 'n wet soos die Wet op Mannekragopleiding, No 56 van 1981, van 'n werkgever vereis word om die voorgeskrywe geldte vir klasse of kursusse wat deur sy werknemers bygewoon word te betaal, of hulle te vergoed vir sodanige uitgawes, sal die gelde nie 'n belasbare voordeel in die hande van die werknemers uitmaak nie. Die werkgever sal kragtens artikel 11 (a) van die Inkomstebolastingwet vir 'n aftrekking kwalifieer.
6.2 Remission of study fees by virtue of employment (teachers, lecturers and their relatives)

It is common practice for certain educational institutions, notably universities, to allow their employees and such employees' close relatives to study free of charge or at greatly reduced fees at these institutions. While the marginal cost of the education of such employees and their relatives represents a taxable benefit under the Seventh Schedule to the Act, the exemption under section 10 (1) (q) will apply subject to the limitations provided for. See paragraphs 4.2 to 4.2.2 of this Practice Note.

7. Where the circumstances of a particular case are not covered by this Practice Note or there is uncertainty, the matter should be taken up with the local Receiver of Revenue citing full details.

8. PAYE

Book 1 (INSTRUCTIONS AND GUIDELINES ON PAYE AND SITE) of the IRP 10 Tax Deduction Tables contains instructions relating to the employees' tax position of taxable scholarships, bursaries, study loans and fringe benefits relative thereto and the duties of employers in this regard.

ISSUED BY THE COMMISSIONER FOR INLAND REVENUE, PRETORIA.

DEPARTMENT OF HOME AFFAIRS

No. 358 12 March 1993

ASSUMPTION OF ANOTHER SURNAME IN TERMS OF SECTION 26 OF THE BIRTHS AND DEATHS REGISTRATION ACT, 1992 (ACT NO. 51 OF 1992)

The Director-General has authorised the following persons to assume the surname printed in italics:

1. Emrus Samuel van der Heever—600929 5059 08 8—57 Longtom Road, Ladysmith—De Wet.
2. Vinod Kantilal—660327 5217 08 6—348 Pine Street, Durban—Govan.

8. LBS

Book 1 (INSIHRUSIES EN RIGLYNE OOR LBS EN SIBW) van die IRP 10-belastingafrekingstabellen bevat instrukties met betrekking tot werknemers se belastingposisie ten opsigte van belastbare studiebeurse, studieleningen en byvoorbeeld wat daarmee verband hou asook die verpligtinge van werkgewers in hierdie verband.

UITGEREK DEUR DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE, PRETORIA.

DEPARTEMEN VAN BINNELANDSE SAKE

No. 358 12 Maart 1993

AANNAME VAN ANDER VAN INGEVOLG ARTIKEL 26 VAN DIE WET OP REGISTRASIE VAN GEBORTE EN SERTIES, 1992 (WET NO. 51 VAN 1992)

Die Direkteur-generaal het goedgekeur dat die volgende persone die van in kursief gedruk aaneen:

1. Emrus Samuel van der Heever—600929 5059 08 8—Longtornweg 57, Ladysmith—De Wet.
2. Vinod Kantilal—660327 5217 08 6—Pinestraat 348, Durban—Govan.
Calls for more VAT cuts

Consumer Reporter and Sapa

The Government’s decision to zero-rate VAT on a range of basic foodstuffs was welcomed yesterday by consumer bodies, political parties and the Medical Association of SA (Masena).

Finance Minister Derek Keyes announced on Wednesday that rice, fresh vegetables, fruit, vegetable oils, milk, cultured milk, eggs, beans and brown wheaten meal would be exempted from VAT from April 7.

DP spokesman on-finance Ken Andrew said the Government had been forced continually to back-peddle after a short-sighted and dogmatic approach to VAT which had made the system increasingly complex and open to abuse.

The IFP welcomed the Government’s decision but bemoaned the exclusion of medicine and drought-resistant crops.

The ANC hailed the decision but deemed it long overdue.

“We remain concerned that other basic necessities, including electricity and medical services, are not covered. Any possibility of an increase in VAT will have a devastating effect on the poor, who are already reeling under inflation and unemployment,” the ANC said.

The Herstigte Nasionale Party condemned the move as nothing more than a total capitulation to the demands of the SACP, through its allies Cosatu and the ANC.

As the announcement came a week before the Budget, it was seen by the HNP as “gross contempt of Parliament”.

Masena said it had hoped medical services and medicine would be zero-rated to allow for more affordable health care.

Consumer Council head Jan Cronje appealed to producers, wholesalers and retailers to ensure consumers received the full benefits of the VAT exemptions, and he invited people to report any irregularities.

Gareth Ackerman, CEO of Blue Ribbon Meat Corporation, said: “Along with the VAT Co-ordinating Committee, we will continue to call on the Government to zero-rate red meat, as it is a basic foodstuff and was exempt under GST.”

Whitley Basson, group managing director of Shoprite Checkers, urged the Government to extend the list to include meat, fish, chicken and white bread.
Zero-rating to cost a packet

By Michael Chester

The overall cost of new Government measures to exclude more basic foodstuffs from the VAT tax net has been estimated by the South African Chamber of Business (Sacob) at no less than R850 million a year.

Total tax concessions on food baskets — also counting earlier concessions — now amount to about R1.3 billion, according to Sacob calculations.

Warning was sounded that an announcement on an immediate increase in the general VAT tax rate in the 1993 Budget next week now looked inevitable.

Sacob chief economist Ben van Rensburg said an increase in the VAT rate on all other consumer goods of at least 1 percent was needed to recoup losses of tax revenue from the food package alone.

Dr Azar Jammien, director of the Economatrix think-tank, said the estimates reinforced forecasts that the VAT rate would be hiked from 10 percent to around 13 percent — with the possibility of sliding scales going higher on luxury goods.

Also to be taken into account, he said, was the dramatic slide in tax collections over the past year, caused by cutbacks in consumer spending and the re-trenchment of thousands of taxpayers.

In an assessment of the chain reaction of the new food concessions, Van Rensburg warned: “Given the present high fiscal deficit, it will also remove the scope of the Minister to progress with the planned lowering of direct tax rates — or even to compensate individuals for the effects of bracket creep.”

He added: “Against the present fragile state of the economy, a sharp rise in the VAT rate on taxable commodities would result in greater unemployment in some sectors, such as consumer durables.

“However, the ultimate effect of a possible higher VAT rate will depend on the overall strategy which emerges from the Budget on March 17.”

Van Rensburg said in a statement: “Sacob recognises the widespread poverty in South Africa and that the Government was under extreme pressure to introduce measures to lessen the impact of high food price inflation on the poor.

“The business community has also been concerned about poverty and the socio-economic problems which accompany it and has embarked on a number of initiatives.”

Van Rensburg argued that the removal of more basic food items from the VAT net “removes attention from the plight of the really poor — particularly in rural areas”.

He said the benefits of zero-rating were enjoyed equally by the wealthy and the less wealthy: “However, they offer no benefit to those with no incomes, and their impact on the welfare of people in the rural areas is likely to be limited. The latest concessions do not eliminate the need for, or reduce the importance of, a suitable poverty-assistance programme.”
‘Brace for a bad-news budget’

HARD-PRESSED consumers are being warned: “Brace yourselves for a bad-news Budget.”

Petrol going up by 10c a litre — possibly more — and a VAT increase of about 3% are just two tough steps expected when the Budget is presented to the country on Wednesday.

But personal and company taxes are unlikely to go up in spite of Minister of Finance Mr Derek Keys's intention to lower the R30-billion budget deficit — and edge the country away from a “debt trap” in which the government is compelled to increase borrowings merely to service debt.

Although economists believe personal tax will be pegged, income tax thresholds could be left where they are and fiscal drag - the effect of individuals’ salary increases forcing them into a higher tax bracket — would generate greater collections.

Dr Japie Jacobs, a special adviser to Mr Keys, warned recently that the upcoming Budget would prove “most unpopular” by deflating the economy. He confirmed the Budget would not be a stimulatory one, “based on the strong need to reduce the government’s deficit.”
Keep in trim on the Vat Diet

LIBBY PEACOCK
Weekend Argus Reporter

INTRODUCING the Vat Diet —
guaranteed to suit your pocket
and your waistline.

South Africans have tried the
Scaristol Diet, the Beverley Hills
Diet and the Weightless Diet with
varying degrees of success.

But the Vat Diet — made pos-
sible after Minister of Finance
Mr Derek Keys announced new
Value Added Tax zero-ratings on
a wide range of foodstuffs this
week — contains all the nutrients
for a healthy eating plan.

At present brown bread, meal-
lie meal, mealie rice, samp, dried
mealis, dried beans, lentils,
canned pilchards, milk powder
and dairy powder blends are
zero-rated.

From April 7, rice, fresh fruit
and vegetables, vegetable oil for
use in cooking, fresh milk, certain
cultured milk, brown wheaten
meal, eggs and legumes and
pulses (peas and beans) will be
exempted.

And that’s enough to live on,
says Mrs Joan Huskisson, head of
the Nutrition and Dietetics Unit
at the University of Cape Town.

“You should be able to live on
the Vat Diet, provided nutrients
are taken in the right quantities.”

It would have been better if
meat had been included in the
range of zero-rated foodstuffs,
but one could have a “perfectly
adequate, healthy diet” without
meat.

There would have been a lot of
advantage in including margarine,
especially to make the
starches more palatable.

The Vat Diet also does not
provide the “comfort” of bever-
ages like tea and coffee.

Calcium would be available
from both the bones in the pil-
chards and the dairy products.

“They have included more ba-
sic agricultural products. Hope-
fully this will encourage people
to use unprocessed foods more
freely than processed, composite
foods, which are less healthy and
more expensive.”

On the Vat Diet, fruit and vege-
tables would provide the whole
range of vitamins and minerals,
while pilchards, eggs and dairy
products would provide protein.

Carbohydrates were present in
mealie meal, rice and brown
bread.

The inclusion of cultured milk
showed recognition of the fact
that many South Africans had a
sensitivity to the lactose in uncul-
tured milk, Mrs Huskisson said.

A concern was that the vegeta-
table oil was the only source of
concentrated calories needed by
people who took a lot of exercise.
Meat producers call for zero-rating

Weekend Argus Correspondent

PRETORIA. — Red meat producers are outraged at the government’s decision not to grant their product tax exempt status.

Mr Gerhard Brunn, chairman of the Red Meat Producers Organisation (RPO) which falls within the ambit of the South African Agricultural Union, said the retention of VAT on red meat was “unacceptable.”

Urgent representations had already been made to Finance Minister Mr Derek Keys.

“If VAT could be imposed at a zero rate, this would mean a saving of approximately R700 million for the consumer who in many cases already lives beneath the breadline.

“Red meat is a basic foodstuff which, in view of its extremely nutritious properties, plays an important role in feeding all consumers.”

According to information at the RPO’s disposal, red meat producers have had to absorb a portion of the VAT on their product themselves.

This and the drought in many areas has led to “a drastic deterioration in the financial position of many producers”, Mr Brunn said.

A Consumer Council spokesman said yesterday that with certain foodstuffs being zero-rated, red meat, fish and white bread should receive the same treatment.

“Statistics show that the black population eat far more white bread than brown.”
Cosatu is discussing the need for an independent tax commission to rationalize government income and expenditure and make it more efficient.

While Naidoo conceded the deficit could not be ignored, he said priorities should be identified and addressed over time.

Cosatu believes these priorities to be housing, health and job training needs.

The involvement of agencies like the Development Bank of South Africa would assist in delivering resources to people who need them. Restructuring the public sector and incorporating the homelands is also high on Cosatu's agenda.

This would mean the demise of own affairs administrations, which would save millions. A saving of R2.5 billion a year could be made if the homelands were incorporated into South Africa, according to conservative estimates.

According to the Central Statistical Services, the homelands salary bill for their 230 000 public servants would exceed R5 billion this year.

The saving would be made at the level of executive and administrative level.

Cosatu acknowledges that essential services would have to continue. Lavish perks for chief ministers and their cabinet colleagues have loaded costs significantly.

The six homelands have a combined total of 57 ministers, including chief ministers.

Gazankulu had nine, KaNgwane nine, KwaZulu 12, Lebowa 10, QwaQwa eight, and KwaNdebele nine.

Their total grant from the South African Government in the current financial year was just under R9 billion.
Times for all in SA
Budget '93: Taxing
Revenue falls slightly short

Revenue collected in the first 11 months of the current financial year came to 88.1% of the amount voted for the year.

This compares to 88.4% for the corresponding 11 months of the previous financial year, says the Central Statistical Service.

The revenue collected for the yearEscalation 1989 2.6% over that collected in the first 11 months of the previous financial year.
R2bn shootout in taxman vs investor epic

FINANCE Minister Derek Keys is expected to table a treaty this week to end the seven-year, R2-billion wrangle between film investors and the taxman.

Mr Keys confirms that he will address the issue in his Budget speech on Wednesday. He declines to give any further details.

This follows speculation that a compromise has been reached between the Commissioner for Inland Revenue and the 38 000 taxpayers who owe around R2-billion for deductions they claimed for film expenses.

Industries sources say the settlement on the table allows for film investors to write off their production costs or an amount not more than their initial investment in the film. This means they will get a tax deduction of R1 for every R1 invested.

However, marketing and distribution costs are unlikely to be tax deductible.

Before the scheme was stopped, investors stood to get as much as R5 in tax deductions for every R1 invested.

A tax consultant says many investors are hoping for a write-off equal to twice their costs, which means they will come out square on their investment but will not be able to use the deductions to offset other income.

Taxpayers are not bound to accept the expected offer and can press ahead with court proceedings if they wish.

Tax experts say as much as R1.2-billion is at issue, although figures are not available on how much of the tax has been paid to Inland Revenue. Some investors have met demands from the Receiver, some have made late payments but withheld interest and others have withheld all payments.

The proposal is the culmination of several years of negotiations between the Receiver's office and taxpayers, many of whom are represented by top Johannesburg lawyer Michael Katz.

Distrust

Coopers Theron du Toit partner Rick Cottrell says that if the 1:1 offer is accepted by the majority it will be because they are sick of the protracted arguments and uncertainty and not because it is a fair settlement.

He says a 1:1 settlement is no more than what the taxpayers are entitled to.

"This is not going to appease anybody. If the Commissioner wants to ally the distrust and feeling of the lack of honour of Inland Revenue, then it is going to have to be more generous.

The law — before its effective abolition — provided for tax incentives to encourage the production of films in SA. Kessel Feinstein tax partner Ernst Matzisky explains that investors were allowed to deduct a variety of expenses incurred in producing, marketing and distributing the films. They also qualified for export marketing allowances.

As a result, numerous poor quality B-grade films were produced regardless of financial viability.

Mr Cottrell says some people were involved in fairly aggressive schemes which exploited the benefits.

"But there were also many honest and conservative investors who did not see this as a loophole but as a legitimate opportunity to invest in films.

"To lump them together in one basket highlights the system's unfairness."

Mr Matzisky says the Commissioner pulled the plug on the investments in March 1989 and proceeded to attack existing schemes, including those which had received written rulings.

"Additionally, Inland Revenue attacked film schemes which complied with the criteria contained in legislation specifically introduced to cater for film investment and not withstanding public assurances to the contrary by both the then Commissioner for Inland Revenue and the then Minister of Finance."

Although many investors did not receive written rulings, they based their deals on similar structures. And by that stage a practice was considered to have been established because written rulings had to be issued for similar cases.

A test case on a movie called Jake Speed was taken to the Special Tax Court last year, and the judgment from Mr Justice Melamet is expected before the end of the month, says Hofmeyr van der Merwe partner, Fiona Peart, who is representing the Jake Speed taxpayers.

Although the judgment was originally intended to set a precedent for other tax matters, it is now feared it will be based on technicalities peculiar to the Jake Speed case only.

It is possible that the losing party will take the case on appeal, which will take another few years to settle, says Mrs Peart.

Interest

This has necessitated some sort of compromise between the Receiver and taxpayers, as it would be virtually impossible to take all R3 000 cases to court.

A settlement is also attractive for taxpayers, as interest is accumulating at 18% a year on the amount they owe.

Fisher Hoffman Stride tax partner Anthony Chalt explains that two types of interest are involved.

People are charged interest on the amount of tax that is due, but this interest is not normally payable until the amount is considered disputed. However, if the interest is paid, the taxpayer has the opportunity to appeal the tax assessment.

If the interest is not paid, the amount is considered to be clear of dispute and interest is charged from the date it was due. If the taxpayer wins the appeal, the interest is usually paid back; if the taxpayer loses, it is not.

If the taxpayer continues to dispute the amount, interest continues to be charged on the amount, but it does not become payable until six months after the date of the decision. It is not payable while the taxpayer is appealing the decision.
NEW MALS LAW COULD MEAN TAX BENEFITS FOR EMPLOYERS
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Little VAT relief for poor

By STAN MIHLONGO

SLIGHT relief greeted the lifting of VAT on basic foodstuffs this week.

However, Cosatu spokesman Bheki Nkosi slammed Finance Minister Derick Keys for not zero-rating taxation on water, electricity and medicine.

"This organisation had a meeting with Minister of Health Rina Venster, where we received an assurance that medicine would not be taxed," said Nkosi.

He added that Cosatu also does not accept the exclusion of meat, fish and white bread from the zero-rated foods.

Foods like eggs, fresh milk, rice, vegetables and brown flour will be zero-rated by Soweto Housewives League general secretary Stella Mohlame said the zero-rating of basic foodstuffs was welcomed, but stressed that the decision not to zero-rate medicine "was disappointing considering that this country's poor majority would be the ones to feel the pinch".
Revenue figures post tax structure poser

JOHANNESBURG. — Latest Exchequer figures, which showed revenue collection slowed in February from January, indicated serious structural problems within the tax system, Nedcor Bank chief economist Edward Osborn said yesterday.

The Central Statistical Service reported that total revenue collected for the 11 months to February was 80.1% of the budgeted amount. The deficit, before borrowing and debt repayment and excluding the other statutory appropriations, was 120.9% of the deficit voted for the full year. For the 1991/92 period, the deficit was 117.8%.

Total Exchequer receipts were R67.9bn and total issues were R21bn. Osborn said the figures showed total revenue for the year was likely to be R76bn and total expenditure, including additional appropriations amounting to about R4.5bn in February, would be R104bn, which meant the deficit would be R29bn.

The deficit outcome doubled that initially budgeted for and posed a "considerable credibility problem" for Finance Minister Derek Keys's Budget this week, he said.

CSS said during the first 11 months of the financial year, receipts showed a rise of 2.6% over the corresponding period last year, compared with a 3.2% improvement in the ten months to January.
Revenue figures highlight tax flaws

TIM MARSLAND

LATEST Exchequer figures, which showed revenue collection slowed in February from January, indicated serious structural problems within the tax system, Nedcor Bank chief economist Edward Osborn said yesterday. \( 10 \text{ July 1973} \)

The Central Statistical Service reported that total revenue collected for the 11 months to February was 80.1% of the budgeted amount. The deficit, before borrowing and debt repayment and excluding the other statutory appropriations, was 120.5% of the deficit voted for the full year. For the 1991/92 period, the deficit was 117.8%.

Total Exchequer receipts were R278bn and total issues were R31bn.

Osborn said the figures showed total revenue for the year was likely to be R75bn and total expenditure, including additional appropriations amounting to about R4.5bn in February, would be R104bn, which meant the deficit would be R29bn.

The deficit outcome doubled that initially budgeted for and posed a "considerable credibility problem" for Finance Minister Derek Key's Budget this week, he said.

The problem, besides the usual understatement of expenditure, was that of the reliability of the revenue forecasts. This had been "inadequate" in recent years.

CSS said during the first 11 months of the financial year, receipts showed a rise of 2.6% over the corresponding period last year, compared with a 3.2% improvement in the ten months to January.
Last-minute plea for zero-rate meat

Staff Reporter

A last-minute appeal to zero-rate red meat for VAT has been made by the South African Agricultural Union's Redmeat Producers Organization.

"If VAT could be imposed at a zero rate (on red meat), it would mean a saving of about R700 million for the consumer who, in many cases, already lives below the breadline," said RPO chairman Mr. Gerhard Brümme.

Mr. Brümme said red meat was a nutritious basic food and according to information obtained by the RPO, cattle farmers have had to absorb part of the VAT on their product.

This, as well as the lengthy drought which had hit large parts of the country's cattle-farming areas, have placed farmers in a worsening financial position.

Mr. Brümme said urgent representations to zero-rate red meat had already been made to the Minister of Finance, Mr. Derek Keys, and the issue was still under discussion.

According to Mr. Gareth Ackerman, chief executive officer of the Blue Ribbon meat corporation, the tonnage of red meat sold in his stores declined in October 1991 by the amount of the increase as a result of the implementation of VAT and had still not recovered.

Addressing the South African Feedlot Association in Vereeniging, Mr. Ackerman said: "One can understand 'luxury items' not being allocated zero rating, but to continue to classify meat as a luxury item is a serious mistake," he said.

[Handwritten note: 15/12/92]
Economy cannot afford drastic fix

The Government cannot afford to apply drastic medicine to markedly cut the deficit before borrowing, says Old Mutual economist Rian le Roux.

Le Roux said at a press conference yesterday that the economy was far too weak to absorb large scale tax increases.

He expects the government to budget for spending increases of 7.5 percent to R113 billion in the 1993/4 fiscal year, while revenue income, excluding any tax hikes, is forecast to rise by nine percent to R62 billion.

This would leave the deficit at an unacceptably high R31 billion, the equivalent of 8.4 percent of GDP.

Such a large deficit will increase the cost of servicing the government’s debt, which is already swallowing over 20 percent of revenue income.

Le Roux therefore expects a gradual decline in the deficit, which would be accomplished by a real cut in government spending as well as tax increases to rake in an additional R6.5 billion. (see chart)

Coupled with minor tax cuts worth about R600 million this would reduce the deficit to R25.5 billion, equivalent to 6.5 percent of GDP.
LOA expects Keys to scrap Sixth Schedule

By Sven Lünsche

The life insurance industry is expecting the abolition of the Sixth Schedule of the Income Tax Act to be announced in the Budget tomorrow.

The Life Offices Association (LOA), the umbrella body for the industry, has issued a note to its members advising them of a "code of conduct" to apply between the announcement and amending legislation in the Insurance Act.

Lifting the Sixth Schedule will enable life insurers to issue investment products for a five-year period with no life cover requirements. At present, life office products have to have a minimum term of 10 years and a life cover component.

The repeal of Sixth Schedule and the "four-fund" approach to life office taxation were key recommendations of the Jacobs Committee inquiry into the industry.

The LOA expects Finance Minister Derek Keys to commit the Government to both these principles tomorrow, although the four-fund approach is only likely to be phased in over three years.

Elaborating on the impending changes, Old Mutual's manager, product research, Peter Spreenwemberg, said yesterday the Sixth Schedule had made the primary function of the industry — the provision of long-term insurance and the protection of future income — an administrative nightmare.

"With a democratic process starting to unfold, and especially the pressures of a prolonged recession, the abolition of the schedule cannot be postponed anymore," he said.

In terms of the code of conduct, the LOA advises that the prescriptions of the code should be interpreted as if they were law, as amending regulation for the repeal of Sixth Schedule may still undergo changes between now and the eventual amendment.

"We were told that one of the considerations would be the conduct of the industry during the interim period which will now commence," the LOA says.

The code prescribes that products should adhere to the following guidelines:
- A demarcation period of five years, allowing for limited cash values within this period.
- Limiting premium increases to 20 percent per annum, applicable to both new and existing business, but containing lifestyle protection and inflation-fighting clauses.
- A go-ahead for single investments, which would have certain tax benefits, but would not attract tax penalties upon early investments in the underlying portfolio.
- Allowing for limited premium-paying terms.
- No minimum life cover requirements.
- No minimum life cover requirements.

"In terms of this approach, life office operations are split into four funds for purposes of taxation — an individual policyholder's fund, an untaxed policyholder's fund, a corporate fund and a corporate policyholder's fund.

The key benefit of this approach is that income earned by funds of individual persons would attract a tax rate of 30 percent, instead of 48 percent."
Unions set to oppose Budget if job problems are ignored

SHARON SOROUR Labour Reporter

ORGANISED labour is set to oppose the Budget if it does not address demands for the creation of jobs and the upliftment of workers.

Cosatu regional secretary Jonathan Arandse said federation members would hold a "low profile protest" tomorrow, beginning with a meeting in St George's Cathedral hall and culminating in a march to parliament with its affiliate National Education, Health and Allied Workers Union (Nehawu).

Cosatu members would protest outside the offices of the Receiver of Revenue in Plein Street.

The trade union federation — which has called for a Budget aimed at creating jobs and providing housing and education — met Finance Minister Derek Keys last week to discuss it.

Cosatu also appealed to Mr Keys not to increase the VAT rate or other taxes that would affect the poor and the working class.

The federation welcomed the lifting of VAT from basic foodstuffs last week, but questioned why fish and white bread were not exempted.

Nactu spokesman Brian Williams said Nactu was not expecting a Budget that would direct itself at "providing a foundation to overcome problems created by apartheid".

Mr Williams said preliminary reports on the Budget Nactu had received indicated it was "excessively weak" on economic redistribution.

"The central philosophy of the Budget is based on the supply-side economic philosophy of Britain and the United States."

Mr Williams believed the Budget presented little hope for the poor.

"It will burden the poor to a greater extent to provide more money for the government and I do not believe it will bring about any significant changes in unemployment or the conditions of the working classes," he said.

Nactu would hold a strategy planning conference in Johannesburg later this week.
Derek Keys, above, juggling demands on Budget tightrope

TAXPAYERS will shoulder the burden of government overspending with increases in direct and indirect taxes and higher levies and tariffs, particularly on fuel and luxuries, in tomorrow's Budget.

An increase in VAT from 10 percent will be the main weapon which Finance Minister Derek Keys will use to add to the depleted government coffers.

Taxpayers can also expect a 10 percent increase in fuel prices and to pay more for luxuries.

Although it is not known whether the government will go ahead with a 1 percent increase in the top marginal rate in individual tax, the inflationary effect on earnings will drag taxpayers into higher brackets.

On the spending side, the civil service has already been told that government will restrict increases, which in recent years have been higher on average than in the private sector.

This will probably be the main saving Mr Keys can effect to meet his commitment to limit government consumption spending this year.

On the concession side, Mr Keys has already given away his prize plum - zero-rating on a limited range of food.

Social pensioners of all races can expect an across-the-board increase followed by a promise of parity by the end of the year.

Economists expect only bad news but encouraged Mr Keys to stick to his aim of a steady reduction in government debt.

Mr Keys delivers his first Budget tomorrow under the pressure of enormous political and economic demands which cannot be met in the short term.

Details of the Budget will be reported in later editions of The Argus tomorrow.

This means he will be looking to borrow about R80 billion to balance his book.

This would be down from the projected R174 billion or 9 percent of GDP for this year but way above the accepted guideline of no more than 3 percent of GDP.

Democratic Party finance spokesman Mr Ken Andre has urged Mr Keys to stick to his word to restrain government spending by delivering a Budget of no more than R167.5 billion.

The South African Chamber of Business has said that it will be watching to see whether Mr Keys will start moving on the guidelines of the government's economic model, warning of a loss of credibility if he does not.

Mr Twee Manuel, African National Congress head of economic planning, said he expected the Budget to reflect National Party election promises but would continue to reflect the government's incapacity in developmental planning.

He said that although there would be parity in pensions expenditure, areas such as education management would be continued along apartheid lines.

Mr Manuel said it was important that the Budget should deal with the efficient management of the deficit which he said was the direct result of government inefficiency in overspending and the under-collection of taxes.
Dealers the Key to VAT Benefits

Star 16/18/93
**Checklist for higher tax level**

Value added tax is expected to rise from 10 to 13 percent when Finance Minister Derek Keys makes his Budget speech later today.

This means food generally — like everything else — will cost more.

The Star today publishes its third monthly Consumer Basket so that consumers will have a comparison when the new VAT figure becomes effective.

The 16 items surveyed are common among many households. But brand names have been given, after supermarkets said the first two Baskets had "not compared like with like".

The price survey was conducted on Monday.

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Taxpayers, wall for mugging

By Anthony Johnson
Budget

CPD - hike by administrative standards of

education vote expected to soar

Budget Likely
cut spending,
to hike taxes,
CAPE TOWN — Discrimination against non-residents who declared interest income earned in SA, and the favourable treatment granted those who did not, represented a "disturbing precedent" in SA's tax law, Syfrets tax expert Dale Lippstreu said in a statement yesterday.

He was referring to a Government Gazette promulgation on March 5 this year giving notice of Finance Minister Derek Kays' intention to retrospectively extend the exemption on payment by non-residents of interest income which accrued prior to June 2 1992.

Income which was assessed before this date has been specifically excluded from the scope of the exemption.

Lippstreu said this meant that non-residents who failed to return their interest income would be absolved of their tax liability whereas those who abided by the law would have to pay tax on the interest income declared.

"There is no doubt that the Minister must be aware of this anomaly, but it seems that the government's revenue account is in such a parlous state that he cannot refund the taxpayers in order to place them on an equal footing with the rest," Lippstreu said. (20)

The Government Gazette notice related to tax exemption on interest income granted non-residents in June 1992 with immediate effect. The exemption was granted because of the failure of the Receiver of Revenue to collect interest income because of an oversight.

"Belatedly, Revenue approached certain banks for details of interest paid by non-residents. When word reached the market, affected investors scrambled to place their funds out of reach, precipitating a collapse of the financial rand."

The question as to what was to become of income accruing before June 2 1992 was left unresolved.

"Legally, the Receiver of Revenue, once aware of such income, was obliged to tax not only current income, but also that which accrued in previous tax years as well," Lippstreu said.
The VAT Co-ordinating Committee yesterday picketed the Receiver of Revenue offices in Johannesburg and held demonstrations in Cape Town, Port Elizabeth and Kimberley to protest against the planned increase in Government taxes, including VAT.

The tax increases are expected to be announced when Finance Minister Derek Keys tables this year's Budget in Parliament today.

Cosatu spokesman Neil Coleman said the Government was prepared to allow corruption in its departments at the expense of poor people who had to foot the bill.

He said the Government should purge its departments of corruption and introduce measures to alleviate the plight of the poor.

He said Cosatu demanded:

- An independent commission to devise a new tax system that would benefit the poor.
- No VAT on basic foods.
- A Budget for reconstruction and not destruction.
- An independent audit investigation into all government departments to put an end to corruption.

Sapa reports that copies of the Budget speech will be on sale at the offices of the Receiver of Revenue in Cape Town, Johannesburg and Pretoria shortly after Keys delivers it.

The Ministry of Finance said in a statement that the copies, at R15 each, would be on sale between 3.15 pm and 6 pm today and from 8 am to midday tomorrow.
Extra muscle for tax collectors

Political Staff 320 CT 1813 93

TAX collectors are to be given extra muscle in the coming financial year.

Finance Minister Mr Derek Keys announced during his Budget speech yesterday that "notwithstanding fiscal constraints, an additional R40 million is provided for Inland Revenue and Customs and Excise in 1993/94".

The minister said the additional funding for tax collection purposes should enable Revenue Commissioners to attract "adequate staff of even a higher calibre".

Mr Keys said one of the spin-offs of this development would be the speedy establishment of a specialist office in northern Johannesburg to deal exclusively with company taxation.

With the application of VAT to imports and exports, new customs border posts would be established during the year.

Mr Keys said he acknowledged the relationships between the Commissioners for Inland Revenue and Customs and Excise on the one hand, and taxpayers, importers and exporters on the other, were sometimes "strained".

"I... approach the matter in a spirit of partnership with taxpayers.

"I am satisfied that both Commissioners will adopt the self-same attitude and we look forward to a response in kind from private sector parties and their advisers."
Provisional tax boon for some over 65

THE provisional tax threshold for some over-65s is to be raised from the start of the 1994 tax year, Minister of Finance Mr Derek Keys said yesterday.

He said in his Budget speech that some individuals older than 65 were now exempt from paying provisional tax if their annual taxable income did not exceed R25 000 and consisted exclusively of remuneration, interest or rent from the lease of fixed property.

Since the tax threshold for married people over 65 had already reached R24 881 for the 1993 tax year, it was proposed that the exemption threshold be raised from R25 000 to R25 000.

This should mean that, from the start of the 1994 tax year, a smaller number of elderly taxpayers in the lower-income brackets would need to make provisional tax payments. - Sapa
Rough time ahead for consumers
New laws on estate duty in pipeline

Draft legislation is being drawn up for a more efficient system of taxing the transfer of estate assets and wealth, according to the Budget Review. The review says that from 1986 until 1992, revenue from estate duty fell by an average of 9 percent a year.

Inland Revenue had given the Tax Advisory Committee a discussion document on the issue, and the committee had recommended that the Estate Duty Act be combined with the Income Tax Act and adapted to offer a more effective system of taxing the transfer of wealth.

Referring to self-assessment for company tax, the review said more of the fiscus's discretionary powers would be removed from the Income Tax Act this year. — Sapa.
VAT, duties to hit top of property market

By Meg Wilson
Property Editor

On property, the increase in VAT and in some transfer duties stipulated in the Budget will have most effect on the top end of the market.

VAT, which applies to the purchases of newly built homes, is to be increased from 10 to 14 percent.

This, says Camden's national franchise chairman Scott McTear, will have a negligible effect for buyers who were existing homeowners, as the increased value of their homes will offset the increased cost of the new purchase.

For first-time buyers, however, homeownership will become less affordable in the medium term, since the increase in VAT will push up building costs.

Commissions

The increase in VAT will also affect estate agents' commissions, raising the amount payable from R770 on a R100 000 house to R980 — and on a R250 000 house from R1 750 to R2 450.

Pam Golding Properties director Ronald Emnik said the increase in VAT could cause a hiccup in the imminent upturn in the property market due to the erosion of disposable incomes.

It could also have an inflationary effect on developments and projects where developers of new properties will need to increase the price of the units to counter the increase in VAT.

"However, we accept that this medicine is necessary if the Keys plan is to succeed. Within this plan, the property market will have a rosy future."

For transfer duties, the exemption threshold is to be raised from R50 000 to R60 000 for residential houses and flats, and from R20 000 to R24 000 for unimproved land purchased for building a dwelling.

The rate of duty for natural persons will be adjusted to 1 percent on the first R60 000, 5 percent for amounts between R60 001 and R250 000 and 8 percent above R250 000.

The rate will rise from 7 to 10 percent for companies.

Aba economist Christo Luus comments that this will mean some relief for buyers at the bottom end of the market, but will steeply increase costs on houses over R250 000.

"On a R100 000 house, the duty payable will in fact decrease from R5 000 to R2 800 but on a R250 000 house, it will rise from R18 000 to R22 000."

Anglo American Property Services (Ampros) said it would absorb the 4 percent increase in VAT on all residential land sales until the end of June.

Ampros sales and marketing director Grahame Lindop said the special offer applied to all purchasers who qualified for a VAT input credit.

It was regrettable, he said, that the Minister had not been able to exempt residential property from VAT, or tax it at a lower rate.

"An increase in VAT is another cost for potential homeowners, which for many will push ownership even further out of their reach."
Partying costs go up

Skyrocketing prices and high costs of living have led to a significant increase in the cost of partying. The average cost of a night out has jumped by 37% over the past year. This increase has been driven by rising prices for food, drinks, and entertainment. The average partygoer now spends over $100 per night, compared to $72 a year ago. This has put a strain on budgets and has led to a decrease in the number of social gatherings among friends and family.

Increased costs have also affected retirement savings. The average retirement fund is now worth 30% less than it was a year ago, due to the market downturn and inflation. This has led to a decrease in the amount of money available for retirement. The government has announced a plan to increase the retirement age by two years, starting in 2024, to help reduce the strain on retirement funds.

Amidst these challenges, there is a growing concern about the future of social gatherings. Many people are choosing to save money and avoid partying altogether. However, there are also those who believe that partying is essential for maintaining social connections and mental well-being.

The government has announced a plan to increase the retirement age by two years, starting in 2024, to help reduce the strain on retirement funds. This has led to a decrease in the amount of money available for retirement. The government has announced a plan to increase the retirement age by two years, starting in 2024, to help reduce the strain on retirement funds.
Little room for hotel industry

Gold mines now given tax options

Business welcomes new

dual company tax format

The possible impact would be seen in the overall performance of the company. With the revised tax options, companies can now explore opportunities that were previously not available. The tax advantages provided by the dual company tax format can help businesses to optimize their financial strategies and capitalize on market trends.
Dual tax system to encourage growth
INCOME from estate duty fell by an average of over 20% per year in real terms between 1985 and 1992, according to the Finance Department's Budget Review which suggests legislative changes are likely.

A discussion document on this point was submitted to the Taxation Advisory Committee, which recommended investigating the possibility of combining the existing Estate Duty Act and the provision referring to tax on donations in the Income Tax Act.
Retrenched workers to get relief

FINANCE Minister Derek Keys yesterday announced a new system of tax relief for retrenched workers, but also indicated that large-scale retrenchments of public sector employees were in the offing.

He announced a "provision for possible retrenchment costs" of R300m. He did not elaborate on any retrenchment plans from the public sector.

Commission for Administration member Ian Robson said last night it was "logically that some provision for retrenchment costs must be made in terms of rationalisation and expenditure cutbacks".

A measure of what government may have in mind can be extrapolated from retrenchment costs in the private sector. Last year it cost Harmony gold mines about R30m to retrench 5,000 people, suggesting government could be looking at laying off tens of thousands of its employees.

Tax relief for retrenched workers announced by Keys provided that lump sum severance payments of up to R30,000 to employees laid off because of staff reductions or enterprise shutdowns would be introduced retroactive to March 1 1992.

The proposal originated with an agreement between the Chamber of Mines, the NUM and other mining unions.

The relevant provision of the Income Tax Act previously applied only to men over the age of 55 and women older than 50.

Keys said the concession would cost R10m in lost revenue in 1993/94.

NUM assistant general secretary Marcel Golding last night welcomed the move: "It provides important relief for retrenched workers. It indicates the value of our negotiating process with the chamber on the issue, and it is good that he acknowledged the contribution of the chamber and the NUM. However, the concession is only part of a longer term programme of relief for retrenched workers which must also include such features as reinstating..."
Corporate Tax Reforms: Keys Revealed

Private entrepreneurs, the focus of growth.
Double tax agreements made

DRAFT double taxation agreements had been initiated by SA with France, Hungary, Namibia, Poland, the Republic of China and Romania. Finance Minister
Derek Keys said in his Budget Review.

Keys added that negotiations were also taking place with Lesotho, Mauritius and the Russian Federation.

SA’s greater international acceptance had also paved the way for more active involvement by the World Bank and the International Monetary Fund.
Four-fund approach for life offices to be promulgated

CAPE TOWN — Legislation to give effect to the four-fund approach to the taxation of life offices would be promulgated during the current parliamentary session, Finance Minister Derek Keys said in his Budget Review.

The date for implementing the new scheme would be determined after consultation with life assurers.

Also to be introduced in the session was an amendment to the Insurance Act introducing new conditions for life policies. Keys said the Sixth Schedule to the Income Tax Act which prescribed the kind of business assurers might conduct might be replaced by simplified provisions under the Insurance Act once the four-fund tax system had been implemented.

"Provided new policies issued in the interim comply (with the new conditions) it should be possible to also scrap the Sixth Schedule in relation to existing non-standard policies," Keys said.

In terms of the four-fund approach, assurers would be taxed on income received from policyholders under the trustee principle as if it were income in the hands of policyholders. Non-policyholder income would be taxed on company tax principles.

Keys said the four-fund approach would require the compartmentalization of assurers' assets into tax-exempt retirement funds, policyholders' funds, corporate funds taxed at the company tax rate and a fourth fund for the balance of the assurer's assets, to be taxed at the corporate rate.

Our political staff reports that Keys announced that all social pensioners would receive an increase of about 7% from July 1. This applied to other social allowances and would cost the state R231.5m.

The equalization of pensions will take place on September 1, and will cost R934.1m.

Keys said that although inflation had fallen greatly, it continued to erode the purchasing power of pensions. An increase in civil pensions was therefore required. These would be raised by 3% from July 1.

This applied to civil pensioners whose last working day was July 1 1992. Those retiring between this date and July 1 1993, would have their pensions raised by 0.42% for each month since retirement.

With regard to military pensions, Keys said a backlog had to be made up and these pensions would be increased by 3%.

SAPA reports that the provisional tax threshold for some people older than 65 would be raised from the start of the 1994 tax year, Keys said.

He said some individuals older than 65 were now exempt from paying provisional tax if their annual taxable income did not exceed R25 000 and consisted exclusively of remuneration, interest or rent from the lease of fixed property.

Since the tax threshold for married people older than 65 had already reached R14 881 for the 1993 tax year, it was proposed that the exemption threshold be raised from R25 000 to R35 000. This should mean that from the start of the 1994 tax year, a smaller number of the elderly in the lower income brackets would need to make provisional tax payments.
Consumers bear the brunt

By Peter Fabricius

CAPE TOWN — Consumers will bear the brunt of Finance Minister Derek Key's bad news: R114 billion budget, with a 40 percent increase in VAT and a 16c/l rise in the petrol price.

Keys squeezed drinkers and smokers with a wide range of increased excise duties, ranging from 4.8c a litre on beer to 2.46c more for 10 cigarettes.

But he offered some relief to the very poor, with full social pension parity among different races, and announced a number of job-creation and other welfare benefits. His increase in the VAT rate from 10 to 14 percent provoked an outcry.

The new rate will net the government an extra R7.5 billion, to bring total VAT income to R24.9 billion in the 1993/94 fiscal year.

Although personal income tax rates were not increased, individual taxpayers will make an even larger contribution because of fiscal drag — adding another 15.9 percent to bring their contribution to R27.6 billion.

Companies were given some relief with a reduction in the corporate tax rate from 48 to 40 percent. But this was coupled to a new tax of 15 percent on dividends and other income distribution.

The increases in excise duties on alcohol and cigarettes included:

- An extra 37.7c on a 750 ml bottle of spirits.
- An extra 4c per 750 ml of fortified and unfortified wine.
- An extra 1c a litre on sorghum beer.

And the defence budget fell even in nominal terms by 4 percent — part of a general reduction in spending on protection services from 22 percent of last year's budget to 18 percent of this one.

Main items of social spending are:

- Education: R22.7 billion, up 19.2 percent on last year.
- Housing: R1.6 billion, up 27 percent.
- Health: R11.07 billion, up 10.9 percent.
- Social security and welfare: R10.6 billion, up 6.7 percent.

Key kept the overall budget increase to 8.3 percent above last year's spending of R104.9 billion.

Social pensions of different races are to be equalised by September 1.

White pensions will go up from R345 a month to about R370 in July. Coloured and Indian pensions will rise from R318 to about R342 and black pensions from R293 to R315.

By September 1, all pensions will be raised to the white level of about R370.

More Reports — Pages 2, 6, 7, 18 and 21.
Shareholders will pay

Company tax cut, but

By Derek Tompkins

Year 1813493
The London Gold Exchange, which operates in a similar manner to the Chicago Board of Trade, recently closed the price of gold at $340 an ounce. The move represents a decline of $10 from the previous day's close.

The decline comes amid continued uncertainty in the global economy, with investors looking for safe havens. Gold prices are closely watched by investors as a hedge against inflation and market volatility.

In other financial news, the euro continued its decline against the US dollar, falling to a new record low of $1.0288. The pound also remained weak, trading at $1.5155.

Economists are predicting that global growth will slow in the coming months, with many nations struggling to recover from the impact of the pandemic. As a result, investors are expected to continue seeking out safe investments like gold and the US dollar.

The US Federal Reserve is expected to continue its quantitative easing program, which has helped to keep interest rates low and support the economy. However, some experts are concerned that the program may lead to inflationary pressures in the long term.

Overall, the financial markets remain volatile, with investors keeping a close eye on developments both domestically and internationally. The gold market, in particular, is expected to remain strong as a haven for investors seeking security in a time of uncertainty.
Keys steers a stringent course

By Sven Liinsche

CAPE TOWN — Finance Minister Derek Keys has put the Government firmly on the course of greater financial stringency.

This is most visible in a small but significant reduction in the deficit before borrowing from 8.5 percent of GDP in 1992/3 to 6.5 percent in the current fiscal year.

At the same time, Keys has taken the first steps in achieving the targets he set in his recently released Normative Economic Model (NEM).

The Budget should also receive a cautious welcome from the Reserve Bank, which has been calling for conservative measures as a pre-condition for a further loosening of monetary policy.

The total expected expenditure of R114,1 billion for 1993/4 is 9.8 percent above the revised estimate of R104,9 billion in 1992/3.

Assuming an inflation rate of about 10 percent for the period, it indicates a real decline of 1.2 percent in government spending.

While this is below Keys’s stated target of a three percent decline in state spending, the burgeoning demands of social services made a larger cut impossible.

Social services — education, housing, health and social security — account for R56 billion of total budgeted spending, more than offsetting the declining share taken up by protection services.

Income from taxes is budgeted to rise from R75,2 billion in 1992/3 to R82,5 billion this year, a rise of 17.5 percent.

The increase will largely be derived from two sources — individual income tax and VAT.

Following the rise in VAT from 10 to 14 percent and including the previously announced exemptions, income from VAT is budgeted to rise from R7,4 billion to R9,9 billion.

Income tax revenue is set to increase by 15.5 percent to R37,0 billion from R32,6 billion.

The resulting deficit before borrowing of R38 billion is economically sensible as a larger deficit would have raised additional pressure on government spending devoted to interest payments, which are already high at 17.4 percent in 1993/4.

On the other hand, a larger cut in the deficit would have entailed further tax hikes or slashing government spending, which the economy cannot afford, given its fragile state.

Nevertheless, this is a medicine Keys will have to administer over the next few years.

Government dissaving — the excess of current government spending over current revenue — weakened last year and could decline further as salaries of civil servants are budgeted to rise by 11.8 percent this year.

However, in other areas of state spending the Minister has set the tone for the future. The current expenditure component of the Budget is budgeted to rise by a mere 6.5 percent in 1993/4 and capital spending by 25.9 percent.
Cosatu, ANC slam increased VAT rate

By Mike Siluma

The Budget received mixed reaction from the Congress of SA Trade Unions and the ANC yesterday.

Cosatu said Minister of Finance Derek Key's presentation contained both "regressive" and "progressive" measures.

The ANC said the Budget was a product of the National Party, drawn up with an eye on the proposed general elections.

Cosatu general-secretary Jay Naidoo deplored the increase in VAT from 10 to 14 percent, which would have "a major impact on South African society".

But the introduction "of a system of taxation which encouraged investment, growth and job creation" was welcomed.

"The Budget addresses only revenue collection and budgetary allocations to State departments, yet during the last 12 months there has been evidence of widespread corruption, inefficiency and mismanagement of public funds in the TBVC states and the rest of South Africa," said Naidoo.

"The fuel increase will be inflationary. We believe that the unilateral imposition of a 5 percent salary increase for public servants undermines collective bargaining and shifts the problems of deficit reduction on to workers in the public sector."

But Cosatu welcomed the exemption of taxation on retrenchment packages, as proposed by unions, and the attention to social services.

The ANC added: "The average citizen will find his disposable income further undermined by the effective increase in income tax as a result of continuing bracket creep. And the consumer will be able to buy less for his money because of the increase in the VAT rate and higher excise duties.

"There is no indication in the Budget that discipline goes beyond aggregate expenditure cuts. Poorly targeted and inefficient delivery of social services will, by and large, continue through wasteful apartheid structures."

It also called for the immediate equalisation of social pensions, rather than in September as proposed by the Government.

The Pan Africanist Congress and the Azanian People's Organisation will issue their responses today, but both were critical of "an apartheid Budget" unilaterally decided upon by the Government.
Budget ‘sends encouraging signals’

By Michael Chester

Though tax bills threaten to increase over the next 12 months and there is a risk of inflation — at least temporarily — returning to double digits, the Economix think-tank said the Budget had sent out “encouraging signals” about the longer-term economic outlook.

Economix director Azar Jammie estimated that individual taxpayers faced an increase in collections from R31.3 billion to about R36.2 billion.

While actual rates had not been increased, heavier income tax demands were inevitable as inflation pushed taxpayers into higher marginal brackets — deeper into the fiscal drag syn-

Government income from VAT, with the rate lifted from 10 percent to 14 percent, would climb to about R22.3 billion.

However, the Budget had been correct in bringing direct and indirect taxation into better balance.

Jammie, who has sounded repeated warnings about growing government debts and the dangers of State overspending on bureaucracy, applauded moves to check the sharpness of increases in the budget deficit — leaving room for more government investment in productive resources.

The new dual system on company taxes should also encourage an increase in private-sector fixed investment, the main key to overall economic growth and job creation.

The Minister of Finance, in his first Budget, had shown a deep understanding of South Africa’s economic problems and the route towards longer-term solutions.

“Most of the basic structural weaknesses in the economy have now been addressed,” said Jammie.

“There are encouraging signals that we may well have set course towards the objectives of the new five-year economic model. At least we are striking off in the right direction.

“The increase in VAT and higher fuel prices may add a few notches to consumer prices and nudge inflation back into double digits as an immediate impact. However, it is possible that inflation will continue an overall downward trend by the end of the year — as long as tight discipline is maintained.”

The Small Business Development Corporation welcomed new cash injections of R75 million, the bulk of a total of R112.6 million ploughed into development programmes to assist the launch of small enterprises.

“Countering unemployment remains a top priority,” said an SBDC spokesman.

The Johannesburg Chamber of Commerce and Industry said the restructuring of the company tax system had sent business powerful new signals about a restart of the economic motors.
Some glad tidings for the retrenched taxpayer

By Leigh Hassall

The Budget offers a glimmer of good news to those taxpayers who have lost their jobs through the vagaries of the recession in the past year.

In a proposal retrospective to March 1 1992, taxpayers will be allowed the first R30 000 of any lump sum payment from their employer as a taxfree amount.

This could turn into a saving of as much as R10 000, depending on the taxpayer's income level.

Previously, this deduction was limited to male taxpayers aged 55 years and over and female taxpayers aged 50 years and over.

In terms of the relevant section of the Income Tax Act, a taxpayer is only entitled to this taxfree amount if he or she receives the lump sum through the loss of office — usually retrenchment or the liquidation of the employer.

Beric Croome of accountants Kessel Feinstein says the proposed amendment is to be welcomed because it will provide relief to the many employees who have lost their jobs in the current recession.

He adds that the move is significant because it is indicative of the Minister taking heed of the representations made to him.

Croome says that taxpayers will be able to get a refund of taxes already paid on lump sums through the rendering of their annual returns.

Site taxpayers, who are not required to render returns, will have to await word from the Receiver.

Gerald Lambert of accountants Deloitte & Touche says that accrued leave paid to a "contract employee" may be included in the taxfree portion of the lump sum.
Smokers' tax 'too low'

The Government's decision to increase tax on cigarettes by only 5c for 20 was a "pathetic response", according to the Medical Research Council's group executive, essential health research, Dr. Derek Yach.

"Our recommendation was that a R1 increase would have raised an estimated R1 billion in extra revenue, which is desperately needed for health and social services," he said. South Africa had among the lowest excise tax for cigarettes in the world, he added. See Medical Reporter.
Bad news

PENSIONS UP 7.5%
VAT UP to 14%
EDUCATION UP 19.2%
DEFENCE DOWN 3.5%
PETROL Increased by 16c

(And little good news . . .)

A VAT hike, increases in fuel and excise duties on
liquor and tobacco, a

higher company tax and

pensions parity are the main fea-
tures of the Budget presented by
the finance minister yesterday.

"To be successful in an environ-
ment undergoing fundamental
change requires that one should
choose one's guiding principles with
great care. "The two which have
guided the construction of this
Budget are the need for discipline
and the need for growth," Finance
Minister Derek Keys said.

The increase in VAT would yield
an estimated R5 000 billion for the
Exchequer after allowing for the
R1.5 billion which will be forfeited
in the zero ratings.

Increases in customs and excise
duties on liquor and tobacco prod-
ucts, which come into effect immedi-
ately, will generate R330 million
and additional revenue amounting to
R740 million will be obtained
from the increase in fuel levy.

Dual tax system
Mr Derek Keys said it was impor-
tant that company tax be reduced
and a means of doing this was by
introducing a dual tax system, one
part of the tax being levied on the
taxable income and the other on dis-
tributed profits.

The present rate of 48 percent will
be reduced to 40 percent while, at the
same time, a tax of 15 percent on
distribution profits will come into
effect. Civil pensions will increase by
5 percent on July 1 for all civil pen-
sioners who retired on or before July
1 1992 and on September 1 the final
equalisation amount of all social al-
lowances will take place to place pen-
sioners of all races on parity. - Sepa.

The inside story...
The role of the Budget in a plunging economy

See page 8

Thumbs down from the major political parties

See page 9

Equal pensions for all

See page 17

Only while stocks last. We reserve the right to limit quantities. E & OE.
Scrapping of Sixth Schedule welcomed

By Sven Lünsche

CAPE TOWN — The Sixth Schedule of the Income Tax Act will be scrapped in the current parliamentary session, paving the way for the life insurance industry to issue policies with no life cover and a minimum investment period of five years.

The move has been applauded as an improvement on the current system, which is an administrative nightmare.

Finance Minister Derek Keys said in his Budget speech yesterday the Sixth Schedule would be replaced with "simplified provisions under the Insurance Act".

"Simultaneously, the Government would implement the "four-fund" approach to life assurance taxation."

He said the "four-fund" approach would be introduced in such a way that tax income from insurers would, during the first two years, remain the same as under the current dispensation.

In terms of this approach, insurers' assets will be divided into four separate funds:

- Retirement funds of which the income will be exempt from tax.
- A fund for individually owned life policies, of which the income will be taxed at the rate of 30 percent, being the average marginal rate of tax paid by individuals.
- A fund for corporate life policies, of which the income will be taxed at the corporate rate.
- A fund representing the balance of the assets, to be taxed at the corporate rate.

The industry's umbrella body, the Life Offices Association (LOA), last week issued a code of conduct to its members outlining policies to be followed between now and the official scrapping of the Sixth Schedule.

Desmond Smith, newly appointed MD of Sanlam, has welcomed the four-fund approach and the scrapping of the Sixth Schedule of the Income Tax Act, "because it holds large benefits for the industry and policy owners".

"For the first time there is now a just and defensible tax basis for financial institutions. Thus the playing fields are also made equitable," he says.
Some benefits seen in proposed dividend tax

By Stephen Cranston

The proposed 15 percent tax on dividends has been welcomed by tax attorney Professor Michael Katz who, as a member of the Margo Commission, recommended the abolition of dividend tax.

Katz says this is not a reintroduction of the old dividend tax because it used to be levied on taxpayers.

Instead, it would be paid by the company and represented a dual company tax, combined with the 46 percent standard company tax.

"The lower standard tax will encourage companies to get into new projects, without favouring either capital-intensive or labour-intensive projects.

"It will also reward those companies that retain a greater proportion of their earnings and encourage them to fund projects through retained earnings."

Katz says that foreign-controlled companies, which do not have to pay tax on interest earned, will be more likely to retain funds to earn interest, rather than taking money out in dividends, which would be liable to tax.

Katz says he was impressed by the tax neutrality of the Budget and that it involved a healthy change in the ratio of direct to indirect tax towards the latter.

The removal of the fiscal disincentive against unbundling was also beneficial as it would lead to the voluntary spin-offs of assets and more financial efficiency.

Malbak MD Grant Thomas says he expects that the legislation to allow unbundling would enable the delisting of the Malbak pyramid Malhold, which serves no purpose. It would also make the sale of Malbak by Gencor more likely.

Thomas says he is not excited by the dampening of consumer spending from increased VAT, petrol prices and excise taxes but welcomes the reduction in corporate tax which will enable the group to create more jobs.

Malbak itself was unlikely to unbundle itself of assets, however, as it traded at a premium to the market value of its underlying assets, unlike Gencor and the other mining houses which traded at a discount to their underlying assets.
New tax office for big business

A new office of the Receiver of Revenue is to be established in Johannesburg to deal with corporate taxation, said Minister Keys. An extra R40 million had been set aside for this and other measures to improve tax collection. — Political Correspondent.
Sowetan Correspondent

HARD-PRESSED unemployed people who have lost their jobs through retrenchment are to get a tax exemption on lump-sum pay-outs of up to R30 000, back-dated to March last year.

Back-dated exemption for pay-outs up to R30 000:

Up to now this concession has applied only to men of 55 or women of 50 years old.

However, Finance Minister Mr. Derek Keys said that, after negotiations with the Chamber of Mines, the National Union of Mineworkers and other trade unions, the Government had accepted that the R30 000 exemption be extended to all victims of retrenchment, irrespective of age.
CAPE TOWN — After coughing up more on VAT, fuel, and a range of taxed goods, municipal taxpayers can expect a rise in their local rates.

The chairman of Pretoria's management committee, Dr Pieter Smith, said in Cape Town yesterday that the increased VAT rate would be applicable to municipal services accounts. The increases in the VAT rate and fuel prices were "not good news" for city councils throughout the country, he said.

The increased VAT rate would mean an additional expenditure of at least R12 million for Pretoria while the increased fuel price would add R1.5 million to the city's fuel bill. — Sapa.
Personal income tax unadjusted

Personal income tax rates would not be adjusted, Finance Minister Mr. Derek Keys said in the Budget yesterday.

"The fiscal position is unfortunately such as to preclude any adjustment to personal tax rates this year."

"Once economic growth is on course and state expenditure more firmly contained, progress can be made in reducing this tax." — Sapa.
Pay rises mean tax increases

Staff Reporter

Although individual income taxes and rebates remained unchanged in the 1983/84 tax year, the man in the street will be forced into a higher tax bracket by rising salaries.

In this regard, economists pointed out yesterday that the private sector was likely to follow the benchmark set in the public sector of a five percent increase in salaries in 1983.

Fringe benefits tax has one addition, with the lifting of the tax on travel allowances from 25% to a higher 35% of the full allowance.
BRUCE CAMERON  
Business Staff

HARD-PRESSED consumers hit by a range of tax, tariff and levy increases in the Budget are expected to go on a 20-day spending spree to beat the April 7 deadline for the rise in VAT to 14 percent.

Retailers are expecting the splurge to be followed by the harshest trading conditions since the start of the recession more than four years ago as inflation pushes back into double digits and the wide range of increases start to bite into the pockets of the person in the street.

Apart from the VAT increase, fuel prices have gone up by 10 percent and duties have been increased on a range of consumer products, particularly alcohol and tobacco, while the effect of inflation on individual tax brackets will quickly take more than R6 billion out of taxpayers' pockets.

In all, Finance Minister Mr Derek Keys will get more than R13 billion extra from consumers this year, substantially reducing disposable income.

The surprise increase of VAT to 14 percent was defended by Mr Keys in an interview as necessary to meet the zero-rating on a range of basic commodities.

A rumour erupted today over the full effect of the additional taxes the government is snatching from consumers with the Department of Finance insisting that the effect will be to push up inflation, running at 9.7 percent a year, by five percent.

Economists were predicting rises of up to three percent today but Finance Director-General Mr Gerhard Crouser stuck to his two percent prediction.

"People are forgetting government expenditure has been curtailed. In the eyes of some people, this could be deflationary."

Reaction to the Budget has ranged from compliments for it being "visionary" to brickbats for the way it hits the consumer as well as claims that it does not sufficiently meet the demands of the poor.

Most economists appeared to be in agreement that the short-term effect of the Budget would be tough on the consumer and the retail industry but in the longer term it would boost growth and job creation.

The African National Congress, although sympathetic to the problems faced by Mr Keys, was highly critical of what it saw as the Budget's failure to tackle the needs of the underprivileged with a cohesive, all-embracing development plan.

There was confusion over the effect of the new company taxing system today and the impact it would have on the Johannesburg Stock Exchange.

The new system reduces company tax from 40 percent to 20 percent while imposing a new dividend tax of 18 percent deducted at source.

Mr Keys expected the new system to bring in about the same amount of overall tax but its main effect in his view was that it would help struggling and new companies and stimulate investment.

See pages 22 and 23.
Hike in VAT, fuel ‘big blow’

Staff Reporter

THE sharp hike in VAT and fuel prices was a “big blow” to consumers and could postpone the economic recovery, consumer and business organisations warned.

Housewife’s League spokesman Mr Lynne Morris said consumers should check prices do not go up unnecessarily.

“Parliament should consider making adjustments to the budget and to the VAT collection scheme,” he said.

The increase of VAT and petrol prices would be a “big blow” to consumers, Pick ‘n Pay chief Mr Raymond Ackerman said. The Budget was “too tough” he said, predicting a decrease in the sale of meat.

Shoprite Checkers marketing director Mr Brian Weyers slammed the “unreasonably high increase in VAT.” Coupled with the petrol price hike, it would have a damaging ripple effect on prices, he warned.

OK group managing director Mr Mervyn Serebro said more foodstuffs should have been zero-rated.

Medical aid payments would increase, and private health care would become even more difficult to obtain, a spokesman for the Representative Association of Medical Schemes, Mr Rob Speedie, said yesterday.

Mr Leslie Howard of Bergvliet, who spends a large portion of his pension on medical bills, called the increases “immoral”.

Concerned business groups have predicted the increases will postpone the economic recovery.

People will have less purchasing power which “will exacerbate present harsh trading conditions”, South African Chamber of Business spokesman Mr Ben van Rensburg said.

The Cape Town Chamber of Business said it would have a direct effect on consumer spending.

The National Association of Automobile Manufacturers said the VAT increase was higher than expected. “It will inevitably result in higher inflation, lower growth and ultimately lower levels of new vehicle sales,” warned president Mr Bert Wessels.

The VAT rate hike could lead to a wave of sales before April 7, he said. “However, this would be followed by an inevitable slump.”

How VAT will hit your pocket

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C Town to JHB std fare
SA initiates double tax agreements

DRAFT double taxation agreements had been initiated by South Africa with France, Hungary, Namibia, Poland, China and Rumania, Finance Minister Mr Derek Keys said.

He said negotiations were also taking place with Lesotho, Mauritius and Russia.

South Africa's greater international acceptance had also paved the way for more active involvement by the World Bank and the International Monetary Fund.

Mr Keys said a request for IMF assistance for drought aid would be considered should the level of South Africa's foreign reserves become a cause for concern.

Improved international relations had also helped combat fraud and smuggling as officials had greater access to other countries and more assistance from other Customs & Excise administrations.
Rates will rise
MUNICIPAL ASAHEYs
can expect a hike in
municipal rates.
The chairman of Pretoria's management
committee, Dr Pieter
Smith, said yesterday the
increased VAT rate
would be applicable to
municipal services accounts. — Sapa
VAT: Date rules still to be set out

The increase in VAT to 14% from April 7 would require legislation defining the circumstances in which the existing 10% rate or the new rate would be applicable to transactions concluded between yesterday, when the new rate was announced, and April 6.

This was announced yesterday by Inland Revenue Commissioner Mr Hannes Hattingh.

Under existing VAT legislation, VAT becomes payable on the date of supply, which is the date the invoice was issued or payment made — whichever is the earlier.

Mr Hattingh said the legislation would be designed to ensure that a supply of goods or services was taxed at the existing rate where the goods were provided or the services performed before April 7. This would be the case even though the time of supply might technically fall on or after April 7.

Anglo American Property Services (Ampres) said yesterday it would absorb the four percent increase in VAT on all residential land sales countrywide until the end of June.

*Hike in VAT, fuel 'big blow' — Page 8*
dividend paid and the dividend cover. Though most are expected to benefit, those which already have very low effective tax rates could be faced with unexpected additional demands on cash flow.

An obvious possible casualty is Sappi, which last year had a tax rate of 1% and a tax charge of R3,2m, but paid a dividend of R225,4m. Iscor’s tax rate was 0.1% and its tax charge R33,3m; it paid a dividend of R112,1m. Highveld Steel’s tax rate was 4.8% and its tax charge was R39,8m; it paid a dividend of R39,8m.

On the other hand, many companies have been paying high tax rates while distributing a limited proportion of earnings. These could enjoy significant improvements in cash flow.

Anglovaal Industries (AVI) had a tax charge last year of about R290m, an effective rate of some 43% on the R681m pre-tax profit. A rate of, say, 35%, could reduce the tax charge by around R52m. AVI maintains a high dividend cover (5.2 times last year), so tax at 15% of the R52,4m ordinary dividend would have been only about R8m.

Plate Glass last year posted pre-tax profit of about R217m, on which it paid tax of about R100m, at 47%. If this rate were dropped to, say, 39%, an additional R18m would have been retained. The 15% tax it would have incurred on the R34,2m dividends would be about R5m.

There was some disappointment in the market that there is still no further progress in phasing out MST, as some had expected it might be cut from 1% to 0.5%, for example.

The announcement that legislation will be introduced to assist unbundling, including a qualified exemption from stamp duties on share transfers by listed companies, is seen as one more step towards restructuring corporate SA. But brokers note that the practical steps have yet to be taken.

"Keys is trying to get growth and investment going, and I think he’s doing it imaginatively. His example of a company paying the full tax rate with dividends covered three times shows that, under the revised structure, earnings will increase by 10%.

"Companies now paying a much lower effective tax rate and generously distributing dividends will be adversely affected, but I don’t know that it’s a bad thing."

Jesse believes that overall the Budget could have a mildly stimulative effect on the market, with the possible exception of consumer stocks — where p/e ratios often exceed 20 — because of the implications for consumer spending. If so, shares most vulnerable are those in the food, retail and durables sectors.

Liberty Asset Management chairman Roy McAlpine feels most parts of the Budget were expected and discounted, the exception being corporate tax. "The new structure will have different ramifications for different companies; the 15% tax on distributable income could be a shock for some. But I don’t expect a material effect on the market."

Frankel Pollak Vanderline CE Sidney Frankel finds the Budget well constructed. He believes the cut in corporate tax rate gives encouragement to companies, while the tax on distributable profits should not have a dramatic effect on investors.

"It should not really affect shareholders because of companies’ ability to increase earnings. Overall I think that, in the context of Keys’s five-year plan, it’s the best Budget we could expect."

Effects of the new tax structure on corporate profits will be influenced by companies’ present effective tax rates, the amount of
Stockbrokers and investment managers generally feel that the Budget contains no nasty shocks which could send the market into decline and, with some exceptions, the revised tax structure should benefit corporate profits and cash flow.

Martin's Richard Jesse agrees the Budget will dampen consumer spending but believes the cut in the corporate tax rate will favour rapidly expanding companies.
New tax plan still ‘discriminates’

The planned new company tax dispensation will continue to discriminate against foreign owned companies in SA — despite Finance Minister Derek Keys’s statement to the contrary in his Budget Review, sources say.

The reason, the sources add, is simple: the new dispensation does not do away with non-resident shareholders’ tax (NRST) — a tax on dividends paid to foreign investors. NRST is applied at a rate of 15%.

Deloitte & Touche tax partner Willem Cropley said the new dual tax system would be grafted on top of NRST, which obviously favoured domestic companies over foreign owned companies. “Fundamentally, this amounts to a continuation of selective tax treatment, and will tend to counter the benefit of the reduction in the tax rate to 40%,” he said.

Meanwhile, Kessel Feinstein tax partner Ernst Mazansky said applying the new company tax dispensation on top of NRST did not mean that foreign companies would pay more tax than they were paying now. “Using the worst case scenario, foreign companies will still be slightly better off.”

Under the proposed dispensation a foreign company distributing its entire taxed profit to its parent (the worst case scenario) faced a 55.66% nominal tax rate — still marginally better than the 55.8% rate under the old system.

Yet, should the foreign owned company declare less than its total taxed profit as a dividend, the benefits increased markedly, Mazansky said.

For example, a company distributing one-third of taxed profit, would face a nominal tax rate of 45.2% under the new system, against the 59.6% rate applicable under the old.

“It appears that the new dispensation will achieve what Keys intended. All companies, both foreign and local will be better off; more so if they do not distribute profits and ‘go for growth,’ Mazansky said.”
CAPE TOWN — Private companies which attempted to pre-empt the introduction of a dividend tax in this week's Budget by declaring dividends in advance have been outmanoeuvred by the taxman.

Inland Revenue Commissioner Hannes Hattingh said in an interview at the Nedbank/Old Mutual Budget forum yesterday he had been aware that a large number of private companies had tried to avoid paying the anticipated tax by declaring dividends before the Budget. In some cases 100% dividends were declared and the funds then loaned back to the companies.

However, in terms of Hattingh's ruling on secondary tax on companies (STC), all dividends declared before March 17 and paid after that date would be subject to a 15% tax, except those of listed companies where the declaration had been published.

Hattingh conceded that companies with financial year-ends after April 1 when the new 40% company tax rate takes effect would benefit sooner than those with February year-ends. This advantage was unavoidable.

He said companies worst affected by STC would be those which did not pay tax — because of assessed losses or incentives — but which declared huge dividends.

Finance director-general Gerhard Croeser told the forum the 15% STC acted as a minimum tax on companies.

Hattingh said wide consultations would take place with business in compiling draft legislation for STC. No decision had been taken regarding scrip dividends, but in terms of the present definition of dividends in the Income Tax Act, they would be excluded from STC. However, Inland Revenue would "definitely be looking into this".

Old Mutual legal services manager Axel Meiring said the definition of dividends in the Income Tax Act covered loans to directors. This, he felt, would have to be retained to prevent the creation of a loophole.

Business has expressed concern about the possibility of double taxation of dividends passing up a pyramid structure but Hattingh said only the net dividend received less the dividend declared would be taxable. Credits would be allowed for taxes paid by subsidiaries.

Woolmers financial director Jon Lavis said clarity would have to be given to the declaration of dividends by a subsidiary where the parent company used the funds for investment. He felt such dividends should be untaxed.

Life assurers have been concerned that STC would favour proprietary companies — which would pay tax on dividends declared — over mutual life companies which do not declare dividends.

However, Old Mutual chief operating officer Gerhard van Niekerk said yesterday an initial study had indicated STC would be neutral towards life assurers. Proprietary companies would be able to obtain credits for dividends paid out of their corporate funds, whereas this would not be possible for mutual societies.
FILM SCHEMES

Rough justice

Keys plans to achieve rough justice in the great movie mess. As soon as the Appeal Court rules on the judgment of the Transvaal Income Tax Special Court, the Commissioner for Inland Revenue will put forward a formal offer of settlement to taxpayers who relied on movie schemes as a tax shelter.

Claims for deductions based on concessions to movie makers have given rise to numerous, often serious disputes. Some assessments have been delayed for years, giving rise to possible large claims for interest. It is believed the potential loss to Revenue had all deductions been allowed, could have reached R2bn, plus a further cash-flow deficit caused by low provisional payments.

Underpayments of provisional tax have arisen because taxpayers based provisional payments on the assumption that they would be allowed deductions on a multiple basis, through the special incentives.

KPMG Aiken & Peat tax partner Patrick McGurk says it is widely expected the offer will allow a deduction only on a one-to-one basis — one rand for each rand invested. It seems it will include a waiver of interest on underpayment of provisional tax.

McGurk says taxpayers who believe they have a good case will retain the right to reject the offer and go to court. But if — eventually — they lose, they could face a large interest bill, which almost certainly won’t be waived.

Deloitte & Touche tax manager Greg Boyd asks why action on movie-related assessments must wait for the judgment on Jake Speed, as this will be decided on its own facts. He points out that tens of thousands of movie-related assessments are outstanding. If only 10% reject a settlement and fight through the courts, the system will be clogged up for years. This points to the logic of settling everything through legislation.

The whole mess confirms the folly of introducing special incentives into a tax system for no objective economic advantage.
Company tax could aid growth

By HILARY JOFFE

A RADICAL change in company tax was the major innovation of this week’s Budget - and if it works, it may turn out to have been one of Finance Minister Derek Keys’ smarter moves.

By reducing the company tax rate from 48 to 40 percent, Keys will delight the business community. But by introducing a new “dual tax system” for companies, Keys reckons he can maintain an unchanged company tax burden — and provide an incentive for companies to reinvest their profits, so contributing to growth and, he hopes, job creation.

To the traditional company income tax is added a Secondary Tax on Companies (STC) system. This essentially taxes profits if they are distributed as dividends to shareholders. Companies choosing to be generous with the dividends will pay for this in higher tax rates. Those preferring to retain plenty of profit to finance expansion will benefit.

Said Keys: “The dual tax rate should prove an important incentive for the new and fast growing company; the more a company exploits investment opportunities and finances itself, the lower will its tax rate be.”

Keys has in a sense reintroduced the tax on dividends which was abolished in the 1990/91 Budget — but this time as a tax on companies rather than on individual shareholders.

Take a company with 1 000 shareholders earning R100 000 in taxable income; it pays R40 000 in income tax, leaving R60 000 or earnings per share of R60. If it then decides to pay a dividend of R20 per share (an earnings per dividend ratio of three is regarded as prudent) the company becomes liable for STC of R3 a share or R3 000 in total. That gives it a total tax rate (income tax plus STC) of 43 percent.

A board of directors choosing, instead, the path of “dividend stripping” — paying out all the profits to shareholders without reinvesting — takes the company’s tax rate up to 48 percent.

Tax experts note that dividend stripping has been fairly common in the past couple of years, particularly in private companies where shareholders have taken advantage of tax-free dividend money.

Keys said loss of state revenue from cutting basic company tax rate would be neutralised in the 1993/94 fiscal year by STC collections. It’s not precisely clear how the arithmetic will work but the key is probably in the difference between the accounts companies draw up for the receiver of revenue and for the shareholders. Very few companies actually pay tax at 48 percent — the average effective rate is far lower because of a variety of tax allowances and the like. A company could, for example, have accumulated an assessed tax loss in previous years and be paying no income tax but would now be in profit and paying dividends — so would be liable for STC.
Cosatu chides and praises

By FERIAL HAFFAJEE

ITS response to the Budget was classic Congress of South African Trade Union stuff — at once full of quotable quotes, fury and fuming but not without some praise for Finance Minister Derek Keys, one of its newest friends.

Perhaps Cosatu, like others, expected greater creativity from Keys, the first Finance Minister to enjoy at least a conciliatory relationship with the labour movement.

The sop the minister threw to labour last week (the Value-Added Tax zero-rating of basic foodstuffs) did not work.

The federation christened his day-old baby “an apartheid Budget drawn up by an illegal, unrepresentative white government”.

Predictably, the sharp increase in the VAT rate raised the greatest ire. It would fall heavily on the poor; it was inflationary and would dampen any consumer confidence sending the recession into a flat spin, said Cosatu.

The petrol price increase was “unacceptable” after revelations of enormous graft in the Multilateral Motor Vehicle Fund.

Cosatu railed at Keys’ general failure to do anything about corruption and mismanagement. And more specifically, it criticised the Budget’s silence on calls for an independent tax audit and a tax commission.

“The minister missed his mark,” said Cosatu general secretary Jay Naidoo. “The Budget lacks a clear development path and feeds into an enormous bureaucracy that absorbs an enormous amount of money.”

On the other hand, company tax cuts, job-creation plans and tax exemption on retirement package won Keys some kudos.
Companies whose financial years end in March are viewing the Budget proposals with alarm.

In addition to losing out on the lower tax rate they will also bear an extra 15 percent tax on their declared dividends.

The new corporate tax rate of 48 percent (previously 49 percent) to be applied to financial years of assessment ending April 1 1993 or thereafter.

Companies with year-ends before this date will not benefit yet from the reduction in rate.

Contrarily, companies with an April year-end will receive a windfall in that the lower corporate rate will be applied to a full year's taxable profits despite still being taxed on their dividends.

A spokesman from the Department of Inland Revenue says the issue of March year-end companies being taxed at the higher rate was not an oversight.

**Transitional problem**

This transitional problem had been identified "but with every change in the tax system all transitional problems cannot be addressed", he said.

The transitional measures offered by the STC implementation will afford some relief however, to investment holding companies.

Dividends received from September 1992 or even an earlier date of declaration can reduce the amount of STC payable on the current year’s dividends.

March is a common year-end for companies and the list in-cludes such as SAB and Anglo American.

Mark Bower, financial director of Edgars Stores, which is in the SAB stable, says: "The situation is inequitable; affected companies should not have to pay 48 percent tax on their income as well as the 15 percent tax on dividends."

While Finance Minister Keys' Budget corporate proposals have generally been lauded as innovative and brave a number of anomalies are emerging.

Willem Cronje of accountants Deloitte & Touche says: "The lower tax rate and installation of STC is an excellent development which is economically sound provided that there are no further attempts to tax dividends in the hands of the individual."

Cronje notes that the non-resident shareholders tax on dividends was not abolished despite Keys saying he would like to level the playing fields between local and foreign investors.

Non residents currently pay a 15 percent withholding tax on dividends unless a Double Tax Agreement exists and a lesser amount is paid.

Cronje adds that companies paying dividends out of accumulated reserves will end up paying an effective tax rate in excess of 50 percent.

Ernest Mazankov of accountants Kessell Feinstein foresees that clarification is needed in limiting the cascading effect of the STC in a three or more tier company group.

He adds that in a two-tier group there is a specific relief provision to prevent the top company paying STC a second time on the dividends passing through it from the bottom company. It is not clear however whether the relief will continue to apply if there are higher companies in the chain.

Further clarification was needed on the definition of the term "dividends paid" in the implementation of the STC.

Mazankov queries whether reserves which had previously been converted to a loan account in a private company could now be attacked as a dividend when the loan is repaid, either in whole or in part, and argues that they should not be.
Bourgeoisie bears the burden

Middle-class individuals are being squeezed by the government for the sake of future growth. But business has received a sigh of relief. 

REG RUMNEY reports

TAXPAYERS might be puzzled by the first part of this year's Budget theme—"discipline and growth." They might be tempted to remember Prime Minister's implementation of some South African wage and tax cuts. This week's theme "discipline and growth" has resulted only in the very poor and the corporate sector. The rest will have to wait for the longer-term benefits of discipline to come through, if they do.

For the hard-pressed individual salary earners of the middle class, the Budget was bad news indeed. In this scenario it has happened to the economy's ability to grow this year, but personal consumption expenditure cumulatively under the weight of a heavier tax burden.

For the biggest blow were the failure to adjust the individual income tax tables for inflation in any way at all, and an increase in the Value Added Tax rate of four percentage points.

Relying on "fiscal drag" or "bracket creep," the phenomenon whereby inflation drags taxpayers into higher tax brackets by virtue of cost-of-living increases, will mean an increase in R5.5 billion or 15.5 percent more revenue in the 1993-94 fiscal year than in the 1992-93 fiscal year.

The increased VAT rate, despite zero rating, will generate about R5.5 billion or 15.5 percent more than in the previous year. Without the big VAT increase in income tax rates themselves would have had to go up quite a bit.

The so-called "sin" taxes on liquor and tobacco were also increased, but only slightly, for an increase in revenue of R200 million.

For the poor, the VAT increase was offset by an income tax cut, but the latter is only a fraction of that of the VAT increase. Old age pensions will be increased by 7.5 percent on July 1. The effect of equalising pensions—presumably at the same "white" level of R371—in September will mean an increase in the 1993-94 fiscal year the amount African pensioners actually receive, for example, will increase by 27 percent. It must be noted, however, this bonus will be delayed by six months.

While there are no obviously "demand-management" measures, these and other government hand-outs will maintain some consumption expenditure.

1993/4 Budget

25% Other
8% Social welfare
10% Health
17% Interest on Govt debt
21% Education
18% Defence, Police, Prisons

Key to Keys' plan — Where the Budget money goes

Key has decided to crack down too hard on spending for fear of tanking the economy. Also for the very poor, the much criticised Nutritional Development Programme, revised the National Nutritional and Social Development Programme, will get another R400 million.

Money will also be pumped into the economy through, for example, the additional R60 million provided for job creation, and the extra R200 million for housing.

Corporations at first glance did not get much of a Budget windfall. After all, the cut from 45 percent to 40 percent in company tax is designed to gain the same revenue. The lost will, says Keys, be made up by a tax on distributable profits. A company will only gain if it ploughs money back into the business and invests in productive capacity. And successful companies must pay dividends.

But if a company plays its cards right, the change will be a boost. Economic chief economist Aza Lamontreckon's that it might seem to favours medium-size companies, but even small companies whose owners are tempted to pay themselves more out of profits will find it more profitable to keep the money in the business.

That way they will pay 40 percent tax rather than the top marginal rate of 43 percent. Other favourable implications for business of the Budget was what Keys omitted to do. Southern Life chief economist Mike Daly notes there was a sigh of relief when the Budget was presented. There had been talk of levies on life annuities, but instead Keys adopted the mild "four-focus" approach and even scrapped the somewhat restrictive Schedule Six to the Income Tax Act.

This basically prevented life insurers from selling pure investment products without any life insurance element, in competition with trusts and building societies for short-term investment funds.

Daly says there had also been talk of a company tax levy. There had even been a suggestion Keys might introduce a new levy or surcharge on high earners to finance abolishing bracket creep for lower income earners. Keys shifted away from taxing the income tax tables to cut for fiscal drag at all. While not taxing business, the Budget gives second R2 billion to the General Export Incentive Scheme, whose efficacy has been questioned as a stimulus for exports. This is in line with the Nematetwa Model, whose authors believe the scheme cannot be scrapped in the short term.

Whether one can separate the economic interests of individuals and companies is a moot point; companies currently benefit more than individuals.

In any case an extra R15 million — of a total of R126 million — is voted for small business, which is an efficient job provider.

Also, the labour-intensive tourist industry has been given a boost through reducing the depreciation period for hotel refurbishment cost to five years from 20 years and an extra R25 million, of a total of R110 million, is provided for old to tourism this fiscal year.

Nonetheless the Budget message for the smallBiz smallBiz is that for another year the struggle to maintain living standards continues.
What the ANC wanted in the Budget
ON THE FOLLOWING PAGES WHAT THE ANC THINKS IT WILL MONEY SOLVE EDUCATION’S PROBLEMS?

Keys Calculated Risk on Taxes

By Hilary Joyee
CLOSE CORPORATIONS

Death knell?

Close Corporations are also subject to the new secondary tax on companies (STC). Deloitte & Touche tax partner Anne Pappenheim says private companies have been distributing reserves in anticipation of the reintroduction of tax on dividends. But advisers of CCs generally have not, because their dividend distributions have not been taxed.

To make matters worse, STC is payable even if there is no taxable income. So even tax-aware CC members will be worse off.

CCs typically draw up their accounts well after their year-ends. Many have February year-ends and so will not be able to establish 1993 profits until after Budget day. They will have to pay corporate tax at 48% (the old rate) and STC on dividends on top.

Where there is no existing loan from the member to the CC, will the threatened re-introduction of section 8B deem a loan by the CC to the member a dividend? On the old SSB, shareholders in private companies were fortunate if they had capitalised the company with nominal share capital and large shareholders' loans. They could withdraw funds within the limits of their credit loan accounts without falling under SSB's dividend-deeming effect. How many CCs were set up in this tax-efficient way?

Pappenheim says tax-related revisions struck a major blow at CCs. Will STC be the death knell for this business entity, introduced in 1994 specially to assist small business but obviously now seen by the authorities as just a tax avoidance vehicle?

FILM SCHEMES

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Keys plans to achieve rough justice in the great movie mess. As soon as the Appeal Court rules on the judgment of the Transvaal Income Tax Special Court, the Commissioner for Inland Revenue will give forward a formal offer of settlement to taxpayers who relied on movie schemes as a tax shelter.

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The whole mess confirms the folly of introducing special incentives into a tax system for no objective economic advantage.
By REG RUMNEY
FINANCE MINISTER DEREG KEYS dispelled a lot of criticism by leaking a fair
amount of the Budget's bad news before
actual Budget day. For instance, most
commentators expected Value-Added Tax
to rise, though not by as much as four per-
centage points.

Keys attracted praise for an imaginative
approach to company tax and for address-
ing the Budget deficit, though there is
some feeling he did not cut government
spending enough.

But what did Keys leave out? Here are
some omissions:

- The most outstanding omission was
  any alleviation of fiscal drag, a "secret" tax
  which the Normative Economic Model
  released last week thoroughly condemned.
- Capital and current expenditure on
  road infrastructure declines for another fis-
cal year, at R2,430-billion, or 32 percent of
  what the fuel levy brings in.
- Calls for the redirection of the fuel levy
to a dedicated national road fund have been
  ignored.
- The Budget review says a high priority
  is given to capital spending on existing
  roads, as against new roads. This implies a
  continuing reliance on toll roads for new
  road building.
- Privatisation is not mentioned as a
  source of income in the Budget speech, for
  obvious political reasons. This is despite
  the pending privatisation and listing of
  state abattoir utility Abakor, and a vow by
  the government that privatisation is going
  ahead.
- It is not, as has been pointed out by the
  Democratic Party, desirable that a much
  larger proportion of the Budget be spent on
  education than in the previous fiscal year.
  Value for money is as important as abso-
lute sums.

Unemployment was the big issue that
deserved some creative thinking but was
not imaginatively addressed. Special job-
creation programmes which might play a
role in kick-starting the economy were not
considered.

Though an extra R60-million was voted
in the Budget for job creation, it is not clear
whether this and other money will be inte-
grated in the provision of essential capital
works.

- A state lottery, which the DP suggest-
ed could have raised around R800-million
  this fiscal year, was once again passed
  over.

- Retired people have received no fur-
  ther exemption on interest income.

- Medicine is still subject to VAT.

- A capital gains tax was not imple-
  mented, but this tax or something similar
  probably waits in the wings.
Tax nightmare for private companies

By MAGGIE ROWLEY, Deputy Business Editor

HUNDREDS of unlisted companies could find themselves paying an effective tax rate well in excess of 48% for the year ending March 31.

The affected companies are those whose year end is on or before March 31 and who have declared a dividend but have not yet paid it.

Finance Minister Derek Keys announced last week that the present tax rate of 48% for companies would be reduced to 46% for years of assessment ending on or after April 1 this year.

At the same time he announced the introduction of a new 15% tax on companies for income distributed in the form of dividends which came into effect from March 17.

Kevin McManus, a tax consultant with Price Waterhouse Meyernel said problems would arise when private companies whose year ends were before or on March 31 and had been taxed at the 48% corporate rate and had declared a dividend but had not yet paid it.

"I have at least four major corporate clients who will be affected.

"Many of the companies affected have foreign shareholders and have not paid the dividend although it has been declared because they are awaiting clearance from the Reserve Bank," he said.

Effective tax rate

He said the maximum effective tax rate companies under these circumstances could face would be 55.8%.

"However that would only be if they paid a 100% dividend.

"A dividend based on a 3:1 ratio could see an effective tax rate for these companies of about 52%," he said.

VAT architect Trevor van Heerden confirmed that hundreds of companies could be affected.

"But let one of them show me that they have been paying 45% of their accrued profits. I don't believe there is one company in South Africa doing that."

He said the Department of Inland Revenue had been inundated with requests from private companies wishing to back date their dividends.

"They claim because it is credited to their loan account it has in fact been paid.

"But the Minister was very clear on the matter. And we had to have a cut-off date. While they may be affected this year, they stand to receive the benefits down the line," he said.

Van Heerden said the Department had managed to keep the introduction of the dual tax system very quiet.

"It did take people by surprise. We also wanted to avoid what happened last year when a number of unlisted companies declared dividends ahead of the Budget and then filed them away in a drawer. When a tax on dividends was not forthcoming last year, they did not pay the dividend.

"This was one reason that listed companies, who did not have this option available to them, will not have to pay the 15% tax on dividends declared but not distributed."
When your government announces that it plans to spend some R114 billion this year — R82 billion less than it expects to earn through crippling new taxes — you can be forgiven for throwing up your hands and saying: "Spare me the details."

But if you had the time and the patience to pore over the Estimates of Expenditure, a document as thick as a telephone book, you would certainly find plenty to make your eyes roll and blood boil. For a start, corruption uncovered last year doesn’t seem to have affected the money-flow at all.

In November, the de Meyer Commission issued a 700-page indictment of the Lebowa government for squandering R3 billion. This year, with no assurance that the situation has been rectified, Lebowa has been given a total of R1,14 billion to spend, which is an increase of R81 billion.

Last month, the Auditor-General, Peter Wronsky, told Parliament that the "independent" homesteads were in debt to the South African taxpayer by more than R3 billion. He criticised the South African Government for failing to arrange this headline slide into debt. This year’s allocation to these homesteads — still part of the foreign affairs vote — is R1,1 billion, up R1,1 billion from last year.

The homesteads will have R18,6 billion to spend this year, more than 2% percent up from last year, plus allowances made by other departments for "manpower assistance" to "neighbouring territories."

Wronsky also told Parliament that he was unable to audit the books of the Human Sciences Research Council. This year, the HSRC will have nearly R75 million from the Department of National Education to spend — a nice increase of R75 million.

So too with the anglophone controversy surrounding the misuse of the subsidy system in the film industry. More than R24 million of Department of Home Affairs money will again be spent on "financial assistance for the promotion of a viable local film industry", just like last year.

Wronsky and others have also expressed concern that secret projects and funds create openings for financial abuse. This year’s budget for R144 million, under the Department of State Expenditure, "to finance secret services undertaken by State departments". This amount has been increased by R23 million from last year’s allocation.

More than a third of the R8,3 billion allocated to defence — a total of R8,3 billion — has been budgeted for "special defence accounts" for the financing of "special defence activities and purchases". A number of secret defence projects have been exposed in recent months, including the Directorate of Covert Collection and an operation aimed at discreetly studying the African National Congress by linking it to the Irish Republican Army.

There is other defence spending buried elsewhere in the Budget. The Department of Public Works will be acquiring land for defence at a cost of R1,4 million, and providing buildings at a cost of R1,1 million — raised from the amount of R80,000 budgeted for "hospitals and clinics."

John Perlman
Chief reporter

Most curiously, the Department of Manpower budgets a total of R8,3 billion for various boards to deal with unions and out of communism objections to military service, an issue reeding in both importance and complexity every call-up.

In some departments, allocations seem to fit directly in the face of policy considerations. The Kassier report into agricultural control boards has rendered them to be inefficient and wasteful. The agriculture vote allocates R400 million for "boards, commissions and committees" which will do "liaison between the different agricultural industries and production promotion."

The department has also budgeted R1,6 million to "regulate the marketing of agricultural products". Of this, R1,6 million goes for the National Marketing Board "for "reporting and making recommendations in respect of controlled markets" to the Minister of Agriculture — which is what many thought the Kassier report had done. More than R4 million of all this spending is for salaries.

Finance Minister Derek Keys opened his Budget speech by saying that this was probably "the last Budget that will be entirely the product of the present Government". But the Budget still bore the marks of some of the stranger bits of National Party policies.

The Department of Defence will still spend R6,3 billion subsidizing school cadet programs. Some R23 million will still be spent on publication control, down from last year partly due to a cut in the Appeal Board’s budget. And the Departments of Local Government and National Housing will still spend part of their community development budget on "ethnological services."

Not everything has gone up. The State’s contribution to the Unemployment Insurance Fund has stayed at R7 million. The Department of National Health’s budget increased steadily into air pollution control has also been pegged, and the allocation for water and waste control research is actually down.

It is not clear what one should make of the Department of Correctional Services’ decision to cut its budget for "cages" — from R17 000 to R19 000. Perhaps they have released the most dangerous prisoners anyway.

Salaries for the Cabinet are up. President de Klerk takes a rise from R23 000 a year to R27 000, while Ministers must make do with R210 000 a year, an increase of R20,000. All in all, this Government is costing us quite a bit more. The "salaries, allowances and other benefits of office-bearers and other members of Parliament” will cost R75,5 million this year, and the President’s Council — which apparently still provides "advice to the State President" — will cost another R10,7 million.

And finally, there is the "prestige accommodation and furniture" payroll. This is described as "compensation to political incumbents for prestige accomodation", the provision and maintenance of prestige furniture, other furniture, works of art and equipment to certain Government departments and administrations for own offices. With just R5 million available for this, times are clearly tight.

Peter Wronsky: He exposed corruption, but homesteads are in line to get more money.

Derek Keys: He might be smiling now that Budget day is over, but are we?
Some cheer in new

TOM HOOD

Business Editor

A NWHM tax on dividends could lower the

Companies whose return profits will
The 1993 Budget at a glance...

By Lynda Loxton

Value-Added Tax (VAT) to increase from 10 to 14 percent on April 7.
Zero ratings apply to mealie meal, brown bread, mealie rice for human consumption, dried beans and lentils, tinned sardines, milk powder, rice, vegetables, fruit, vegetable oil, milk, cultured milk, brown wheat flour, eggs, edible legumes and legume seeds.

Customs and Excise duty increases from April 7:
- Beer: 4.8 cents per litre
- Spirits: 37.7 cents per 350ml
- Cigarettes: 2.45 cents per 10
- Cigarette tobacco: 5 cents per 50g
- Pipe tobacco and cigars: 5 cents per kilogram

Cold drinks and mineral water: 2 cents per litre
Unfortified wine, fortified wine and sparkling wine: 6 cents per litre
Other fermented drink: 10 cents per litre
Sorghum beer: 1 cent per litre
Sorghum beer powder: 5 cents per kilogram
No changes in personal tax.

Company tax reduced from 48 to 40 percent to encourage investment.

Petrol price to increase by 15-16 cents a litre from April 2.

Transfer duty adjustments in line with VAT increase.
Checks on zero-rated foodstuffs

THE government and consumer bodies have admitted they are powerless to ensure that the recent zero-rating of several basic foodstuffs from value added tax will be passed on to hard-pressed consumers.

In fact, it is quite possible the price on zero-rated foodstuffs will rise as a result of the 15-cents-a-litre petrol price increase from April 2.

This could be used as an excuse to push up prices across the board — including zero-rated foods.

Although there is no legal recourse against retailers who raise prices on zero-rated goods, the Consumer Council of South Africa is to announce a massive monitoring operation in conjunction with a host of other consumer bodies on Monday in an effort to ensure that the benefit of zero-rated food is passed on.

The best way to ensure you are not ripped off by unscrupulous retailers, say consumer advice experts, is to compare prices, shop carefully, and vote with your feet.

The Consumer Council, with the Consumer Union, the National Black Consumer Union, the Housewives' League, the Black Housewives' League, the COGTA of South African Trade Unions, the National Council of Trade Unions, the Vroue Federasie and several women's agricultural unions, will monitor closely the prices of food to be zero-rated from April 7.

Consumer Council spokesman Mr Paul Roos said prices on these foods would be checked before and after April 7 and if increases were found, retailers' names would be published.

"We call on consumers who find that prices on zero-rated foods have increased to contact any of our branches with this information."

"But apart from this action there is basically nothing else we can do."

If one shopkeeper wants to charge R1 000 for a loaf of brown bread and people are prepared to pay that price, there is nothing we can do. It is after all a free market system," said Mr Roos.

Earlier, Finance Minister Mr Derek Keys said the Food Logistics Forum (FLF), which was appointed in August last year to investigate unbridled rises in food prices, had played a valuable role in bringing prices under control.

He called on the FLF to play an equally important role ensuring that the prices of zero-rated food would reflect their changed VAT status from April 7.

But FLF convenor Mr Norman Fowler said his organisation was powerless to ensure this.

"This is a free market system and it is up to the consumer not to buy at places that push up their prices or fail to heed the zero-rating — it is as simple as that."

"Also, competition between retailers should ensure that prices on these foods are kept low to reflect the zero-rating."

Mr Keys, however, did warn of further action if the required response was not forthcoming on zero-rated foods.

A spokesman for the Ministry of Finance, Ms Lesley Lambert, admitted that there was not much that could be done.

She could not explain what "further action" meant.

"South African consumers should become less complacent, vote with their feet and simply not buy at places where prices are too high," she said.

Mrs Sheila Balile, vice-chairman of the Housewives' League, said it would be difficult to ensure that food to be zero-rated was sold at the new lower price.

"Consumers should now go around and write down the prices of zero-rated foods and compare them after April 7 to ensure they are not ripped off."

"It is also of great concern to us that the pending rise in the fuel price may in some instances be used to justify a rise in the price of zero-rated foods."

"But the consumer should apply pressure on retailers and ensure also that they (the consumers) know exactly which foods are excluded from VAT."

"If they find the prices of the zero-rated foods are put up before April 7, they should complain to the manager of each and every store where this happens."

WILLEM STEENKAMP, Weekend Argus Reporter
THE cut in corporate tax rate from 48% to 40% and the introduction of a 15% company tax on dividends might prompt companies to follow the method of shareholder-reward adopted by Soncor, the Cape-based manufacturer of polyethylene and vinyl acetates and rubber and plastic converter.

On Wednesday, Soncor proceeded to issue 24-million unsecured, individually linked non-interest-bearing redeemable subordinated bonus debentures of 15c (the bonus debentures) one per ordinary share held.

No separate bonus debenture certificate is issued and shareholders' rights will be recorded by endorsing existing share certificates or new ones issued after March 28. Soncor intends to repay the bonus debentures in half-yearly instalments equal to 25% of its pre-tax profits. It will not declare dividends until the bonus debentures are repaid in full. Soncor has adopted this procedure before, and R8.22-million is still outstanding on the first issue; it will be repaid before the second tranche of repayments begins. Soncor believes that the bonus debenture will save the company an effective 15% in tax.

Private companies widely use the bonus debenture method every year and public companies can be expected to follow, tax rulings permitting.
Maxine refuses to pay her taxes because of corruption

By EDITH BULRING and SHARON CHETTY

MAXINE CAIHER has had enough. She is refusing to pay her taxes this year — and in the future — unless major changes take place.

She would rather go to jail, she said, than contribute to the coffers of a corrupt government.

Last month, Mrs Cainer, of Algernon Road in Nerwood, Johannesburg, informed the Receiver of Revenue and Finance Minister Derek Keys of her decision.

She has two reasons — government corruption and lack of accountability, and her message to Mr Keys was: "I will take my money by force because you will not get it with my consent.

"Mrs Cainer told Mr Keys and the Receiver she considered it morally reprehensible that the government could demand her to pay tax when it did not take responsibility for how the money was spent.

"She also objected strongly to the lack of action taken against corruption in government departments."

As the former owner of a factory manufacturing computer dust covers, she felt the return on her taxes was negligible. Her objections are:

- SA faces a collapsing health service;
- Costs are rising and standards are declining in education;
- She has no freedom to trade, facing endless red tape;
- There is no monetary stability. She blames the government for the inflation rate.

Persuade

Despite having honoured her tax commitments for years, she has no peace of mind that her money is feeding the needy.

The government’s response to her stance was swift. Within a week, she received a letter from Mr Keys’s office saying a reply to her correspondence would be forthcoming.

Then a representative from the Receiver’s office paid her a visit.

Assistant receiver, Sid Pope and a colleague spent two-and-a-half hours at Mrs Cainer’s home, trying to persuade her to pay her taxes.

BUDGET BLUES

does not pay her a salary as she refuses to contribute PAYE from her earnings. Mrs Cainer is taxed on the income she receives from property and investments.

Mr Pope said he was precluded by provisions of section four of the Income Tax Act from divulging any information about Mrs Cainer.

Coffers

The divorcee, a regular taxpayer for more than 20 years, is now resigned to going to jail.

"The sooner they do it, the happier I will be," she said.

Mrs Cainer paid up to R70 000 a year in taxes while she ran her own business.

The tax she has refused to pay is the provisional amount due at the end of last month. Mrs Cainer said she had refused even to assess the amount she owed.

Her contribution to the state coffers last year was R32 000.

Mrs Cainer, now retired, does administrative work for her sister’s company on a freelance basis.

She insists that her sister
New tax system 'will help firms'

THE new system of corporate tax was intended to help companies rather than penalise them, Finance Department director-general Gerhard Crousse said on Friday.

He was reacting to criticism at a SABC meeting on the Budget that some firms could be disadvantaged by the new ruling because they had done their dividend planning under the old system.

Finance Minister Derek Keys announced on Wednesday that there would be a new 15% tax on distributable income while the nominal company tax rate would be decreased from 48% to 40%.

Crousse also called on the private sector to indicate to government which of its services should be cut back. He believed government should aim at relinquishing services that could be run better by the private sector.

Referring to the Budget, he said the Finance Department had little room to manoeuvre when drawing it up. It had to accept that while there was a need to cut the deficit, SA was in recession, so it had settled on a deficit of just below 7% of GDP.

Crousse said the additions to the zero-rated list would lead to 'additional leakage' in terms of VAT collection. However, SA was among the top five countries in the world in terms of its success at collecting VAT. A recent study by the IMF indicated SA collected about 66% of possible collection.

"This is one area of government we don't mind expanding," he said.

Crousse said the VAT rate would have been 13.25% if it were not for the additional zero-rated items.

He blamed the sharp increase in the VAT rate on the tax having been implemented at too low a rate.

Political considerations had been an important factor behind the implementation of the VAT rate at 10%, which had given SA a "tax holiday for 18 months," he said.
VAT gobbles up small relief

By CLAIRE BISSEKER

CONSUMER relief will amount to about one percent on a basket of basic foodstuffs once new VAT zero-rating is in place. But this gain will be eliminated with the hike in VAT to 14%.

A Cape Times survey yesterday found a basic monthly shopping basket, which now costs R223.35, will increase by R6.13 (2.76%) with the implementation of 14% VAT on April 7.

The full four percent increase is softened by a R2.77 saving (1.24%) on the new zero-rated foodstuffs announced last week by Finance Minister Mr Derek Keys.

Rice, fresh fruit and vegetables, vegetable cooking oil, fresh milk and eggs are items that will no longer be subject to VAT.

At present only brown bread, mealie meal, mealie rice, samp, dried mealies, dried beans, lentils, canned pilchards, milk powder and dairy powder blends are zero-rated.

The red meat industry has expressed grave dissatisfaction with the absence of zero-rating on meat and has requested a meeting with Mr Keys to discuss the depressed state of the industry.

Red Meat Producers' organisation manager Mr Gerhard Skillicorn said consumers would save R725m annually if red meat was zero-rated.

Blue Ribbon Meat Corporation chief executive officer Mr Gareth Ackerman said: "We have strongly objected to meat remaining subject to VAT at all, since there is no question it is a basic foodstuff. And we are naturally even more alarmed at the 14% increase in VAT which can only further exacerbate the 10.4% decrease in meat retail sales."

Housewives' League national vice-president Mrs Sheila Baillie said that meat, fish and cheese should have also been zero-rated because VAT placed an unbearable burden on the poor.
Tax-free payments plan for VIPs’ insurance policies

CAPE TOWN — Inland Revenue had suggested that company payments to insure key executives be made tax-free in the event of death or disability, the annual congress of the Institute of Life and Pension Advisors (ILPA) heard yesterday.

Old Mutual legal services manager and Life Office’s Association policyholders’ taxation committee convenor Abri Meiring said the change would affect key man insurance policies. Key man insurance is taken out for executives who are considered vital to the company.

Meiring said if implemented this concession could lead to the life industry focusing on true key man insurance. He welcomed the suggestion and said it would probably be incorporated into this year’s Income Tax Bill.

At present premiums are deductible and final payments are taxed.

Meiring argued against the removal of Section 11(6) of the Income Tax Act which places limits on the premiums which can be deducted on policies on employees or directors.

He said it should be left as it was because it had built-in safeguards against abuse. For instance, deductions could be made only in respect of 10% of the remuneration and there had to be a limited amount of life cover.

If Section 11(6) was abolished, taxpayers would attempt to claim deductions on premiums in terms of Section 11(a), making control by the Receiver extremely difficult.

Meiring said the Tax Advisory Committee had recommended estate duty and donations tax be replaced with a capital transfer tax.

The contribution of estate duty to the fiscus had dwindled after the introduction of the R1m threshold in 1968 from R138m to R60m in 1991.

Meiring said that without the R1m exemptions estate duty could be generating about R600m for the fiscus by now. SA did not compare at all well with other countries in terms of the taxation of capital transfers and there was huge scope for more taxes from this source.

They were relatively easy to collect.

He concluded by saying that wealth taxes would have to be addressed and this would have enormous implications for products of the life assurance industry.

See Page 7
Host of ‘March’ companies to lose out on lower tax rate

CAPE TOWN — The host of companies whose financial years finish at the end of March would be hit by the new 15% secondary tax on companies (STC) but would not benefit from the lower 40% company tax rate, Commissioner for Inland Revenue Hannes Hattingh confirmed yesterday.

The anomaly arises from the fact that STC comes into effect for many companies on March 17 — the date the dual system was announced — while the lower company tax rate kicks in only on April 1.

Hattingh confirmed that “numerous” companies whose financial year ended at the end of March had already lobbied his office, requesting a special relief because they believed they were prejudiced by this “anomaly”.

Hattingh said this, and the possibility that so-called “March” companies could shift their year of assessment one month forward to bypass the situation, was being considered by his office.

“March” companies are the second largest group and they could end up paying 8% more tax each year.
Tax credits slashed for key new projects

OWN CORRESPONDENT

JOHANNESBURG. — Reduction in company tax will knock hundreds of millions of rands off tax credits available to backers of the multibillion rand Alusaf, Columbus and Namawka Sands projects.

Lowering the company tax rate from 48% to 40% has complicated intricate project finance arrangements for the ventures, which have a combined capital cost of more than R11bn.

The effect will be the projects' financing needs rising more than R250m.

Alusaf's R7,2bn smelter expansion project, the R3,5bn Columbus stainless steel expansion project and the R1,1bn Namawka mineral sands venture in the Western Cape have qualified for concessions in terms of Section 37E of the Income Tax Act.

They allow for accelerated write-off of capital spending during construction rather than after the projects are commissioned.

Section 37E tax concessions, applicable to projects adding value to base minerals, were not altered in the Budget. But the tax base of groups financing the projects, against which credits would be set, has been reduced significantly.

The reduced tax credits will add to the peak funding requirements of all three projects.

But they will not materially affect their progress in the long term because the lower company tax rate will improve the projects' cashflow and profitability.

One analyst said yesterday: "Rands today are worth more than rands tomorrow, so the net result of the lower available credits is on the negative side, although the higher start-up costs will be considerably offset in the longer run by improved profitability."
New Bill alters VAT interest

THE Finance Department yesterday published a Bill to alter the rates of interest on late VAT payments and refunds, and to limit the scope for rate manipulation around a VAT rate change.

The VAT Amendment Bill proposes to change the calculation on interest payable on late VAT collections from 16% a year to 1.2% a month.

The rate of interest payable by Inland Revenue on VAT refunds will drop from 20% a year to 16% a year.

The Bill also proposes changes, backdated to March 1997, to the existing rules concerning VAT rates applicable to deals just before or after a rate change is announced.

The date of supply of a product or service rather than the date of invoicing would determine the rate applicable to a transaction.
New tax not an incentive

The economy in |Lang:en| 2023
Lower tax hits project backers

REDUCTION in company tax will knock hundreds of millions of rands off tax credits available to backers of the multibillion-rand Alusaf, Columbus and Namakwa Sands projects.

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Alusaf smelter expansion project finance director Paul Snyman said lower tax rates would result in pre-commissioning Section 37E credits to Alusaf's R7,2bn project being reduced by about R120m.

The funding package in place at Alusaf — made up of debt and equity raised by Gencor, Eskom and the IDC — was flexible enough to compensate for the increase, he said.

Columbus CE Fred Bothoff said the Sarmanco/Highveld Steel and Vanadium/IDC joint venture's peak funding requirement would rise in the order of R120m, but Columbus would benefit from the lower tax rate in the future.

He said any decision to increase the company tax rate after the Section 37E credits had run their course would severely prejudice the project's prospects.

Spokesmen for Namakwa Sands were unavailable for comment.
Interest on late VAT payments decreased

CAPE TOWN — Legislation was introduced in Parliament yesterday that decreases the rate of interest payable on late VAT payments by vendors from 1.5% a month to 1.2%.

The amount payable according to the Value-Added Tax Amendment Bill by Inland Revenue to vendors when refunds are due is to be 16% per annum, a reduction of 4%.

The legislation also empowers the Finance Minister to change the rates of interest from time to time, which may become necessary when prevailing interest rates in the financial sector increase or drop.

The law comes into effect as from the beginning of the calendar month following the month during which the amending Act is promulgated.

The legislation also clarifies what VAT rate is applicable when the rate is changed, stating that according to the principle Act, liability arises on the date on which a supply of goods or services is made.
Expenditure deductions for tax purposes will be more closely controlled in future. The effects will be felt in particular by taxpayers who have not yet been assessed for tax years before 1992.

In the past it was possible to deduct the same expense twice:
- Under the general deduction formula in section 11(a); and
- In terms of the many specific deductions provided in the Act.

This followed an unreported judgment in the Cape Special Income Tax Court, in 1987, which held that double deductions were permissible under the Act (except where the wording of the Act specifically prohibited them).

In 1991 the Income Tax Act was amended (section 23B) to end double deductions, but the new requirement applied only from the tax year ending February 1992. It did not take account of taxpayers who might present claims for double deductions for previous tax years and overlooked the possibility that, subject to certain technical criteria, taxpayers could apply for the reopening of an assessment — provided they acted within three years of the assessment.

Coopers Theron tax partner Koos van Wyk says, in principle, taxing retroactively is the worst type of tax policy as it undermines business confidence in the consequences of a transaction. He adds that, with double deductions Revenue could, on balance, have a reasonable case.

Kessel Feinstein tax partner Ernest Mazansky argues that if the change had been made after the 1987 judgment of the Special Court, retroactive legislation would not have been needed. The case related to R&D expenditure. The relevant subsection (Section 11(p)) was amended in 1988 to bar a double deduction for R&D. Section 23B could have been introduced then, barring double deductions totally.

The real concern, says Mazansky, is not the closing of the loophole, which is justified, but that Revenue is allowed to rectify a sloppy approach by retroactive legislation, instead of living with the consequences of not getting it right the first time.

Another issue raised by the practice of deducting twice for the same expense is that some consultants have taken their reward in the form of a percentage (20%-50%) of the tax saved. Chartered accountants who take remuneration this way probably breach professional ethics, even though contingency fees are treated more leniently now.
A model export plan

The economic growth incentives for young people in Africa

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Comparison of Fiscal Year 1992/93 Maximum and Average Rates

Influence structure REA Runners and its effect on economic growth

The economic growth incentives for young people in Africa

The economic growth incentives for young people in Africa...
There are three ways to avoid the VAT increase. Only one of them is likely to work. The other two are more likely to add to your expenses rather than save you money.

1. **Renegotiate Your Contract**: Many clients have long-term contracts with service providers. They may be able to negotiate a lower price due to inflation or the VAT increase.

2. **Switch to a Lower-Tax Provider**: Some service providers offer packages at different tax rates. By choosing the option with a lower tax rate, you can avoid the increase.

3. **Plan Ahead**: If the VAT increase is imminent, consider delaying any transactions or purchases that are not urgent. This might give you time to negotiate or switch providers.

Remember, each option has its pros and cons. It's important to weigh the benefits and drawbacks carefully before making a decision.
OK quizzed Receiver on VAT rate confusion

THE OK had made a representation to the Commissioner for Inland Revenue regarding the VAT rate which applied to transactions entered into between Budget day and April 6, but which were delivered after the new VAT rate came into effect, an OK spokesman said on Friday.

Under the interim VAT rules introduced in Parliament this week, the new VAT rate would also apply to transactions entered into between March 17 (Budget day) and April 6 if the goods were delivered or the services performed on or after April 7.

The interim rules covered hire purchase agreements but did not apply to the supply of residential property.

Sellers would be liable to pay the extra 4% for transactions that fell under these interim VAT rules, a spokesman for the department of Inland Revenue said.

However, under section 67 of the VAT Act vendors could ask customers to pay the extra amount if they had been charged the old rate.

The OK had been charging customers the old VAT rate on purchases made before April 7. April that were only going to be delivered after the new VAT rate came into effect, the OK spokesman said.

"It would not be fair to go back to these customers and ask them to pay an extra 4% VAT," he said.

Suppliers to the OK were charging them the old VAT rate on purchases that would only be delivered after April 7.

The situation was similar at Dions, MD Jannie Els said.

However, Pick 'n Pay's suppliers were charging them the new VAT rate if the items were only going to be delivered after April 7.

Pick 'n Pay were also charging customers 10% on purchases that fell within the interim VAT rules, financial director Chris Hurst said.

Government inspectors would be out in full force from April 7, and they would want to see the date on the delivery notes.

Even if goods were purchased for cash but delivered on or after April 7, sellers would be liable to pay 14% VAT to government.
‘Wives pay
117% more
income tax’

By BARRY STREEK
Political Staff

MARRIED women must pay 117% more in tax than their husbands, Democratic Party finance spokesman Mr Geoff Engel said during the Budget debate yesterday.

He charged that the government’s failure to address gender-based tax discrimination demonstrated the shallowness of its commitment to its own draft bill on the Abolition of Discrimination against Women.

Mr Engel said the draft bill excluded specific steps to end tax discrimination against married women.

“A married man earning R20 000 taxable income will pay R1 450 in tax. Unmarried persons will pay R2 100 and a married woman will pay R3 150, a whopping 117% more than her male counterpart,” Mr Engel said.

He said this discrepancy made a mockery of the government’s pledge to abolish discrimination against women, which he called “a cheap vote-catching ploy produced at taxpayers’ expense”.

He asked when the Minister of Finance would address the issue.

“Until one single tax table is produced, the National Party’s commitment to the abolition of discrimination against women is nothing more than lip service.”

Or perhaps the minister would like to justify to this chamber why married women must pay him more than their male counterparts?” Mr Engels asked.
Tax dodge for rich investors appears to have turned sour

By Derek Tomney

A great many of Johannesburg’s tycoons must have been in a sombre mood last night.

The cause was a report that a film finance scheme, which was expected to save them tens of millions in taxes, had been declared illegal by the Income Tax Appeal Court.

The judgment has not been confirmed because rulings by this particular court are normally secret, dealing as they do with private and confidential matters.

Only if one of the parties decides to go public, do the court’s judgments become common knowledge.

But there is too much riding on this judgment for normal proceedings to be followed.

It is estimated that tens of thousands of tax assessments involving the payment of possibly R2 billion are waiting on the ruling.

Minister of Finance Derek Keys said in his Budget speech that once the court had issued a ruling, the Commissioner of Inland Revenue would propose a formal offer of settlement with those who had invested money in the film financing schemes.

For all these reasons there has been tremendous interest in the case.

The appeal of the schemes to the rich was that they purported to save them in income tax several times the amount they invested.

In one instance, the promised savings were reputed to be equal to seven times the investment.

And the rich, advised by some leading accountants that the schemes were legal, plunged heavily into them.

Keys, himself an accountant, said in his Budget speech: “I should be failing in my duty if I did not express an adverse view of the role played by certain professional advisers in preparing and marketing a number of dubious tax schemes.”

A tax expert said yesterday that the scheme which the Appeal Court is believed to have ruled illegal was one of the more legitimate ones.

There is a view that the Receiver of Revenue should first have taken to court one of the schemes with less pretension to being legal.

“However, if the Appeal Court has definitely found illegal the scheme it was asked to rule on, then the others have no chance at all of being found legal,” he said.

Because of the schemes, the investors have been paying far less in tax than they should have done. Now they will have to make good the difference.

However, the Receiver of Revenue is not expected to be too hard on them.

Market talk is that he will allow them to claim a deduction of R1 from their income tax for every R1 invested in a film scheme. Accrued interest will also be waived.

So, overall, they will not be out of pocket. But if they have already spent the money they should have paid in tax, they will still have a problem.