TAXATION —1998
How the taxman hits us at every turn

Big and small earners alike forced to take the pain

CHRIS BARRON

WHEN Stellenbosch University professor Samie Terreblanche called for South Africa's wealthiest citizens to be subjected to yet another tax, the occupants of millionaires row screamed that they were already being squeezed blue by the taxman, and any more pressure would make them pack their BMWs and head for the nearest airport.

They had a good point. But it is worth noting that Terreblanche's wealthy tax targets are by no means the only ones who took the pain last year.

Not only has the government's prodigious appetite for the money of its citizens shown no signs of being appeased, but its continued failure to provide the kind of services that citizens might legitimately expect for this money has forced them to pay even more to obtain these services.

This has frightening consequences.

Someone earning a moderately high salary of R12 500 a month gives more than half of it to the government in taxes of one form or another.

This includes more than 35 percent in PAYE on salaries, 14 percent VAT, a 76c/l tax on petrol, government tax on bank transactions, and rates and services charges.

Tax consultants regard money spent on health and education, as well as money paid to the state broadcaster in licence fees, as additional taxes.

These are services the government should be providing out of our basic income tax, but is not.

Money spent on security is also a tax, because the government is not providing the basic security for which the taxpayer is paying billions of rand.

And so, after paying for security the government does not get, the taxpayer has to pay private security firms to do what the police are not doing.

The results of this situation are predictable.

Accumulated household debt as a ratio of personal disposable income increased to a new high of 66.5 percent last year.

The average household spent 12 percent of its annual income servicing its debt. Household saving has dropped to 0.5 percent of gross domestic product from 3.5 percent in 1993.

Those who escape the debt trap and put something away at the end of the month have to pay tax on interest earned over R2 000.

Assuming that R500 is saved monthly, this tax is R150 a month.

People earning medium salaries of R6 000 a month pay just under half their incomes to the taxman, while those who earn R2 000 a month pay 41.56 percent in taxes, even though they are not registered as taxpayers.

The demoralising truth for most South Africans who work an eight-hour day is that four hours are devoted to keeping the taxman happy.

The figures relating to indirect taxes were in certain cases assumed, as actual expenditure differs according to each individual's preferences.

1 Calculated by basic salary plus 40% of travel allowance
2 Based on one third of net income
3 Based on two fill-ups of 50 litres per month
4 Basic hospital cover; R125, full medical aid R500
5 Assumes 2 children, depends on area, varies between R10 and R210 per child per month
6 Assuming R500 is saved monthly by the high earner
7 The costs associated with these indirect taxes have in some cases been fixed for all income groups.

Graphic: RONI SIREL

ST 4/11/98

ESTIMATED COSTS OF LIVING

SALARY RECEIVED PER MONTH

(No travel allowance)

<table>
<thead>
<tr>
<th>DIRECT TAX</th>
<th>LOW</th>
<th>MEDIUM</th>
<th>HIGH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross salary</td>
<td>2 000.00</td>
<td>6 000.00</td>
<td>12 500.00</td>
</tr>
<tr>
<td>Taxable income 1</td>
<td>2 000.00</td>
<td>6 000.00</td>
<td>12 500.00</td>
</tr>
<tr>
<td>Tax thereon</td>
<td>112.08</td>
<td>1 542.92</td>
<td>4 444.58</td>
</tr>
<tr>
<td>Tax percentage</td>
<td>5.60</td>
<td>25.72</td>
<td>35.56</td>
</tr>
<tr>
<td>Income remaining (Net income)</td>
<td>1 887.92</td>
<td>4 457.08</td>
<td>8 055.42</td>
</tr>
<tr>
<td>Food, groceries, entertainment etc. 2</td>
<td>629.31</td>
<td>1 485.69</td>
<td>2685.14</td>
</tr>
<tr>
<td>INDIRECT TAXES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT included above @ 14%</td>
<td>77.28</td>
<td>182.45</td>
<td>329.75</td>
</tr>
<tr>
<td>Petrol levy 76c per litre 3</td>
<td>76.00</td>
<td>76.00</td>
<td>76.00</td>
</tr>
<tr>
<td>Medical and hospital costs 4</td>
<td>125.00</td>
<td>500.00</td>
<td>500.00</td>
</tr>
<tr>
<td>Security costs</td>
<td>200.00</td>
<td>200.00</td>
<td>200.00</td>
</tr>
<tr>
<td>Government schooling (Average cost) 5</td>
<td>220.00</td>
<td>220.00</td>
<td>220.00</td>
</tr>
<tr>
<td>Assessment rates and taxes</td>
<td>--</td>
<td>250.00</td>
<td>400.00</td>
</tr>
<tr>
<td>TV licence</td>
<td>15.75</td>
<td>15.75</td>
<td>15.75</td>
</tr>
<tr>
<td>Government duty on bank transactions</td>
<td>5.00</td>
<td>10.00</td>
<td>15.00</td>
</tr>
<tr>
<td>Tax on interest earned over R2 000 6</td>
<td>--</td>
<td>--</td>
<td>150.00</td>
</tr>
<tr>
<td>Total indirect tax</td>
<td>719.03</td>
<td>1 454.20</td>
<td>1 906.50</td>
</tr>
<tr>
<td>Amount remaining at end of month before bond rep/rent/telephone/electricity/repairs/car costs etc.</td>
<td>616.86</td>
<td>1 699.64</td>
<td>3 793.53</td>
</tr>
<tr>
<td>Total ALL tax per month</td>
<td>831.11</td>
<td>2 997.12</td>
<td>6 351.08</td>
</tr>
<tr>
<td>Percentage of tax to income 7</td>
<td>41.56</td>
<td>49.95</td>
<td>50.81</td>
</tr>
</tbody>
</table>

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Graphic: RONI SIREL
INCOME TAX ACT 16/1/98

Receiver pipped for first place

Racing men take line honours in short head finish (320)

The judgment in a recent tax case involving a Cape Town racecourse — unlike Stephen Foster’s famous lyrics — makes no mention of its length. But the judgment, in the Income Tax Special Court, nevertheless illustrates an important aspect of the tax law. That is the claim by a tenant to a deduction of the cost of improvements, provided they were made in terms of an obligation under the lease (Section 11(g) of the Income Tax Act).

Deloitte & Touche tax manager (Cape) Jenny Klein, writes in the latest issue of that firm’s Tax News that the premises had been occupied by the taxpayer, a racecourse operator, for about a century in terms of various leases.

The parties signed a new lease in 1971, which obliged the taxpayer to put up new buildings, alter and improve existing buildings if required to provide adequate facilities for its patrons. The prior consent of the landlord, the Cape Town City Council, was required, but this should not unreasonably be withheld.

The taxpayer did, in the event, make improvements with the consent of the council, but its right to a deduction was challenged by the Commissioner for Inland Revenue. He argued that the relevant clause in the lease was void because it was vague as the wording was too imprecise to make it possible to determine whether the obligation arose at all.

Further, the phrase “shall be obliged” did not merely mean that the taxpayer had to bear the cost of improvements. They additionally meant that the landlord had the right to compel the tenant to make improvements once it had become apparent that they were needed.

The court rejected the commissioner’s arguments and upheld the right of the taxpayer to a deduction under Section 11(g). That the clause was imprecise did not mean that it was too vague. Whether the need for improvements existed and their extent could always be determined objectively with sufficient certainty when the time came. The court accepted that the improvements were needed.

Robin Friedland
Land tax being
levied in disguise,
SAAU alleges

Louise Cook

THE proposed land tax, under investigation by a Katz commission committee, was being collected in Gauteng despite official denials, the SA Agricultural Union (SAAU) said yesterday.

Union economist Johan Piennar said the province's newly introduced property tax was a land tax in disguise.

Legal spokesman Analize Crosby said the province's eastern and western services councils had sent accounts to rural land owners in Randfontein, Bronberg, Blesbokspruit, Elandrivier, Piennar rivier and Sulkersrand, billing them according to the value of improvements to their properties.

Crosby said the SAAU had asked Provincial Affairs and Constitutional Development Minister Valli Moosa to stall the imposition of a land tax until framework legislation was in place to guide the provinces, particularly with regard to collection.

Gauteng development planning and local government MEC Sicelo Shicke said the property tax — set to generate R500m a year for the province — was not a land tax.

"This is a property tax introduced after the ratings ordinance was amended last year. The land tax is not yet charged in Gauteng ... we have no authority from national level to do so," he said.

The National Maize Producers' Organisation said farmers in the Carletonville district had received property tax accounts. However, Shicke said there was no infrastructure existed to collect the tax on the West Rand.

He would not name the local councils that were collecting the tax, saying merely that they covered rural districts, many of which were "former African" areas. The new tax applies to agricultural and residential land as well as commercial properties.

Last year Shicke said a land tax in rural areas would help improve the salaries of local councillors.

The KwaNatal Agricultural Union has also complained that local councils outside metropolitan Durban have imposed a similar tax based on the value of improvements to rural land.
Revenue catches up the backlog

Staff working more effectively

The SA Revenue Service may have lost a lot of skilled staff to early retirement, but those who stayed are working harder and more effectively, says official Christo Henning. And it's showing results.

By the end of last month, most of the 1996 returns received had been assessed (see chart) and about 78% of the 1997 assessments had been completed.

Henning says the introduction of bonus incentives has boosted production in all areas, including assessments, recovery and inspections.

There are still a number of taxpayers who have not submitted their returns, but Henning says most of them have extensions.
The days are numbered for tax defaulters as task teams around the country search for more than 1.5 million businesses, informal businesses and individuals who are dodging payments.

Tax officials in Gauteng have found that about one in four businesses or individuals in the province is not paying.

In the Free State and North West this figure jumps to an astonishing one in two possible taxpayers, and in KwaZulu Natal and Eastern Cape one in five is not paying.

The SA Revenue Service estimates that tax records for 721 428 business taxpayers, 242 295 individuals and 627 000 informal businesses are missing.

The national default percentage for income tax is about 39%, value added tax (VAT) about 30% and PAYE about 29%. The default percentage for all unpaid taxes is just over 26%.

But not for long, because SA Revenue Service members expect to rake in an extra R13-billion annually before the end of next year in a massive find-and-register campaign.

Revenue service spokesman Christo Henning said a more client and service-oriented approach by the organisation was encouraging unregistered taxpayers to sign up, and the task teams were tracking down more tax defaulters than before.

He said teams were operating around the country and would continue to search until they were satisfied they had almost everyone on their books.

"The problem in South Africa is that the tax base is not broad enough and too few are bearing the burden. The more we manage to broaden the base, the easier it will be on individuals," Henning said.

"Our biggest income, 65%, is from employees. So our biggest concern at the moment is that about 34% of businesses in the country have not registered. Some employers are even collecting from employees and then not paying tax," he added.

But in the three months since the drive started, teams have exposed thousands of business-tax delinquents. The search is enhanced by a sophisticated new computer system which allows cross-checking and is linked to banks and assurance companies to track interest and pension payments.

SARS KwaZulu Natal regional manager Joe Britz said the "tax visits" were random and those visited were asked to supply their tax details.

"We will be lenient if they register voluntarily, otherwise we will hit them hard," he said.

Andrew Masters, an SARS chartered accountant, said they would cross-check their tax registers to ensure a business was registered for VAT and vice versa. Similarly there would be cross-checks between Customs and Excise and Inland Revenue to ensure importers paid income tax.

The taxmen would look at Tender Board information; only taxpayers would now be awarded tenders.

They would also look at municipal contractors and the vehicle registration system and would check business advertisements in newspapers, magazines, telephone and Yellow Pages directories to discover tax dodgers.
\'Govt to introduce 16 new taxes\'

Wyndham Hartley

CAPE TOWN — Government’s growth, employment and redistribution strategy had failed to keep tax revenue below 25% of GDP and a further 16 indirect taxes were being contemplated that would make the situation worse, National Party leader Marthinus van Schalkwyk said yesterday.

Firing the opening salvo of the new parliamentary year, Van Schalkwyk said the highly commendable strategy was being undermined by this very disturbing increase in tax revenue and restrictive labour legislation which would lose the country more jobs in the formal sector in the future.

He said President Nelson Mandela’s opening of Parliament speech on Friday would have to “provide proof that the present government has solutions, plans and the will to execute these plans in the areas of the economy, education and crime.”

He said among the 16 taxes that are to be proposed, were a land tax as proposed by the Katz commission, a national training levy of 1% to 1.5% of payroll, a national homebuilders’ levy, social health contributions from the formally employed, a national road levy on fuel, a universal service fund via Telkom tariffs, a capital transfer tax, a surcharge on income tax to finance provincialism, an electricity levy, three water charges, new airport charges, a liquor levy, and the truth body’s restitution tax.

He said the high tax burden looked set to rise further.

Turning to crime, he said government was “creating its own make-believe world where things were not as bad as people are proclaiming”. A slight reduction in murder figures from 62 a day to 60 was not something ordinary people would feel reassured by.

Van Schalkwyk said he was shocked to discover in a recent briefing by the police that there was no central co-ordination in the criminal justice system.

The past six months had been without doubt the worst of the government’s term of office, Van Schalkwyk said, and had shown a turn away from the positive mood in the country early last year.

The presidential opening address “is the key to changing this negative mood and the growing lack of trust among all South Africans in government’s ability to govern effectively. South Africans will no longer be satisfied with vague promises and plans, which disappear into thin air because of government’s inability to execute them. In the light of this the expectations for this opening address are therefore understandably the highest since 1994. People expect solutions and plans on Friday.”

Teryn Lamberti

AS HEAD of state, President Nelson Mandela was empowered to appoint a commission to probe the affairs of the SA Rugby Football Union (SARFU), the Pretoria High Court heard yesterday.

Lawyers acting for SARFU president Louis Luyt argued last week Mandela had breached the constitution by appointing the commission, as SARFU was a private association that did not accept state funds or taxpayers’ money.

Luyt, SARFU, the Mpumalanga Rugby Union and the Gauteng Lions Rugby Union, of which Luyt was also president, had applied to the high court to have the commission invalidated and set aside.

Senior advocate Wim Trengove, acting for Mandela, Sports Minister Steve Tshwete and sport director-general Mthobi Tyamzashe, said the president’s power to appoint a commission was not confined to matters of public concern.

He outlined damaging allegations made against SARFU before the commission was appointed, saying it was in rugby’s interest the criticisms were resolved or dispelled.

Luyt’s opinion that the public had no legitimate interest in rugby was based on the “narrow and legalistic contention that because SARFU and its affiliates were private associations, the state and the public had no legitimate interest in their management of... rugby”.

Rugby became embroiled in controversy about allegations of mismanagement and SARFU and Luyt were central to the controversy. There were also claims SARFU merely paid “lip service” to its commitment to the development of rugby in disadvantaged communities, and its “structures were not truly representative.”

In an affidavit, Mandela said SA’s victory in the World Cup in 1995 had “galvanised public demonstrations of reconciliation and unity... It is accordingly idle to suggest the management of rugby is not a matter of public concern.”
<table>
<thead>
<tr>
<th>Percentage of Companies Not Registered for VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Province &amp; Northern Cape 38%</td>
</tr>
<tr>
<td>Mpumulanga &amp; North West Province 4%</td>
</tr>
<tr>
<td>Gauteng 27%</td>
</tr>
<tr>
<td>Free State &amp; Kwazulu Natal 2%</td>
</tr>
</tbody>
</table>

**Net loss on tax dodgers:**

To 000 companies raided countrywide

(30)

**Imitation Jones**
Ministers say their affairs are in order.
Pressured by the need for a VR
increase in 2011-12 – for only a
4th annual increase in 17
months, revenue – and an
touche, the government is
pressing to the point of
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induced inflation,
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increase in

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spending.
Beliefs measure targets lower income earners

R3,767bn in taxpayers' pockets: Pensions

Welfare benefits like the pension were

On the face public

Cheat

The Budget

Face public

Cheat
Manuel pledges to boost cash for social services

TAX RELIEF ON WAGE MILLIONS
to find job creation plan

Tax on insurance shares

Isn’t taxes up sharply from today
Government is to clamp down on evasion of value-added tax, particularly prevalent in the export of cigarettes to neighbouring countries

Linda Finlay

CAPETOWN — Ad valorem duties on a range of consumer goods were reduced from 16% to 10% in yesterday's budget with immedi-
ate effect. Goods including perfumes, beauty products and electronic, camera and sound equipment would be cheaper and the tempting to avoid paying tax by un-
dervailing imported goods would lessen, the budget review stated.

The duty on computers and related equipment was cut by 1% to 6%. To counterbalance the effects of a single rate of VAT, the range of luxury items subject to ad valorem duties extended to goods such as cellular telephones, cameras, binoculars and dishwashers.

The addition of new luxury items was kept to a minimum in line with a finding of the Katz Commission that to extend it ex-
cessively would result in ad valorem excise duties having to be administered alongside VAT.

The net effect of broadening the consumption tax base by adding to the list was offset by the lowering of rates on existing products. The overall effect would therefore be revenue-neutral.

Samantha Sharpe

Convicted tax offenders face public exposure

Samantha Sharpe

CAPETOWN — Taxpayers failing to furnish annual tax returns could find themselves blushing in the glare of public scrutiny following a proposal in the 1999/2000 Budget to pub-
lish the names of convicted tax law offenders.

While the receiver of revenue has the power to release the names of guilty VAT Act offenders, those defaulting the Income Tax and Customs and Excise Act have, so far, re-
mained nameless.

Finance Minister Trevor Manuel warned that guilty parties would no longer be awarded the privilege of anonymity, with all those con-
victed of tax law offences to be publicly exposed as part of government's drive to improve tax morality.

"It is only right that those who pay their due should know whose tax default they are paying for," he said. "It is according-
ly proposed that the tax laws should be amended to provide for the publication of the names of persons convicted of tax law offences in terms of these laws," Manuel said.

In keeping with reforms in other countries and SA's more open new democracy, govern-
ment also intended examining the current secrecy provisions contained in various tax legis-
lation, Manuel said.

This would include an in-
vestigation into how these secrecy provisions could be amended to enhance tax morality and effective revenue collections, which remained the driving force behind tax reform in SA, he said.

Improve collection and a broader tax base would net the focus an estimated R2bn in revenue in the financi-

cal year, with government firmly committed to broaden-

ing the tax net. Tenders had already been established in the tax year's budget. Revenue districts were already under close supervision by the Revenue Service regional offices to undertake this task.

This project was a long-
term measure to encourage the default rate, change the culture of payment and sti-

Samantha Sharpe

Offi
cials plan
to clamp down on VAT evasion

Samantha Sharpe

CAPETOWN — Government intends clamping down on "serious VAT evasion", which the finance ministry said yesterday was taking place through the false declaration of exports into neighboring countries.

Finance Minister Trevor Manuel said in the budget review that VAT evasion, particularly prevalent in the export of cigarettes and liquor to neighboring countries, cost the country R150m in lost revenue.

The severity of the problem had forced government to propose the exclusion of liquor and tobacco products from the current export incentive scheme, he said.

The proposed measures meant traders from neighboring countries would not be able to buy these products free of VAT in SA or obtain a refund of the tax at a land border post.

The zero rating in respect of such products would only apply in relation to exports where an SA vendor consigns or delivers goods to purchasers outside SA, Manuel said.

The proposals enjoyed the full support of the liquor and tobacco industries, with implementation to take place immediately, he said, and a Govern-
ment Gazette would be published to announce the neces-
sary changes to the scheme.

However, Manuel said if the proposals did not curb current evasion levels, additional measures could fol-

Advocates in this regard were also posted to vendorme with their returns," he said.

"It is only right that those who pay their due should know whose tax default they are paying for," he said. "It is according-
ly proposed that the tax laws should be amended to provide
### Table: Monthly Income and Expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>Income</th>
<th>Expenses</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>12,000</td>
<td>8,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>600</td>
<td>400</td>
<td>200</td>
</tr>
<tr>
<td>Groceries</td>
<td>2,000</td>
<td>1,500</td>
<td>500</td>
</tr>
<tr>
<td>Gas</td>
<td>500</td>
<td>300</td>
<td>200</td>
</tr>
<tr>
<td>Entertainment</td>
<td>500</td>
<td>300</td>
<td>200</td>
</tr>
<tr>
<td>Total</td>
<td>15,500</td>
<td>9,800</td>
<td>5,700</td>
</tr>
</tbody>
</table>

**Comparison:**
- **Current:**
  - Rent: 12,000
  - Utilities: 600
  - Groceries: 2,000
  - Gas: 500
  - Total: 15,500

- **Proposed:**
  - Rent: 12,000
  - Utilities: 600
  - Groceries: 2,000
  - Gas: 500
  - Total: 15,500
Levy puts assurers on the spot

Bernard Simon

FINANCE Minister Trevor Manuel's decision to slap a once-off levy on demutualising insurance companies not only surprised Old Mutual and Sanlam, but put them on the spot.

Their dilemma was summed up by Sanlam GM Marious Daling yesterday. While complaining that the charge will be unique to SA, Daling welcomed Manuel's intention to use the proceeds to set up the new Umobonvu job-creation fund.

The levy, equal to 2.5% of a demutualising assurer's free reserves, will take a relatively modest bite out of the windfall gain that Old Mutual and Sanlam policyholders can expect when the assurers convert into shareholder-owned companies, probably within the next 12 months. The two are by far the biggest mutual — policyholder-owned — life assurers in SA.

Old Mutual's free reserves totalled about R30bn at the end of last year, while the equivalent figure for Sanlam was about R10bn. The demutualisation levy is thus likely to raise about R1bn.

One tax expert, who asked not be named, noted that "policyholders have had the benefits of growth over decades. I'm not sure that I'm terribly upset by the measure," he said.

Old Mutual GM Johannes van der Horst declined to comment on the levy pending further study of its implications.

Daling said because it was a once-off charge, the interests of Sanlam policyholders "will be protected and their existing and future policy benefits will not be affected".

According to one insurance executive, the two companies are likely to seize on the job-creation fund to extract maximum public relations advantage from the levy.

Daling said he was especially pleased that the proceeds would not be used to finance current government spending.

However, he cautioned that "clearly defined objectives, as well as stringent controls on the application of resources for this project, will be essential".
Medical aid tax

can raise R700m

HEALTH MINISTER

The proposal of health care should not be seen as a toll.
A proposal paid more often than that of current
Operate the proposal to increase revenue by the floor.
The floor would have been increased had revenue not been
The increase in floor without revenue would increase medical

WHERE THERE'S SMOKE:スーペルオーシャン and Reader Appeal Fund have worked
The Maclean's to step in and offer a story on its coverage

With the difference does a medical plan make across medical
Real power is economic

Manuel heeds labour movement

Numsa let down by Government’s failure to introduce wealth tax
Taxing at flat rate is sledgehammer tactic

Martin Kourie

Pre-budget talk of an income tax of 35 percent levied on trusts may best be described as speculative and oversimplistic. It is believed this flat tax rate would replace existing progressive tax rates on trusts.

This would apply to discretionary trusts, particularly business and farming trusts, set up to save income taxes by splitting taxable income among, in many cases, a multiplicity of beneficiaries. Marginal tax rates are minimised in doing so, and substantial taxes are saved, to the agitation of the South African Revenue Service (SARS).

The character of a discretionary trust permits this splitting in that the eligible trust beneficiaries may only benefit at the discretion of the trustees.

The number of trust beneficiaries is often large, for example comprising the planner, and his/her spouse, descendants, siblings and ascendants, as well as spouses, descendants, siblings and ascendants.

Charging trusts at a flat 35 percent tax on their incomes across the board obviously solves SARS's problem. But it is something of a sledgehammer approach. Such a tax change will also hit many custodian trusts.

For example, there are the numerous widows’, orphans’ and incapacitated persons’ trusts that are not bent on tax avoidance, but rather on protecting a meagre pool of trust assets to optimise benefits for a disadvantaged beneficiary. In these circumstances, a flat 35 percent tax on income is penal. The real difficulty faced here by the SARS is how to define or classify the offending trusts.

It is difficult to distinguish business trusts intended for income tax savings from those set up for custodianship or estate planning purposes. This is because the various types of trusts often utilise the same objectives, trustees’ powers, beneficiaries’ rights and general provisions.

The true differences rather relate to the position of the trust, and the manner in which the trustees have actually exercised their various discretions.

These nuances seem to transcend easy fiscal classification, thus making the SARS’s task difficult.

It was for this reason that the 1992 Budget announcement of a 45 percent flat rate of tax on business trusts was never followed up. Nor has anything changed since then to allow for easier implementation of this proposal.

On the contrary, the existing tax treatment of trusts was put on firmer ground by the insertion of a new provision into tax legislation in 1991 in support of the “common law” conduit principle that trust beneficiaries must pay tax on trust income they receive, while the trust itself must carry the tax on undistributed income.

For a flat tax rate on trusts to be effective in curbing tax avoidance, it will be necessary to repeal or radically amend the above tax section as well as the common law underlying it. Otherwise the new tax will simply be avoided by declaring trust benefits down to the beneficiaries.

This initiative would entail a major overhaul of settled principles of trust taxation, and could also upset the existing tax treatment of unit trusts. The decision to introduce such a tax change should therefore not be embarked on lightly by the finance ministry.

Martin Kourie works in the legal services department of Momentum Life
**SMART MONEY**

**Burden eased on low earners**

Bellinda Borseford

The government is continuing its campaign to ensure that tax income is unavoidable as death for South Africans with the lowest budgets survives overall income tax burden while attacking things beneficial such as social allowances. The budget sees about R5.7 billion knocked off the income tax burden for South Africans earning less than R60 000 per year, part of the benefits being felt lower down the income scale, but filtering through to higher brackets.

The government estimates people earning less than R60 000 will get 4% of the income tax relief, while those getting more than R120 000 a year will get 10% of the relief. The balance will be enjoyed by people earning between these limits.

The primary tax rebate has been increased to R3 516 from R3 213, while the extra allowance to people older than 65 years has been raised to R2 600 from R2 500.

One sneaky afflication for taxpayers is "buyer's creep"—when inflation related rises move individuals into higher tax brackets without them seeing any real increase in their income. This particularly affects lower income taxpayers. One method of reducing this is through the use of tax deferral for the range of tax bands.

The budget saw the number of tax brackets reduced from nine to five as the government continued towards its objective of only four tax brackets.

Part of this rationalisation meant taxpayers in the R60 000 to R60 000 bracket saw the marginal tax rate fall from 36% to 34%.

A major contributor to reducing the income tax burden on individuals has been to widen the tax base. The budget review says that in 1997 more than 60% of its total income tax came from the 9.8% of taxpayers who earn more than R100 000.

More taxpayers mean lower taxes to achieve the same level of income. Part of the tax base broadening campaign is the South African Revenue Service organized on anti-avoidance law, which allowed it to operate more like a private sector company. Minister of Finance Trevor Manuel says the government is targeting the revenue service collecting an extra R3 billion through efficiency gains this year.

As part of this campaign, the revenue service has been sending out hit squads of tax inspectors checking businesses and walking the streets to find unregistered businesses and individuals.

Less off for the cut-and-runners

Bellinda Borseford

While there still may be some internship concerns about South Africa's future, Trevor Manuel has signalled the government's confidence in a further relaxation of exchange controls.

Those who decide to move to leave the country have been given a good bye present—they can now take up to R1 million of household and personal effects. If you'd like to send your money overseas, the personal investment limit has doubled to R400 000 per person, or to R800 000 if married.

The changes in the budget mean 99.5% of people are now free from the "yoke of exchange control", and the end of the year, only 4.6% people applied to invest R86 million overseas. But, just less than 17% of those would be investors were not regulated, or did not have their tax affairs in good standing. Rather unusually, the budget review says they are "being dealt with" by the revenue service.

Travel and study allowances have also increased. Each adult can now take up to R100 000 in holiday per year, up from R50 000, while children can take up to R50 000 in money to the tune of R50 000 per household.

There has been a R200 000 increase in the overseas study allowance to R500 000 while student travel allowances have been raised to R250 000 per year, from R50 000. Students accompanied by spouses have doubled the allowance. If you're travelling abroad you need to get pre-authorization to use your credit card, although you will still have to follow the travel allowances.

The government has also continued its policy of strengthening ties to the Southern African Development Community. Local companies can now access up to R50 million for new investments within the community—a five-fold increase. The offshore investment allowance for companies has risen to R50 million.

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**Cellphones face the wages of sin**

Bellinda Borseford

If you're one of those people who find it interesting listening to the ubiquitous ringing of telephones over dinner, on the golf course or in the mall—then you'll find it hard to resist checking at the news that cellphone imports are to be hit with customs duties.

Along with some other dubious "necessary"ities of life, including caravans, alloy wheels and domestic dishwashers, cellphones are now subject to a 10% ad valorem (value-related) excise tax. The move is part of the government's strategy to extend customs taxes to non-essential or luxury items.

If you're one of those people who can't survive without your little ringing friend, and object to it being classified as non-essential, there is some consolation in a reduction of customs duties on luxury items.

Whether the fall in tax from 15% to 8% on a range of goods including watches, beauty preparations and spectacles will filter through to the consumer is another matter.

As expected, "sin taxes" have risen again. In keeping with its intention to tax custom duties for tobacco products at about half the retail prices, excise taxes have risen by about 25%. This translates into another R60 for a packet of 200 cigarettes.

The government acknowledged in the budget that high taxes provided a greater incentive for smuggling and "related criminal activities" and compared South Africa's 86% tobacco duty to those of around 40% in Zimbabwe and 38.6% in Mozambique.

If you feel like celebrating the overall fall in income taxes, your income tax is likely to rise from 13% to 15% in excise duty which translates into a real increase of roughly 8% once estimated inflation is taken into account.

For the more aesthetic, mineral water and rose water are not going to see any rise in customs duties. Given that the government is assuming inflation will be around 8% this year, this translates into a real fall in excise duties.

The budget is designed to tax alcohol content and to bring prices into line with international trends. Cider, drinkers and faxes of alcoholic fruit beers are going to be particular hard hit. If your favourite tipple is some novelty exotic alcoholic lemonade, brace yourself for a nominal 36% rise in excise duties. If you're feeling thrifty, then fill up your car before April 1, when the fuel levy is going to rise by 10c per litre. The government estimates this will raise an extra R1.4 billion in revenue against a trade-off of a less than 0.5% rise in the consumer price index.

The spirit of equality is now also being applied to the taxation of spirits. Regardless of origin, for example grain or cane, spirits will all now face R2.5 in lieu of excise duty.

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**TAXABLE INCOME**

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<th>Rates of Tax</th>
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PHOTOGRAPH: ROGER ROESCHLICHER
Medical aid tax ‘will deter new entrants’

ADELE SHEVEL

Johannesburg — The fringe benefit tax placed on medical aid contributions would deter employed people who were not part of medical aid schemes from entering private sector schemes, Ian Kadish, the director of managed care at Netcare, said last week.

The government has committed itself to reforming the healthcare environment, and through various policy papers has indicated an increasing role for the private sector to finance and deliver healthcare. This would enable the public sector to focus on those who cannot afford private sector care.

But Adrian Baskir, an actuary at Old Mutual Healthcare, said lower-income workers would be the worst affected with the medical schemes tax, even negating any benefits they would otherwise have derived from budgetary measures to cut personal tax through reducing fiscal drag.

Kadish said there were more astute ways of increasing the medical coverage net, without it costing the government more. He said people at the lower end of the income stream should be subsidised with regard to getting healthcare coverage.

The sixth report of the Katz Commission recommended that employer contributions to medical schemes be limited on a rand-for-rand basis to the amount contributed by the employee.

“The 1998 Budget proposes that the amount by which the employer’s contribution to a medical scheme for an employee exceeds two-thirds of the total contributions be taxed as an employee fringe benefit from April this year,” said Baskir.

“Put differently, the new tax will impact those being subsidised by more than two-thirds of their contributions, and those who are fully subsidised by the employer will be especially hard hit.

“Subsidisation relates to the employer paying a part or all of the contribution as part of a package or on a salary sacrifice basis.”

Older medical scheme members with dependants will be harder hit than young, single members. Baskir says this is because the former generally pay higher contributions and are likely to have more comprehensive medical cover.

“Employers may be pressurised into increasing salaries to compensate for the impact of the new tax on net take-home pay.”
Provident funds hardest hit

By Abdul Milazi

PROVIDENT Fund members will be hardest hit by the tax increase from 17 to 25 percent on retirement funds announced by Finance Minister Trevor Manuel.

Experts say this substantial increase would bring in about R1.2 billion for Government in the next tax year.

Both Sanlam and Old Mutual agree that members of provident funds will be directly affected, with a reduction in their returns over a period of time.

It is argued, however, that while members of pension funds will not be affected, employers will face a proportionate cost increase.

Sanlam's Nico van Gijzen says: "Now more than ever, members of defined contribution retirement funds will have to take notice of the investment decisions made on their behalf and the options they exercise.

"In provident funds, the employer and member contribute a fixed percentage of salary, but the investment risk is carried by the member."
Mine chamber wants exemption from health tax

JOHAN DE KLERK

THE Chamber of Mines, one of South Africa's largest employers, has asked for an exemption from paying the health insurance tax as proposed by Health Minister Dr. Nkosazana Zuma in the White Paper on the Transformation on Health in South Africa.

On the first day of public hearings on the paper, Chamber of Mines' health adviser Dr. C. van der Westhuizen told Parliament's Health Committee that the Chamber would like to be exempted from the tax as it provides a not-for-profit service to employees.

She said if employees were not granted an exemption, consideration should be given to reimbursing employers for similar healthcare services provided.

The Department of Health has proposed the health insurance tax which would require that all formally employed persons should be insured for costs of treatment for themselves and their dependents in public hospitals.

The Chamber of Mines cited studies that showed that a large number of private healthcare schemes have exhausted their medical benefits and then turn to public hospitals for further treatment.

The proposed tax is expected to pump an estimated R2 billion a year into the public health system.

"Public hospitals will most probably only retain a portion of fees generated with the balance paid to provincial health departments to finance the shortfall in the state's free primary healthcare package, estimated at R1.4bn in 1997/8 and rising to R3.4bn by the turn of the century. Such a situation would fail to balance paying taxes to receiving benefits in return and would merely constitute an additional tax," Dr. van der Westhuizen said.

The Chamber of Mines suggested that a defined package of services and benefits should be guaranteed to those taxed and employers providing the package to their employees should be exempted from contributions or reimbursed for similar health services provided.

Also, exemption of medical scheme contributors who are sufficiently insured with no potential liability for public hospitals should be considered.

The Chamber of Mines has described the regulation of the medical schemes industry, as contained in the White Paper, as prescriptive.

The Concerned Medical Schemes Group, which claims to represent over 2.6 million members, has rejected proposals that would force them to accept all prospective members, regardless of health risk.

The group said if schemes were not allowed to exclude individuals on the basis of health risk, people would defer joining until they were sick, which would increase the cost of cover and decrease the number of people covered.

Instead, schemes should be allowed to screen to some extent and create incentives for the young and healthy to join.

Mr. Adrian Gore, a representative of the group said: "We refuse the claim in the white paper that the recent deregulation has led to instability, increased cost and a reduction of coverage. Emerging government statistics reveal the opposite. Furthermore, it is our view that the framework for re-regulation is too restrictive to achieve the government's broader health objectives. We support an environment based on guaranteed access as opposed to open enrollment, and general community rating rather than flat community rating. Importantly, targeted regulation should focus on protecting today's old and tomorrow's sick."
SARS expects to cut tax gap by R8bn

LYNDA Loxton
PARLIAMENTARY CORRESPONDENT

Cape Town — The South African Revenue Service (SARS) this year expects to have closed the tax gap by R8 billion since 1996-97 while significant strides had been made in clamping down on smuggling and undervaluation of imports, Trevor van Heerden, the commissioner, said yesterday.

Van Heerden, who was briefing the portfolio committee on finance on the 1998-99 Budget, said the Katz Commission had estimated that the tax gap — the amount not being collected — could be between R5 billion and R20 billion, but further studies were under way to determine the exact figures.

Of the 188,000 people visited so far, for example, it had been found that 31 percent had not registered for tax, while the collection of company tax had been boosted by improvements at leading centres such as Sandton.

PLUGGING HOLES

Trevor van Heerden of the SARS

— where many companies have their headquarters.

Van Heerden was far from complacent and said: “A lot of work still has to be done, but things are improving.”

From May 1, a new system would be introduced to allow taxpayers to pay their tax through their banks. This would eliminate the problem of cheques being lost in the post.

Van Heerden also planned to arrange for the Central Statistical Service to gain access to its records, subject to certain secrecy provisions, because they “contain a huge volume of information that could be useful to them”.

On customs and excise, Van Heerden said British customs officials “have made quite a difference to operations”, especially in Durban, Cape Town and Johannesburg. The time taken to clear goods through customs had been reduced from between three and five days to one day.

Officials had become more selective with their inspections, and the revenue collected from penalties had risen by 19 percent. The success rate had risen from 11 percent to 85 percent.

The undervaluation of imports remained the biggest problem, but cuts in ad valorem duties last year appeared to have slowed down smuggling.
Rationalisations ‘highlight need to relax tax legislation’

CAPE TOWN — The recent rush of mergers and corporate restructuring, especially in the financial services sector, highlighted the need for a review of inhibiting tax legislation, a leading tax expert said.

While the unbundling provisions, as well as Section 39 of the Income Tax Act, catered for the rationalisations, the act did not facilitate minority shareholders in the underlying companies moving their investments upwards, Coopers & Lybrand tax partner Danie Föscher suggested at a budget briefing before Parliament’s portfolio committee on finance last week.

He said in an interview later that the requirement in terms of Section 24(A) of the Income Tax Act, which stipulated that shares be held for five years to escape capital gains tax on their disposal, was restrictive.

This was because a new five-year period kicked in when shareholders in subsidiary companies opted to sell their shares or swap them with those in the restructured holding company, Föscher said.

Also, if the shares were sold prior to the expiry of the five-year term, then tax would have to be paid.

“It is fine for speculators to begin a new five-year term, but for some institutional investors, such as short term insurers who are regarded as traders and for whom share dealing is part of their cash-flow planning, a new five year term will create difficulties,” he said.

While the lack of facilitative measures might not go so far as to deter the rationalisations, Föscher believed it would make the schemes more complicated than they need be in order to achieve neutrality.

But inland revenue commissioner Trevor van Heerden said he was not convinced the five-year rule restricted restructuring in the way suggested.
SA’s economic reform ‘on track’

By Abdul Milazi

SA’s drive for structural economic reform has recently made key strides which have given credibility to the fiscal policy, the Board of Executors (BOE) said at the weekend.

BOE spokeswoman Thando Rancho said South Africa was now closer to the point where the benefits of long-term structural reform and sustained disinflation begin to outweigh the costs.

She said the original deficit targets for 1998-99 were adhered to by the Government in its budget, while economic assumptions were more realistic.

“Government spending and debt are to fall as a percentage of gross domestic product (GDP). South Africa no longer faces the debt trap. The medium term expenditure framework enables better fiscal planning and further improves transparency,” said Rancho.

She said exchange controls were relaxed and there was a credible commitment to their complete removal.

“Individual income tax relief has been given priority and there is strong support for the setting of an inflation target. A low inflation target would cement the recent inflation gains,” said Rancho.

She said the falling nominal and real interest rates and the benefits of demutualisation would support a sustained economic recovery after 1998.

Other factors that would support a sustained economic recovery include an improving international economy from late 1999 and an improved investor confidence.

Promote growth

Increased flexibility to promote growth through tax reform and infrastructure investment would also improve the positive view of the future of the South African economy.

“There are good grounds for confidence that the eventual deficit for 1998-99 will be close to the target. The deficit reduction programme now has a good track record,” said Rancho.

However, she argued that the economic growth forecast of three percent was too optimistic but the revenue assumptions appeared realistic, implying that fiscal planners didn’t believe growth forecasts.

She said consumption spending continued to rise at the expense of capital spending.

Capital spending rose by only four percent in 1997, while the wage bill was projected to rise by 12.9 percent this year after increasing by 9.1 last year and 9.2 the previous year.

“The wage bill is expected to rise much more slowly, taking the proportion of non-interest spending down to 49.2 percent. This proportion is still substantially higher than international norms,” said Rancho.

She said the extent to which the state borrows to finance current spending (dissaving) remained too high. “In fact dissaving was 3.5 percent of the GDP in 1997, up from 3.3 percent in 1996.”

She argued that one of the main obstacles to SA achieving higher domestic savings and sustained high economic growth was excessive taxation of income, both corporate and individual.
Higher tax on pension outlandish — tax expert

Linda Ensor

CAPE TOWN — Reports that Parliament's finance portfolio committee might recommend an amendment to the proposed increase in the tax on retirement fund income was "outlandish", one of the committee's tax experts said yesterday.

However, to get a broader understanding of the effects of the tax increase on the nation's savings and the poor, the committee had mandated its tax subcommittee, consisting of Andrew Feinstein (African National Congress) and Gavin Woods (Isikatho Freedom Party) to invite submissions on the issue.

Finance Minister Trevor Manuel, in his 1998/99 budget, announced an increase in the tax on the rental and interest income of retirement funds from 17% to 25%. During the finance committee's public hearing on the budget last week, the life industry objected to this increase on the grounds that it would negatively affect the poor and act as a disincentive to save. However, they could not provide any empirical evidence to back up their claims.

Submissions invited

This was why the committee decided to investigate further, not with a view to getting the proposal changed when it appeared in the Income Tax Amendment Bill, but so that it was fully informed of its effects.

Feinstein said: "The chances of our wanting to persuade the minister to change the proposal is highly unlikely," Feinstein said. "If the committee was intrinsically opposed to it, this would have become clear at the hearings, but this was not the case. The idea of our wanting to change it is quite outlandish."

He said submissions would be invited from the industry, trade unions and tax experts. It appeared the 17% tax had little if any effect on savings when it was introduced, but no one seemed to have any idea what the threshold of this tolerance might be.

In its report on the budget hearings, the finance committee expressed concern that capital expenditure as a percentage of total government spending remained at a low level. It recommended the proposal to alleviate fiscal drag by setting aside R3.7bn for this purpose.
Pension fund tax defended by Manuel

Lynda Loxton
Parliamentary Correspondent

Cape Town — Trevor Manuel, the finance minister, yesterday defended his decision to increase the tax on the interest and rental income of pension funds, saying the rationale for the 2.5 percent levy on the free reserves of mutual insurers was sound.

Wrapping up the debate on his 1998-99 Budget in the national assembly, Manuel denied that the new 25 percent tax on pension funds was an attack on the nation’s savings and threatened the livelihoods of pensioners.

“Nothing could be further from the truth,” he said. “Indeed, it is precisely because the nation’s savings and the wellbeing of the elderly are so much better protected now than in the past that we are able to take this modest step towards addressing the distortions we inherited in the tax treatments of pension funds.”

In the past, high inflation and prescribed asset requirements had resulted in pension funds making negative returns in real terms. The state could not therefore apply normal tax principles to pension funds. “We are now in a very different environment.”

Pension funds had not been subjected to prescribed asset requirements for some time and could make use of many investment opportunities. At the same time, interest rates significantly exceeded the inflation rate.

“Pension funds have therefore enjoyed significant positive real returns on their interest-bearing investments,” he said.

Lower inflation was the best protection the government could offer savers and pensioners, and it was now moving down rapidly. It was more than likely that the fall in inflation since the tax was introduced fully compensated for its effects on the real returns of fixed interest investments.

It had also been assumed that all pension fund assets were held in the form of property or government bonds, making the total income of the portfolios now taxable at 25 percent.

But, he said, these assets only made up 35 percent of the income of pension funds.

On the once-off demutualisation levy, Manuel said the free reserves of mutual insurers had been built up over many decades by the contributions made by generations of policyholders under a favourable tax treatment.

Current policyholders would receive a windfall gain through an unanticipated intergenerational transfer, which normally would have been taxed through estate duties or donations tax.

“It is therefore entirely appropriate to levy a small charge on this unanticipated and unplanned windfall,” Manuel said.
Pension tax hike will not hurt savings—Manuel

Linda Ensor

CAPE TOWN—Criticism that the higher tax rate on the net rental and interest income of retirement funds would undermine the national savings effort was dismissed by Finance Minister Trevor Manuel in his speech ending the debate on the budget which was passed by Parliament yesterday.

Manuel said the increase in the tax rate from 17% to 25% would address the tax treatment of pension funds inherited from a period of high inflation.

"In the past interest and property income was so savaged by the combined effects of inflation and prescribed asset requirements that the retirement funds frequently made negative returns in real terms. In fairness to savers and retired persons, the state could not apply normal tax principles to retirement funds under such circumstances," Manuel said.

The current situation was very different. Retirement funds had much greater freedom to invest their assets as they were no longer subject to prescribed asset requirements, and interest rates were much higher than the inflation rate.

"Lower inflation is without a shadow of a doubt the best protection we can offer savers and pensioners. It is more than likely that the fall in inflation since the tax was introduced fully compensates for its effects on the real returns of fixed interest investments," Manuel said.

He noted a Katz commission finding that the tax exemption of retirement funds' investment earnings gave rise to major problems in the whole system and that a greater degree of neutrality was needed. It was this principle, he added, that lay behind the increase in the tax rate.

B0 27/9/98
Budget Proposal Will Increase Tax Burden on

small businesses
Marcus eyes new taxation on pension funds
Marcus eyes new taxation on pension funds
Now you can keep what you earn

ED WEST

Average South Africans worked until yesterday to pay their 1998/99 taxes - today is only the second day this year that they keep what they earn.

Free Market Foundation statistician Garth Zietsman says tax rates in South Africa are way above those in similar-sized emerging economies like those in Indonesia, Malaysia, Singapore and a host of South American countries, but more or less in line with Australia, a little better than in the United States and a lot better than in Europe.

Lower tax rates stimulate economies as they compete in world markets, and impinge less on personal freedom as individuals spend less time working for the state, says Mr Zietsman.

Nobody knows precisely how much tax average South Africans, including informal sector and agricultural workers pay because many taxes are hidden, but the Freedom Foundation estimates they fork out 32% of their incomes in various forms of tax.

This percentage was calculated by dividing gross domestic product by general gov-

The depressing truth

HOW YOUR TAX BURDEN HAS INCREASED
SINCE 1973
Figures indicate the average person's tax rate

Now you can keep what you earn

From page 1

er pays only slightly less tax, with tax freedom day on May 8, as 34.77% of earnings go to the government. Indian workers pay 41.59% of their incomes in taxes, while the average formal sector white worker pays the most - tax freedom day is on June 29, with 49.14% of earnings going to the government.

From page 1

ment revenue, and shows that the average South African must work 32% of the year to pay off his or her taxes.

This year's "tax freedom day" was yesterday, a day earlier than last year.

To illustrate how much more of a tax burden the average person is being forced to carry every year, "tax freedom day" in 1973 fell on March 19.

For the average formal sector, non-agricultural black worker, tax freedom day is May 9, with 35.07% of his or her income going to the state.

The average coloured work-
Taxing Eskom may hit economy, experts warn

New bill ‘puts jobs and prices at risk’

CHARLES PHRAHLANE
Political Bureau

The Eskom Amendment Bill could have the effect of increasing electricity prices and hurting the economy, interested parties told a parliamentary committee.

The bill seeks to transfer ownership of Eskom to the state and to make the parastatal pay taxes.

The portfolio committee on public enterprises was told the bill should not be passed until its likely effects on prices had been researched and the white paper on energy, which was still being drafted, was published.

The Congress of SA Trade Unions said the changes should not jeopardise “what is currently a successful formula.”

“There is no certainty as to how the corporatisation and taxation of Eskom will impact on Eskom’s restructuring, its development potential or on its strategic economic role,” Cosatu’s Kenneth Creamer told the committee.

The University of Cape Town’s Applied Fiscal Research Centre (AFReC) submitted that removal of tax-exempt status would improve financial management of the parastatal, and lead to improved investment decisions. Eskom has a number of unused power stations.

But taxation could also have negative effects. If Eskom were taxed, then it should be relieved of its burden of electrifying houses.

Government statistics showed that there were 1 000 electricity connections a day on average since 1994. AFReC’s Iraj Abedian said there was a need for clarity on what would be taxed: electricity as a commodity or the electricity industry.

The Cabinet has already approved an electrification levy and a municipal levy on consumption.

Taxing electricity directly might increase prices and distort the allocation of resources, Dr Abedian said.

It could also discourage investment, which would hurt jobs.

The electrification levy would make cross-subsidisation of electricity more transparent. But it might not be the most efficient way for the Government to fund electrification, as the levy would be a regressive tax, affecting poor customers the most.

The municipal levy would take the form of an excise tax, like the fuel levy, but it was not clear how it would be divided among municipalities. The levy could have far-reaching implications for the economy and could adversely affect competitiveness, since other countries used electricity pricing to give their industries a competitive edge. It could also hurt future investments.
Taxman’s refund system now ‘footloose’
Focus will be on sectors where actual tax paid is far lower than nominal rates

State drive to close tax gap

Cape Town — The South African Revenue Service (SARS) was stepping up its drive to close the tax gap with the aim of ensuring greater voluntary compliance, the parliamentary portfolio committee on finance heard yesterday.

Trevor van Heerden, the SARS commissioner, told the committee it was considering following Sweden’s lead by auditing the tax returns of the top 200 companies while also focusing on certain sectors, such as financial services, where actual tax paid was lower than nominal rates.

At the same time, it expected to receive much greater detail about the potential tax base from banks, insurance companies and other businesses.

“Once we get more information in, we will get a lot more revenue flowing in,” he said.

Avhashoni Netshibungulu, the director of tax structure development, said that of the 339 025 companies surveyed between October and March, 28 percent had to be registered for tax purposes. Of these, about 37 000 had now been registered, while teams of officers had been set up in all local offices to trace companies eligible for tax purposes.

Officials were also tracking down potential taxpayers in rural areas and black urban residential areas. The thorny question of how to get tax operators to pay tax, however, was still something that called for a political solution, Van Heerden said.

“Our campaign is extensive because we have a vision that in the long run we have to be in a situation where we have a culture of voluntary compliance, where everybody in South Africa is proud to pay his or her fair share,” Netshibungulu said.

Van Heerden said the SARS expected its new income tax policy to be on stream by the end of the year, which would help re-engineer tax collection in the long term. Though it was still difficult to evaluate the effect this would have on tax collection, it was expected to be more efficient.

He said there was concern that the SARS’s estimates of revenue did not reveal the full picture, and a deeper study was needed to determine the real tax gap.
Tax incentives could boost efficiency

(320) 20 8/15/98

Josey Ballenger

THE days of poor waste management and inefficient industrial practices may be limited if tax incentives are introduced — an idea that may be incorporated into government's waste management strategy, a consultant to government said this week.

"We cannot just use sticks. We need some carrots," said Dave Baldwin, technical director of consultancy Bohlwezi Environmental, in reference to measures being considered by an interdepartmental committee to encourage waste generators to engage in better practices.

Government's national waste management strategy process, which began last August, is a joint effort between the environmental affairs and water affairs departments, various SA consultants and Danish consultancy Ramboll. The two-year project is primarily funded by Danish aid agency Denmark's R3,2m contribution, with the SA government kicking in R700 000.

Baldwin said the strategy focused on four major areas: hazardous and related wastes, including mining and radioactive materials; non-hazardous waste; waste minimisation; and compiling a national database.

The project's first phase — a baseline assessment of the SA's waste output and minimisation efforts — is due for completion at the end of the month.

The second phase will be to develop a strategy within six months, and the final phase will see the creation of "action plans" by next May.

Baragwanath upgrading ‘allows for better care’

(320) 20 8/15/98

Josey Ballenger

The recent R2.3m upgrading of what has become the world's largest hospital — Soweto's Chris Hani Baragwanath — puts the community institution in a better position to cope with the 30 000 patients it treats each year.

Baragwanath's revamped medical admissions ward 20, which was opened this week by greater Johannesburg mayor Netta Mogase, includes a medical high-care unit and a better equipped laboratory six times the size of its predecessor.

"About 3-million people live in Soweto and most of them will come to this hospital for medical care. The ward gives patients more privacy and dignity and access to improved quality of care," said Donald de Korte, CE of pharmaceutical company Merck Sharp & Dohme (MSD).

Between 70 and 100 patients — with ailments ranging from tuberculosis to heart disease and strokes — are admitted daily, while only R5m of the hospital's R500m annual funding needs is collected from its primarily poor patient base.

The hospital also functions as a referral centre for SA's 40 provincial hospitals and medical facilities in neighbouring countries and is the largest teaching hospital for medical students from Wits University.

The upgrade was a public-private partnership between MSD, which contributed R1.5m, the Gauteng health department, which paid R500 000 and the SA Institute for Medical Research, a statutory body which contributed R300 000.

The upgrade resulted from a 1996 survey of staff members which painted a "disturbing" picture, the hospital said. In the survey, 96% of the respondents felt the quality of care was poor and equipment inadequate, while 51% said emergency care facilities were insufficient.

The new ward is divided into five sections, each staffed by two nurses, two doctors, a registrar and an intern. This "dramatically improves the quality of care," said project co-ordinator Dr Ivor Katz.

JUDGMENT IN BRIEF

A recent court judgment of interest to business

NBS Boland Bank Bpk v One Berg River Drive CC, Witwatersrand Local Division, 8 April 1998, B Southwood

MORTGAGE bonds passed by One Berg River Drive in favour of NBS Boland Bank provided that specified interest rates would be payable on the loan advanced, or such rates as the NBS might determine from time to time. Clause 14 of the bond provided that the NBS could vary the rate of interest and could increase the monthly repayments so as to ensure ultimate payment of the whole bond within the period of the bond.

The NBS brought an action against Berg River, claiming amounts outstanding in terms of the bond. The parties agreed that the point of difference between them was the legality and enforceability of clause 14. Berg River argued that clause 14 was void because it was vague, having left the determination of the interest rate completely within the discretion of one party, the NBS. The NBS argued that in interpreting the provision, enforceability rather than unenforceability should be sought; furthermore, that the NBS's discretion was to be exercised reasonably.

The judge said that it was a principle of our law that when a term of a contract depends entirely on the will of one of the parties to determine the extent of performance of either party, the contract is void. While it was true that a contractual term should be interpreted so as to be enforceable, rather than unenforceable, the provisions of clause 14 gave the NBS an unlettered discretion to vary the interest rate. The discretion did not have to be exercised reasonably. Clause 14 was therefore unenforceable.

 Advocate Mark Stranex's feature appears every Friday. Full transcripts are obtainable from email laupub@global.co.za or fax 011-337-6634 or http://www.laupublisher.co.za.
Government writes off R1-bn taxes

PARLIAMENTARY BUREAU

The Government has written off almost R1-billion in tax as irrecoverable in the past three years. AG 1916198

Finance Minister Trevor Manuel disclosed this in Parliament in reply to questions by Ken Andrew of the Democratic Party.

Mr Manuel said R310-million was written off in 1994-95, R365-million the following year and R289-million last year.

Reasons for dropping attempts to collect the tax included insolvency, impossibility of tracing debtors, debtors who had no assets or income, the State Attorney being unable to collect outstanding debts and legal action being uneconomical.

At the same time, Mr Manuel released figures showing that R68.8-billion was collected in individual tax last year.

People in the Western Cape contributed R8.8-billion in individual tax, in Gauteng R33.9-billion and in KwaZulu Natal R6.8-billion.

Company tax collected last year totalled R18-billion.
Receiver takes a tough line with tax dodgers

We've been慎重。After two
months, Sherborne warned that the set
of the hitillion would drop to around £100
more a week. Sherborne said the revenue
was the maximum. Sherborne said the
revenue was the maximum.

The doctors' income. The doctors' income.

Says head tax dodgers. Says head tax dodgers.

Joan Scamong

[Note: The text is not clear due to the image quality. It appears to be a letter or note discussing tax issues and medical professionals.]
Provincial administration of tax still under debate

LYNDA Loxton

Cape Town — There were still considerable doubts about whether provinces had the capacity to administer their own taxes, Trevor Manuel, the finance minister, said yesterday.

Wrapping up the debate in the national assembly on the Division of Revenue Bill, which allocates shares of the national budget to the provinces, Manuel said the issue would again be discussed by the budget council and the Katz commission at a meeting starting today. "It is an unresolved matter," he said.

"Revenue raising is ultimately dependent on capacity because once you have given that away and you deepen and worsen the levels of tax morality because of an incapacity within provinces to collect, it is virtually impossible to recover and you will be introducing further distortions into the system.

"From our last discussions with the Katz commission, there is no dispute on the principles, but there is a decided caution on the part of the commission about the speed with which you transfer these powers to provinces."

Manuel said it was recognised that unless the provinces could raise their own revenues, they would tend to spend more than they were allocated."
Provinces likely to spurn tax powers

Kevin O'Grady

MOVES to give the provinces taxation powers are likely to be spurned by most provincial governments which believe only Gauteng will benefit significantly.

Provincial taxation powers, which are provided for in the constitution and which the Financial and Fiscal Commission (FFC) believes should be granted soon, are the subject of the Katz commission's eighth report, due out within weeks.

A number of finance MECs said the provinces were also likely to take a dim view of suggestions that they, rather than the SA Revenue Service, be responsible for collecting taxes that they were empowered to levy. This was one of the options being looked at by the Katz commission.

Its report, on which the Budget Council was recently briefed, is understood to say that it will take at least two years before the revenue service has the capacity to collect and distribute taxes regionally.

Gauteng finance MEC Jabu Moleketi said a shorter-term option under consideration by the Katz commission was the imposition by provinces of bed levies, or a wider tourism tax and hospital charges.

Bed levies, however, are likely to come under fire from the industry for being inequitable. Citing similar reasons, the major hotel groups resigned from the SA Tourism Board's voluntary national classification and grading scheme recently, resulting in 80% of Satour's bed levy funding mechanism drying up.

Moleketi said some of Katz's proposals "put some provinces in a better position than others. For example, Gauteng would benefit more (from a surcharge on personal income tax) because it has a bigger tax base".

While he would prefer the revenue service to collect any provincial taxes, Moleketi said another proposal was that the provinces use outside agencies, similar to those used to collect regional services council levies.

KwaZulu-Natal finance MEC Peter Miller was sceptical about how much his province would benefit from taxation powers and insisted that, should the powers be granted, the revenue service should be the only collection agency. "The situation in KwaZulu-Natal is desperate regarding our ability to deliver services. Heavier taxation on businesses or individuals will blight our economy.

Eastern Cape finance MEC Enoch Godewana said reducing the national tax burden to allow provinces to collect taxes would 'reduce the broader cake if some provinces have nothing to tax. Gauteng would benefit, but most provinces would lose.'"

Two finance MECs, who asked not to be identified, said they would fight moves to allow provinces to raise taxes.

The FPF has said granting taxation powers to provinces would increase accountability if provincial governments were spending taxes collected locally.

One observer suggested this could be a reason for some provinces' aversion to the idea — that they are more comfortable with their inevitable over-spending if they cannot be called to account by a provincial electorate.
Top Revenue jobs set aside

RONALD MORRIS
JUSTICE WRITER
OT 15/6/98

The appointment in 1992 by the Revenue Services of two directors into posts for which they were not qualified, has been a costly blunder, the Cape High Court has ruled.

This emerges from a judgment on Friday by Judge Selwyn Selkowitz in an action in which George Provan sought a review of the Revenue Service's decision not to appoint him to the post of director in either of two vacancies he had applied for.

The judge set aside a decision by the chairperson of the Public Service Commission, the director-general of the Department of Finance or the chief executive officer of the SA Revenue Services to appoint WJ Retz and JN Gouws to the vacancies.

The question of the appointment of Provan to the rank of director with effect from November 1, 1992, together with the attendant benefits such as back pay and increased pension benefits had to be considered afresh, the judge ordered.

The judgment may unleash similar actions by other revenue officials, an observer said.

Provan, who retired last year, worked for Revenue Services for 34 years and was highly qualified, having obtained the degree Master of Laws (Tax) at UCT in 1991.

His woes started in September 1992 when he applied for the post of director in vacancies in Bellville and Port Elizabeth.

He was unsuccessful and the Bellville post went to Retz and the Port Elizabeth vacancy was filled by Gouws, both deputy-directors at the time.

Provan contended that Retz and Gouws should not have been appointed as they did not have the prescribed qualifications even though they had more years of service than he. He also said that the appointment process itself was irregular.

Provan lodged a grievance and after having exhausted internal remedies, sought a review in the High Court.

The judge said it was clear the appointments of Retz and Gouws had followed a selection process that was made essentially, if not exclusively, on the basis of selecting the most senior applicant. No interview was held with any of the candidates for either post.

Further, no consideration had been taken of the level of training, relative merit, efficiency and suitability of the candidates for the posts, the judge said.

The respondents were ordered to pay the costs of the review application.

Les Rose-Innes, SC, and Mark Shep, instructed by Terence Mathadoff appeared for Provan. Andrew Oosthuizen, instructed by the state attorney, appeared for the respondents.
Revenue collection ‘greatly improved’

THE SA revenue service (Sars) reported yesterday an increase in PAYE, VAT, income tax and customs tax yields over the past year after a successful campaign to improve revenue collection.

Service advisory board chairman Judge MM Corbett said recent improvements showed a 12% increase in registered tax-payers and an 8% decrease in the 2.6-million outstanding tax returns.

Corbett said the backlog of assessed returns had been reduced by a third and extra staff were employed between 4pm and 7pm to telephone and remind taxpayers who had not yet submitted their returns.

PAYE audits recovered R193m in tax payment or underpayment for the 1997 tax year. “The target for the recovery of PAYE resulting from these audits for the financial year ended March 31 1998 was set at R170m. Achieved recovery amounted to R119m — an increase of 87.29%,” Corbett said.

VAT audits yielded a 16% increase in revenue.

Corbett said income tax audits were not as successful and although the number of audits in the 1998 financial year increased by 9%, the actual value of the net results dropped by 3%.

The revenue service aimed for an increase of R150m in customs revenue to balance the neglect of the administration of customs during SA’s trade isolation apartheid years.

The British customs authorities are advising on rectifying the undervaluation of goods. A follow-up project called Project Prisma is improving times for bill-processing and targeting consignments for examination to detect falsely declared and smuggled goods. During the past few months customs has made eight drug seizures at Wits Post (an international post and parcel depot) and two at Johannesburg international airport.

To counter cross-border smuggling, Sars hopes to have customs staff at all land border posts.

Corbett said: “Improved efficiency and effectiveness in revenue collection will in due course benefit honest, compliant taxpayers by broadening the tax base and thus eventually lightening the load on these tax-payers. At the same time, tax-evaders and defaulters are becoming aware they had better comply.” — Sapa.
few applications?

It's hard to say exactly what the situation was in 1990, but it is clear that the UK economy was struggling in the early 1990s.

In the years following the 1990 recession, the government took steps to reduce the budget deficit and stimulate economic growth. This included cutting public sector spending, deregulating industries, and implementing tax reforms.

Despite these efforts, the economy remained sluggish, and unemployment continued to rise. In 1992, the UK was hit by a severe recession, which led to a significant increase in the budget deficit.

The government responded by implementing further measures to reduce spending and stimulate the economy. These included increasing interest rates, cutting government spending, and implementing tax reforms.

In the years that followed, the UK economy gradually improved, but it took several years for the budget deficit to be brought under control. The government continued to implement economic reforms, which helped to reduce the budget deficit and stimulate economic growth.

In conclusion, the situation in the UK in 1990 was challenging, with high unemployment and a large budget deficit. The government took steps to address these issues, and the economy gradually improved over the following years.
Cosatu calls for more tax from the rich

Reneé Grawitzk

The Congress of SA Trade Unions (Cosatu) yesterday adopted a comprehensive fiscal policy that calls for flexibility in the setting of the country’s budget deficit, and for increased tax revenue from companies and wealthy individuals during “periods of reconstruction.”

Delegates at the federation’s central committee meeting yesterday also resolved to call for the scrapping of SA’s foreign debt and to demand that government introduce the pay-as-you-go system in the public service pension fund. The introduction of this system, the federation argued, could free up billions which could be used to reduce the deficit.

Amid rising concern among delegates about the demutualisation of companies like Sanlam and Old Mutual, the meeting resolved to oppose demutualisation and to raise the matter within the African National Congress alliance.

Cosatu general secretary Mbazima Shilowa informed delegates that Sanlam had approached him yesterday to discuss the federation’s opposition to demutualisation and its fears that this would lead to capital flight.

SA Clothing and Textile Workers’ Union assistant general secretary Ebrahim Patel said public debate had had to take place on the matter with an evaluation of the benefits and costs of demutualisation.

To date, such a debate had not taken place as companies hoped that “on the back of a bribe” demutualisation would go through.
Katz suggests fuel levy as a provincial tax

Kevin O’Grady

TAXATION powers should be devolved to the provinces through a fuel levy rather than a surcharge on personal income tax, the Katz commission of inquiry into SA’s tax structure recommended yesterday.

This was in direct contrast to proposals tabled by the Financial and Fiscal Commission (FFC), which dismissed the fuel levy option as likely to give too low a yield in the long term. It argued strongly in favour of a personal income tax surcharge with tax room created for this at national level.

However, the Katz commission said a 5% personal income tax surcharge would roughly equal the total revenue take of the existing national fuel levy, which is expected to generate R14,4bn this fiscal year.

Another option was for provincial government surcharges to be placed on the national fuel levy, with the “obvious mobility” of vehicles acting as a check on excessive surcharges.

But neither an income tax surcharge nor a fuel levy were ideal short-term proposals and it would not be in the national interest for legislation regulating tax devolution to be prepared “with undue haste”, the commission said in its seventh interim report.

Despite the contention that tax devolution would prompt more fiscally responsible conduct and accountability in the provinces, “it is important to bear in mind that a contrary view is that accountability begins on the expenditure side. On the basis of this latter view, the necessity to implement tax devolution in haste is diminished”.

Preferable short-term options were a land tax — the subject of an upcoming commission report — and non-tax revenues such as user charges and fees which could be devolved immediately.

The commission said a lack of capacity in the SA revenue service (SARS) was central to its opposition to the FFC’s personal income tax proposals, while the creation of provincial tax collection capacity was “strongly opposed”. Even though it was a highly visible tax, it is outweighed by the disadvantage of imposing a burden on the administrative capacity of the SARS. It also does not result in accountability in the provinces.

Another drawback was that richer provinces would derive more benefit from the surcharge option, creating the need for a system of equalising grants to the benefit of poorer provinces. In this case, “one could as well return to the revenue-sharing option that could have been instituted at the beginning of this tax assignment exercise”.

On the other hand, the commission was “comfortable that the fuel levy can probably be implemented with a minimum of enforcement and compliance costs on the part of SARS”. It could be collected by the provinces at the point of sale with “relative ease”.

However, the commission expressed a “major concern” about the possible avoidance of surcharges in certain provinces by people filling their vehicles outside those provinces.

The commission suggested that interprovincial competition to attract customers would obviate the need to determine maximum and minimum rates for a fuel levy.

It also recommended that illuminating paraffin be excluded from the levy and that tax be levied at the point of final retail sale.

The commission’s cautious approach is likely to be welcomed by the provinces, the poorest of which have been sceptical about the likely benefits, and have said they will fight moves to devolve taxation powers.

Continued on Page 2
Commission in no rush on taxes

LYNDA Loxton
PARLIAMENTARY CORRESPONDENT

Cape Town — The Katz commission yesterday recommended a cautious approach to granting provinces taxation powers, possibly starting with a land tax or a fuel levy.

In its seventh interim report, the commission said it was “not in the national interest” for laws allowing provinces to levy taxes to be “prepared with undue haste”.

This was because of the limited capacity of the South African Revenue Service and provinces to collect taxes efficiently or effectively, and the risks in weakening central government’s control over tax policy and fiscal stabilisation.

A gradual transformation into a system of tax devolution was preferable, the commission said.

Without wishing to prejudice the outcome of its report on land taxes, it said the “imposition of a land tax may be a first step”.

It examined the available options and said a surcharge on personal income tax would not only be unconstitutional but would be difficult to administer. It would also give richer provinces an unfair advantage over poorer provinces.

A surcharge on the fuel levy had greater possibilities, but only in the medium term. Problems included the likelihood of cross-border shopping to avoid high levies in some provinces, which could create economic distortions and make the system difficult to police.

The fuel levy raises about R14.4 billion a year, or 15.9 percent of total grants to the provinces by the national government.

The commission advised against granting the whole levy to the provinces and said their levies or rates should be capped to ensure that the government met its aim of ensuring the total tax burden was not more than 25 percent of gross domestic product.
MEC's welcome cautious report on provincial tax
Efficiency at SARS ‘will take years’

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The office of the auditor-general warned yesterday that it would still take several years to ensure greater efficiency and effectiveness in the South African Revenue Service (SARS).

In its report on the service’s accounts for 1996-97, the office was particularly critical about the “totally inadequate” collection of customs and excise duties and the unauthorised expenditure of R9 million because of the failure to comply with Tender Board procedures.

It said the fact SARS was granted autonomy last October was expected to “solve many of its historical problems, which include inadequate and inappropriate staffing levels and infrastructure. “As it will take a number of years to design and implement effective systems and develop expertise, several of the key findings set out in this report will still be applicable for a number of years,” the report said.

Some corrective steps had already been taken, but the office warned that it was “extremely important that continuing efforts be made and pro-active steps taken to solve all the department’s major shortcomings”.

It found that SARS had been able to increase revenue collection by about R20 billion to R147 billion in 1996-97, representing an increase of 15.57 percent.

But staff shortages continued to dog the processing of assessments, which was described as “poor and ... based on incomplete ... unreliable information”.

Controls to ensure everyone was registered as a taxpayer were “not satisfactory” and it was impossible to determine if all eligible people had been registered.

Employees’ tax reconciliations were not submitted on time and were not checked properly. Inspections were not properly planned, executed or reported on.

Debt collection was also inadequate, as shown in the “significant increase” in outstanding taxes compared with the previous year. Individuals showed an increase of 28.5 percent and companies 21 percent.

SARS had been unable to cope with the increase in the number of tax returns by companies, and the granting of deductions and allowances had been irregular. The Sandton office continued to be particularly weak.

The newly established tax on the retirement fund industry had revealed several shortcomings, possibly because of the short time frame that was allowed for its implementation.
SARS clamping down lowers default rate

Greta Steyn

THE SA Revenue Service (SARS) has evaluated more than 550,000 businesses and individuals from October last year, when its tax clampdown began, to March this year.

It said yesterday most evaluations had been for income tax payments, of which 26% were found to be in default. On value added tax (VAT) and pay-as-you-earn evaluations, the default percentage had also exceeded 20%.

The default rate has come down since the clampdown started, when it was closer to 30%.

The SARS's drive to beef up tax collection is paying big dividends this fiscal year, causing economists to speculate that revenue could again exceed budgeted targets despite weak economic growth.

Usually weak growth in gross domestic product (GDP) — likely to be about two percentage points below government's budgeted 3% — results in a lower tax take. But, despite the sluggish economy, VAT and income tax collections are doing well, probably reflecting the SARS's improved capacity now that it is more autonomous.

An SARS spokesman yesterday described tax collection so far this fiscal year as encouraging, but said it was too early to predict that there would be a revenue overrun for the year. He said measures had been taken to improve VAT and income tax collection, but further analysis would be needed to say with certainty what the reasons for the increased collections were.

Latest exchequer figures showed that revenue was about 10% higher after the first four months of the fiscal year. This compares with a budgeted increase of 9.3% for the year as a whole.

Year on year, revenue in April rose 15% — the fourth consecutive month of double digit growth. JP Morgan economist Peter Worthington said SA once again seemed set for an overrun in revenue which would offset expenditure.

Continued on Page 2

SARS

Continued from Page 1

ture slippage.

EquiSec economist Dawie Roode predicted a sizeable revenue overrun of about R3bn for the fiscal year.

Another economist said one of the spin-offs of healthy tax collection in the face of weak GDP was that SA's effective tax burden would rise.

SA's budgeted tax burden is already higher than the target of 25% of GDP in the government's growth, employment and redistribution strategy. Finance Minister Trevor Manuel budgeted for a tax ratio of 26.5% of GDP this fiscal year, but the eventual outcome was likely to be higher.

On the spending side, economists are also predicting an overrun, but not enough to do serious damage to the deficit target of 3.5% of GDP.

Spending for the first four months of the fiscal year was up 8.5%, against a budgeted rise for the full year of 6.4%.
clampdown

The government is set to launch a crackdown on gangsters and criminals, with a focus on arresting people involved in financial crimes and drug trafficking. The move comes as a response to public pressure and as a way to increase the safety of the citizens. The crackdown will involve a combination of law enforcement actions and community outreach efforts to deter criminal activity.

The government has also announced plans to increase the number of police officers and invest in technology to enhance their effectiveness. Enforcement agencies will be directed to focus on high-profile cases, and there will be increased surveillance of key areas associated with criminal activity.

The crackdown is expected to have a significant impact on the criminal underworld, with many suspected gangsters and drug dealers being arrested. The government has also promised to provide support for victims of crimes and to enhance the efficiency of the justice system.

The clampdown has been welcomed by many, who hope to see a reduction in the prevalence of gangsterism and a safer environment for all.
NGOs seeking tax exemptions

David Greybe

CAPE TOWN — Parliament pledged yesterday to speed up the process to determine whether nongovernmental organisations (NGOs) should qualify for more tax breaks.

This followed a warning by NGOs that foreign funding was drying up and that thousands would fold unless government legislated for increased tax exemption and deductibility before next year’s elections, to encourage greater corporate and individual donations.

The warning came at a joint workshop organised by the finance and welfare portfolio committees and the SA National NGO Coalition — which represents more than 4 000 NGOs.

Parliamentary welfare committee chairman Cas Saloojee said he was in favour of public hearings before the end of the year, even though Parliament would be in recess, on whether NGOs should get bigger tax breaks.

Saloojee said he would consult the chairman of the finance committee and the reconstruction and development programme committee about the three committees holding a joint public hearing.

The NGO coalition has, since the 1994 election, lobbied government and the Katz Commission of inquiry into SA’s tax structure to broaden the definition of NGOs which qualify for tax exemption and deductibility and to increase the tax deductible contribution for companies and individuals.

The decision to seek a public hearing this year followed the announcement yesterday by the finance department’s director for tax policy, Martin Grote, that the Katz report on the matter would be released by the end of October.

Alison Tilley, Black Sash advocacy co-ordinator, blamed government, and the finance department in particular, for the long delay in finalising the matter of whether NGOs should get more tax breaks in line with international trends.

Tilley said the reason government lacked the political will on the issue was probably linked to the fact that NGOs were often critical of government policy and its administration.

She pleaded, “in the name of social stability”, for government to resolve the matter as soon as possible one way or another — even if it meant no new tax breaks for NGOs — so the organisations could plan accordingly.

However, Tilley warned the government would be unable “to fill the gaps” left by NGOs which folded because of a decision not to award more tax cuts.

The NGO coalition argued that — based on international research and experience — a more favourable tax regime for NGOs would, “far from reducing the fiscus, increase the capacity of the state and reduce demands on the fiscus”.

For instance, a recent survey in India had shown that corporate contributions to eligible Indian projects would have been 64% less without deductions.

In the US studies had shown that contributions were usually four times greater than the tax lost, the coalition said.

The coalition has proposed that the tax deductible contribution be increased from 5% for corporates and 2% for individuals to 10% across the board.
Dramatic increase in number of tax payers

DAN SIMON

A DRAMATIC turnaround has been achieved in the collection of outstanding and undeclared taxes and the identifying of tax defaulters since the taxman implemented his TAX-Base broadening initiative last October.

Contributing to the success of the initiative is the tax department’s new-found freedom in hiring highly skilled individuals at market related salaries since it was granted autonomy from the provisions of the Public Service Commission a year ago.

According to the office of the SA Revenue Service commissioner, Trevor van Heerden, the number of people registered as taxpayers since October last year has increased by about 12.4% and the number of tax defaulters whose returns are outstanding has decreased by 8.8%.

The number of unassessed income tax returns in SARS offices has also been reduced by 33.3% during the same period.

SARS spokesperson Christo Henning said audits of PAYE (Pay As YouEarn) and VAT (Value Add Tax) have also led to substantial increases in tax recoveries while several projects to improve customs and excise systems were underway.

To this end, collections in both these areas had already shown increased revenues.

Although it would take years to ensure greater efficiency and effectiveness within the SARS, tax officials were nonetheless encouraged by the successes achieved to date, said Henning.

Impacting significantly on the success of improving the country’s tax collection base was the fact that SARS is now an autonomous arm of the state outside the Public Service Commission. This allowed SARS to appoint highly trained professionals at competitive market-related salaries.

Before October 1997, its work was frequently hampered by the Public Service Commission’s provisions relating to appointments and remuneration packages.

“But this was bridged by the SARS Autonomy Act of October 1997 when SARS was granted autonomy. Since then we have gone some way to restructuring salaries and addressing staff shortages. We now have a mandate to appoint and remunerate staff,” said Henning.

He said that over the first six months of the initiative (October 1, 1997 to March 31, 1998) the SARS had evaluated more than 550,000 businesses and individuals in terms of income tax, VAT and PAYE. "During this period, 430,000 entities were evaluated for income tax and of this figure, 113,608 were found to be not registered, representing a default percentage of 26%. We also evaluated for VAT and found that of the 87,583 entities evaluated, 18,447 were not registered representing a default percentage of 21%."  

Henning said of the more than 70,000 businesses and individuals evaluated for PAYE, more than 16,000 were found not to be regis-
State saves billions with clampdown

ANDRE KOOPMAN
PARLIAMENTARY BUREAU

THE beefing up of the tax collection was paying dividends in that an unexpected R3 billion had been collected this fiscal year due to improvements in the collection of VAT and income tax.

This was said by Ahmed Ally, Inkatha Freedom Party MP, yesterday in a draft resolution before the national assembly. Ally said the SA Revenue Service had evaluated more than 550 000 businesses and individuals since October last year resulting in a decrease in the default rate from 30% to 26%.

Finance Minister Trevor Manuel said he was "pleased" by these developments brought about by improving the skills base of a now autonomous revenue service.

There has been a "beefing up overall in terms of style" and as part of tax base broadening by the the SARS. An indication of this was that the SARS now sends out people to knock on doors of businesses to check on registration and the status of their tax payments.

Business people were called at home after 4pm in efforts to improve tax collection.

Manuel said while the revenue service was not trying to impose more tax, "we are trying to improve on professionalism and collect what really is due."

"It is shaped by administrative improvement and this will place us in better position to look at tax policy in future," he said. "It is a situation of continuous improvement. Figures for the first four months of the fiscal year have shown that our revenue collection has improved by 10% over last year and expenditure requests by eight percent."

Manuel spokesman Logan Wort said while the department had expected to do well due to the improvements in revenue collection, "they did better than expected."

He said the finance ministry and the department were intent on collecting revenue from previously untapped sources. One such measure was that with the increase in the amount allowed for off-shore investments from R200 000 to R400 000, those wishing to invest off-shore first had to have a clearance certificate proving that they had paid all their taxes before they could invest off-shore.
Illicit traders SARS to act on Real power is economic

Glossary: Better price at which the money is bought. Sadder piece of which the

SARS: Special Anti-Robbery Squad. The

By Shadreck Mashabela

Illicit Traders

SARS to act on Real power is economic
Improved collection puts revenue service on track

POLITICS AND PARLIAMENT
More muscle for the tax collector.

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Note: The actual tax liability will vary based on the specific tax code and individual circumstances.
Fuel fund cheated on tax — NIA

Wyndham Hartley

CAPE TOWN — National Intelligence Agency (NIA) operatives have claimed in a secret report that the Strategic Fuel Fund (SFF) illegally failed to pay regional services council levies and income tax in the late 1980s and early 1990s amounting to R1.4bn, and have called for a full government inquiry.

The report was drawn up by the controversial special NIA unit, Thabo Enterprises, which was set up to track down millions of rand which clandestinely left the country in the dying days of apartheid. It is understood it is a "source" report and unconfirmed.

It contains legal opinion rejecting claims that the SFF, established as the secret oil procurement agency under apartheid, was exempt from the levies, and that state-owned companies were not liable to pay income tax.

The report says the SFF owes millions to the Highveld, Cape Metropoli-
tan, Saldhana and Durban regional councils — areas where there are oil storage facilities. Outstanding taxes were estimated at R900m.

Christo Henning of the SA revenue service said the service was "aware of the dispute relating to the payment of regional services council levies. The matter was under investigation."

"It is agreed that if an organisation is owned by the state it is not automat-
ically exempt from the payment of in-
come tax. The act does, however, per-
mit the commissioner to grant exemp-
tion in certain circumstances."

The NIA report says Highveld alone is owed about R50m in accumulated turnover levies plus interest and val-
ue-added tax. It says it appears the SFF had been "fraudulently" avoiding paying income tax. It asserts that the SFF is a section 21 company required to pay tax before declaring a dividend.

A Pretoria advocate says in the report that exemptions are for state bod-
ies "wholly internal; the SFF was trading for a profit with private entities such as Sapref and Natref (oil refineries) and therefore not exempted."

Legal opinion in the report declares that the SFF, although a section 21 company, "clearly did not comply with the requirements of the Companies Act. If one assumes that the SFF indeed paid to the government, as its sole shareholder, between R200m and R300m a year in the form of a dividend, this will be a contravention of the act."

Responding to the argument that the SFF was wholly state-owned and that the money therefore accrued to the state, the report said the fund was competing as a commercial venture, was registered under SA company law, had a virtual monopoly and "profits have been made but they were designated as surpluses and deemed not taxable. Although state-owned, the company is still on such commercialised companies to be paying in-
come tax that must go to state coffers prior to a declaration of dividend or so-called surpluses," the report says.

The NIA and the SFF could not be reached for comment yesterday.

Members of Thabo Enterprises re-
cently leaked information to Demo-
ocratic Party leader Tony Leon which suggested that Thabo Enterprises was riddled with corruption.

Sibiya quits post, citing frustration at 'dirty tactics'

CAPE TOWN — Gordon Sibiya, an outspoken campaigner against what he believed were wrongful practices in para-
attalas, has resigned as minerals and energy deputy minister, citing his desire to pursue interests in the private sector.

Sibiya said yesterday he had "had enough" of the resistance to change he experienced in the energy sector.

In his letter of resignation addressed to the president in last week, Sibiya said that in the re-
structuring of state assets, those who wanted to keep their jobs would resist change and the whole process would be long and painful. Dirty tactics would be employed to prevent government from achieving its goals.

"I have been fighting wars that should be fought by bigger people," Sibiya, who was also director of energy, said yesterday. "I am sick of the personal mudslinging and want my life back. I am intellectually and spiritually weary and do not want to have to face up to any more disputes alone."

Sibiya, who joined the department last March, criticised the Central En-
ergy Fund's appointment of Liberian ex-energy deputy minister as pectoral general to the former CEF chairman Don Mkhwanazi on a R3m-a-year salary.

His latest skirmish was with the council for Nuclear Safety over pro-
posals to allow the mining industry to provide its own radiation protection facilities. Sibiya's detractors have accused him of trying to further the interests of the mining industry because he was a non-executive director of Randfontein Estates, a claim he has hotly denied.

Sibiya oversaw the drafting of the 10-year white paper and brought the Nuclear Energy Bill, the Nuclear Regu-

Sibiya has a doctorate in nuclear reactor physics from a Ger-
man university as well as a master's degree in electrical engineering from Nottingham University in the UK.
The property tax must benefit all
In the midst of democracy, government needs to look more closely at tax benefits for companies.
Tax evasion costing SA R100m a month

John Dlodlu

The fiscus is losing more than R100m a month through tax evasion by businesses and smuggling, prompting government to take counteractive measures, the SA revenue service says.

Tax evasion through fictitious exports and smuggling inspired moves by Pretoria to charge value-added tax (VAT) on imports from SA’s partners in the Southern African Customs Union, it said. Namibian businesses have said that the tax is discriminatory and will disrupt cross-border trade in the five-nation subregion.

Though VAT was payable on goods imported into SA, VAT on goods from SA’s partners in the customs union (Botswana, Lesotho, Namibia and Swaziland) was previously not collected at the time of importation, creating an opportunity for evasion, particularly in livestock, meat and textiles, the revenue service said.

VAT collection at the borders will limit this evasion, just as VAT collected at harbours and airports does, it said.

Plans to charge VAT on imports from Botswana and Namibia have been put on hold pending talks. The revenue service was to send a delegation to Namibia tomorrow to discuss the plans, it said.
New, tighter controls at borders

Plans to charge value-added tax are among ideas to help stamp out fraud, writes Christo Henning

The SA Revenue Service (SARS) has embarked on a number of initiatives to improve the services it offers to the taxpayer and to clamp down on fraud. It has the unenviable task of ensuring that it collects the revenue government needs to implement its developmental programmes. It is also responsible for controlling smuggling and illegal imports.

As a result of the lack of control on the Botswana, Lesotho, Namibia and Swaziland (BLNS) borders, the SA is losing enormous amounts of value-added tax (VAT) on its exports and, to a lesser extent, on illegal imports.

Legitimate traders are also being adversely affected, to such an extent that they have gone out of business, the 100-year-old tobacco trader, L. Susman and Company, being but one example.

In just two cases now under investigation, losses of R1,500 and R70,000 have been identified. The removal of illicit tobacco products from the export incentive scheme is a further indication of the magnitude of the problem.

The BLNS tax authorities collect their sales taxes on their borders and have long criticised SA for not doing the same. They have been aware of SA's intention to establish controls on the borders since the announcement earlier this year. In fact, the subject has been on the SA Customs Union agenda since 1988.

At a meeting in November last year, member states were informed that VAT collections on the BLNS borders would begin on April 1, or shortly thereafter.

On August 6, the BLNS tax authorities were given formal notice of the new measures of representatives from all four countries attended a presentation in August and asked for presentations on their business sectors which were seen as being illegal.

In the past few months, the extensive discussions were held with SA's business and transport sectors to ensure the new measures would create the least disruption. Recently, a second round of meetings took place in each of the BLNS countries with both senior customs officials and business people.

The envisaged measures are as follows:

- The levying of VAT at the border posts on imports from the BLNS countries. This is not a new imposition of VAT, it is merely moving the collection point;
- Improved controls over zero-rated exports by South African vendors who consign or deliver goods to foreign recipients;
- The setting up of a mechanism to refund VAT which has been charged at the standard rate to a BLNS exporter or resident who has taken delivery of goods in SA and subsequently exported them.

The main change is that SA vendors may not zero-rate or refund VAT on exports where the goods are delivered to the purchaser in SA, a practice which has created the opportunity for fraud.

However, problems relating to the situation include:

- Postponement of the implementation of BLNS border controls and the introduction of the new VAT Incentive Scheme has created a window of opportunity for fraud. In one case, an order had been placed for 500 tons of sugar which was cancelled when the new measures were announced, and reinstated when the postponement was announced.

This sugar is destined, according to the documents, for Swaziland, a country that relies largely on sugar exports. Lesotho traders have strongly criticised the postponement.

Although the 300 customs officers who have been posted to the BLNS borders are being used to examine exports in the interim, they are not being used to the maximum extent and will soon become demotivated.

- VAT auditors find their hands tied in their attempts to stamp out fictitious exports that are costing upwards of R100mn a month; and

- Textiles, livestock, meat, motor vehicles and other goods are entering the SA market free of VAT and disrupting legitimate traders.

In the recent meetings on the issue, Botswana raised concerns that customs officials from SARS will not be present at all border posts.

Firstly, SA does not have the resources at present to have a customs presence at all border posts. However, four specific posts, where the bulk of international traffic occurs, have been designated as commercial border posts.

Secondly, to address this problem a concession system has been introduced, to accommodate BLNS traders adversely affected by the limited "designated commercial ports", which allows a BLNS trader to use a non-designated port.

Concerns have also been expressed relating to the limited hours for commercial goods.

In discussions held with customs officials and traders of each BLNS country, new operating hours have been agreed.

Objectives to the requirement that payment of VAT on imports must be in rupees were also raised. BLNS traders have been advised that where they provide security, they may make use of the customs depository system and that bank guaranteed cheques drawn on BLNS banks will be accepted. Also imports will usually be made on behalf of the purchaser, thus enabling him to claim the VAT at the input tax.

Other problems resolved were:

- Payment of VAT: concern was expressed that trucks would be refused entry where they did not have the money to pay the VAT available. During the introduction phase, trucks will not be refused entry merely because they do not have the money available. In such cases, they will be required to pay the VAT to any Receiver's office in SA within 14 days.
- Delays of vehicles at borders: An undertaking has been given that the truck will be delayed for more than three hours and consideration is being given to improving infrastructure at border posts.
- Cash flows: Traders were worried about cash flow problems as they would have to wait for the refund. Most BLNS traders have credit facilities with their SA suppliers and will receive VAT refunds of up to R5 000 at the time of import, or alternatively within 30 days of the claim being lodged.

- Registration as vendors: Although cartage international contractors objected to the requirement that they register as VAT vendors in SA, it is a necessary and legal control and is to their advantage as international transport is zero-rated.

- Valuations: The parties were informed that, except where based on declarations of goods were detected, declared values would be accepted; and

- Importation of livestock: Concerns were raised about the sale of livestock in SA at zero rate, while imports will be subject to VAT at the standard rate.

Since April, the zero rate has been applied to livestock sales between registered VAT vendors in SA in an attempt to prevent VAT fraud relating to fictitious exports and the collection of VAT by Namibian farmers who register as vendors but fail to pay over such VAT. Once effective border control becomes operational we will revert to the standard rate.

The recent deaths and, subsequent discovery of 18 bodies in Botswana is a harsh and cruel reminder of the tragic practices of cartage contractors under the guise of legitimate business.

SA also cannot allow VAT fraud to go unchallenged. The SA Revenue Service will do everything possible to ensure that problems experienced by our neighbours, once this scheme is implemented, will be addressed speedily and sympathetically.

- Dealing is the SA Revenue Service's spokesman.
Old hands get tough on tax cheats

Record sentence as retired police track missing millions

KEN VERNON

A group of retired police officers hired by the Receiver of Revenue has netted R442-million in unpaid taxes in its first months of operation and initiated prosecutions against dozens of alleged evaders.

In a record sentence for a commercial crime, a meat importer they tracked down was given 25 years in jail on a R520 000 fine for evading import duties.

The businessman, Harriet Pahnik, of Cape Town, paid the fine and was ordered to pay back R130-million in customs duties after he manipulated import documents.

Pilot teams operating in Pretoria and Cape Town for the past six months have 28 cases before the courts and another 20 under investigation.

Teams are planned for Durban and Port Elizabeth.

Those convicted face sentences of up to two years in jail and fines of R1 000 per count of tax evasion, in addition to possible sentences for fraud.

The Receiver can also impose fines of up to 100 percent of the tax evaded.

Teressa Kannemeyer, an advocate working in Pretoria, said her team had more than 30 cases under investigation, including one in which VAT of R468-million was allegedly evaded. In that case, a u-bend dealer from Orkney, Anthony Fusion, was investigated.

People tracked down by Cape Town's team and charged by the police include an estate agent whose business allegedly owed R442 000 in tax, a builder who allegedly owed R200 000, a hardware dealer who allegedly owed R125 000 and an individual who owed R245 000 in his private capacity.

The national head of the unit, Roel Beukan, said: "These are not soft targets. They are hard cases who think because they have got away with evasion before, they can do it forever. But they will be caught."

He said the teams had already had spectacular success, recovering R442-million in lost taxes.

"That represents the money that was initially lost to the fiscus, not counting any additional penalties that might have been levied," he said.

Criminal charges were investigated in most cases, even if the tax and penalties were paid.

The past session of Parliament heard that an investigation had found that R30-billion a year was being lost to fraud and evasion.

Almost 25 percent of eligible taxpayers were not registered, the investigation found.

The head of the Cape Town unit, Nick Snyman, a retired general in the commercial branch with 35 years of police work behind him, said the successful case against Pahnik was just the beginning.

"Our team has more than 100 years of policing experience. We are old hands."

He said a case such as Pahnik's would have taken five years to get to court, whereas his team had taken less than six months to get a conviction.

Snyman said: "Because we are able to concentrate on just one case at a time, throwing all our resources into it, we can crack it in a fraction of the time it normally takes. That makes justice more visible and takes the burden off the overloaded police."

He said his team did not have powers of arrest. "We fully investigate and demand cases before handing over a complete dossier to police to make an arrest," he said.

He said a key member of the team was former public prosecutor Koos Smit, who ensured investigations were watertight before they got to court.

He said his team acted initially on information supplied by regular tax investigators, then took over and ran with the case.

"This job has given us a new lease on life," said O'Mara Davis, a former police major.

"Here we are able to prioritise high-profile cases, whereas in the police we had to deal with each case as it came and give them equal attention."
Katz commission advocates land tax

THE SA government should consider introducing a land tax so rural property is taxed in the same way as that in urban areas, the Katz commission, studying SA's tax structures, said on Friday.

The commission, named after its chairman Michael Katz, has been investigating the possibility of a land tax since 1995 and set up a subcommittee to study the issue.

"The subcommittee suggested national framework legislation for the regulation of the required equitable administration of urban and rural rates across SA," the commission said in its interim report.

"The commission fully subscribes to this and endorses the need for clear framework legislation which will enable the constitutional empowerment of local government to impose tax on property in a coherent fashion, wherever it may be situated."

The commission said the levying of rates on land, whether urban or rural, for local authority expenditure was not a revolutionary departure from accepted practice, adding that local authorities were best able to impose such a tax. The commission said that in drafting the legislation, the tax should be based upon property valued at use-value rather than market-value, although local authorities which could justify the use of market value should be allowed to do so.

The commission's subcommittee said the purpose of any rural land tax should be to provide additional services for that area's communities. — Reuter.
Farmers, hoteliers condemn land tax

Louise Cook (2A0) 02 912 98

The farming and hotel industries condemned a Katz commission subcommittee recommendation yesterday that government seriously consider imposing a land tax in rural areas.

SA Property Owners’ Association CEO Brian Kirchmann said the fact that no fixed rate was recommended nationally was “dangerous” and the many lodges which are trying to attract tourists would suffer an additional burden as a result of the proposed tax. “There is no business plan to indicate where the additional money will go.”

The SA Agricultural Union, backed by the Free State Agricultural Union, said the recommendations implied an increased tax burden.

The commission recommended that a land tax be based on the productive rather than the market value of the property, saying that the values should be reviewed every five years.

The commission has been probing the possible introduction of a land tax since 1995 as part of a wider probe into a package of tax reforms. The proposed land tax would be charged at local government level, similar to taxes charged by the defunct council of the former Cape Province in the 1960s.

The tax was aimed at providing local councils with income for job creation and projects linked to developing their areas.

The commission must create national guidelines to ensure the local councils did not deviate dramatically in imposing the tax.

However, the report failed to lay down a uniform rate at which the tax should be charged, leaving it to the discretion of individual local councils who may also decide not to impose the tax if they so wished.

Land and Agriculture Minister Derek Hanekom has so far favoured a rate not exceeding 2% of the value of the land. The proposed tax would be an additional tax over and above levies payable to local district councils.

The farmer and hotel sectors have consistently warned about the cost of collecting the tax as well as arguing that it would put further strain on the operational costs of businesses in the sectors. Earlier this year, the SA Agricultural Union said in some areas on the West Rand, local councils had already started charging the tax in a disguised form.

Gauteng development planning and local government MEC Sicelo Shiceka said last year a land tax “had a lot of potential” and could be used to boost salaries of underpaid local councillors. It would help stop speculation in property and ensure land was used productively.
Govt wants to lighten load for lower income earners

Greta Steyn (32d)

GOVERNMENT wanted to continue lightening the tax burden on lower income earners and relieving fiscal drag. Finance Minister Trevor Manuel said yesterday.

Further tax relief would be possible if tax was collected more efficiently, he said at the opening of the SA Revenue Service’s (SARS) building in Pretoria.

“We signalled in the last budget that we want to lighten the load for lower income earners. We want to accelerate that process. To do that we need an efficient, effective tax collection system.”

This would enable government to ensure that tax policy was in line with broader socioeconomic policy. SARS had already undergone a “quiet revolution” since it began beefing up tax collection. Government would not be able to make any major changes to taxation policy and tax rates until it had been established that SARS could respond effectively to new policy measures. While SARS had already made huge strides in improving tax collection, “we want a system that responds better”, Manuel said.

He indicated that the 35-year-old In-

come Tax Act would be overhauled because it had become “a patchwork” and that attention would be paid to the loopholes and to the grey area between tax evasion and tax avoidance.

Deputy Finance Minister Gill Marcus said a total rewrite of the act could take more than a decade. SA needed better legislation sooner than that and efforts would be concentrated on making the act far more accessible. Dividend taxation, for example, was dealt with in about 30 different places in the present legislation.

One of the spin-offs of SARS’s improved collections is that SA’s tax-to-gross domestic product ratio, at about 27%, has failed to drop in line with the targets set in the growth, employment and redistribution (Gear) strategy. Manuel, who failed to reconfirm Gear’s tax target last month when he presented the adjustment budget to Parliament, unequivocally committed himself to the figure yesterday. “The 25% target (of tax to GDP) — we’ll get there.”

He also described as “ludicrous” opposition politicians’ claims that SA was overtaxed, saying that by international standards, SA’s tax burden was not high.
TAXATION
Improved tax collection puts a dent in government’s deficit

Budget 1999
Tax expert ‘bowled over’ by relief

David McKay
and Madeleine van Niekerk

THE share values of SA gold mining companies will be boosted by an average of 5% through tax relief announced in the budget yesterday.

BOE Securities analyst Gerard Kemp said that on a net present value basis — the formula used to calculate the value of a company’s future dividends in current money — the AngloGold share price should gain about R14.

The move also makes SA gold shares more attractive to offshore investors as there will be a greater discount between the actual share value and its value on a net present value basis.

Gold Fields’ share price would improve R2 on that basis, as would those of Western Areas (up 6%), Randfontein Estates (5%) and Durban Roodpoort Deep (2%).

Kemp said gold miners which mined higher grades would benefit most as they generally paid more tax.

AngloGold finance director Jonathan Best said the group was pleased with the tax relief. “This adjustment will have a direct and positive effect on AngloGold as the mining tax formula will be changed to give effect to the reduction in the tax rate, resulting in further reductions in non-mining tax.”

Tax experts generally were pleasantly surprised by the reduction in the company tax rate from 35% to 30%, which follows the Katz commission recommendation two years ago that government follow international trends.

The tax applicable to foreign companies with branches in SA has been cut also from 40% to 35%. “Foreign investors will be very pleased and it augurs well for foreign investor confidence,” said Michael Honiball, tax partner at Arthur Andersen.

Ernest Mazzensky, senior tax partner at Grant Thornton Kessel Feinstein, said the cuts were a “bolt from the blue”, “enormously courageous” on government’s part and a commendable step, especially in an election year.

“I am totally bowled over.”

The move recognises that many countries were reducing their company tax rates, including almost all European states and most of those competing with SA to attract foreign investment, and SA had to keep pace.

Given the retention of secondary tax on companies at 12.5%, the total tax paid on R1 of income distributed by a company is now 37.77% compared with 42.22% under the old dispensation. Thus 30% tax is payable on each rand retained in the company, and 47.77% on each rand distributed.

Honiball said following the international tax trends, transfer pricing mechanisms would have to be scrutinised also. SA has had transfer pricing legislation since July 1995, but he said it had never been adequately enforced until now.
Tax reforms aim to lighten workers' load.
SA is on the cutting edge of world budget reform, says minister

Marcus lauds tax efficiency

VERA VON LIERS

Cape Town — Efficiency gains at the South African Revenue Service enabled the government to announce significant tax cuts for companies and individuals in the 1999-2000 budget, Gill Marcus, the deputy minister of finance, said yesterday.

Speaking at a post-Budget seminar hosted by KMMT Brey Chartered Accountants, Marcus said the government had begun to close the gaps and loopholes in the tax system.

She said: "We are nowhere near where we need to be but we have turned the corner and that has enabled us to take the measures seen in the Budget."

The cut in corporate tax from 35 percent to 30 percent and tax cuts for lower- and middle-income taxpayers earning up to R70,000 were an expression of confidence in the country.

But low tax morality had to be tackled. "South Africa needs ... a partnership on tax (between government and taxpayers)."

"We have made a good start on that."

Speaking more broadly on budget reform, Marcus said South Africa had moved to "the cutting edge" of change and was initiating many changes that countries elsewhere were still grappling with.

"The world is looking on with great interest (at our innovations) because they have not found solutions."

The national expenditure survey, which was released for the first time this year together with the Budget speech and Budget Review, was a key document because it represented an accountability tool.

The survey gives an indication of what national departments are doing with money allocated and results expected from departments.

Marcus said the overall challenge ahead for the government was to implement the body of legislation and policies formulated over the past five years and to expand the economy with skills and jobs.

Among the most serious problems was the cost of personnel spending in the Budget (such as civil service spending) and the very low levels of savings in the economy.

Savings levels account for less than 15 percent of gross domestic product.
Tax relief to trickle down

Belinda Beresford

The rich man in his castle and the poor man at the gate should each in their own degree be feeling at least content with the personal implications of the latest government budget.

Minister of Finance Trevor Manuel has continued the government’s intention of redistributing income by relieving the direct tax burden on lower-income earners. Happily for wealthier South Africans, the effects should trickle up, reducing income tax paid by all but the very wealthiest of individuals.

The tax threshold has been raised in tandem with estimated inflation to R19 526 for people younger than 65, while for those older than 65 the threshold is R33 717.

The tax brackets have been restructured for people earning between R33 001 and R50 000 the marginal rate is 30%. Between R50 001 and R60 000 the marginal rate is 36%, while it is 49% for income between R60 001 and R70 000.

Individuals earning between R70 000 and R120 000 pay marginal tax rates of 44%. The marginal rate remains at 45% for those earning more than R120 001.

The government estimates that 6.6% of taxpayers fall into this top bracket, providing just less than 46% of the total tax burden and gaining 17.5% of the tax relief. Slightly more than three-quarters of taxpayers earn less than R60 000, and provide 16% of the tax revenue.

Individual taxes contributed little more than 42% of the government’s total tax revenue for the 1998/1999 financial year, compared to just under 33% for 1984/1985. The proportions of direct taxes (such as income taxes) and indirect taxes (such as value-added tax or general sales tax) have remained relatively stable.

One of the reasons for the rise in individuals’ contributions to the government’s coffers has been the success of the South African Revenue Service in collecting taxes.

For the 1998/1999 financial year the revenue service is expected to collect R173.9-billion - more than R2 billion higher than the target it was set in last year’s budget. This is good news for registered and up-to-date taxpayers, not so good for those still evading their tax responsibilities: new tax payers mean the burden is spread more widely, and the government can move further in reducing tax burdens.

For such high net worth individuals who’ve exceeded their R400 000 limit for (legal) overseas investments, there was disappointment in that exchange controls were not relaxed further. However, in his speech Manuel said the government expected “to be in a position to announce further relaxation in exchange controls later this year”. He also said that the government expected interest rates to come down further.

The budget was generally greeted with satisfaction by the financial services industry, which had anticipated more aggressive action on a number of fronts including fringe benefits and taxation of capital gains.

Financial services company Citadell, for example, said it was notable that there had been no increase in taxes on pension funds. However, this could be because the government was waiting to take a more holistic overhaul of the taxation system, rather than a permanent decision not to raise such taxes.

Certainly Gisselle Gould of the Institute of Retirement Funds said her organisation had “appreciated” the budget — especially since tax relief meant people would have more money to spend, or invest in their retirement funds.

However, the budget is not likely to have much effect on people dependent on a state old-age pension who will only get a 4% rise or R20.

Deloitte & Touche manager Jaco La Grange said the budget was “not surprising or onerous at the lower end, a very good budget for the wealthier”. According to his firm’s calculations, a two child family with an income of R30 000 per annum would be about 0.6% better off in real terms, while a family on R250 000 a year would gain about 0.1%.

However, La Grange said Deloitte & Touche had noticed that the revenue service was becoming more aggressive in cracking down on salary structuring and tax reduction schemes. Even without legislative changes, the revenue service “already has all the tools to investigate or look at these things”, he said.

La Grange also pointed out that there could be surprises during the year which were not announced in the budget, and that people should stay alert to possible impacts on their financial planning. For example, the beginning of January saw losses in trusts being ring-fenced to prevent abuse for tax loss reasons by trust beneficiaries.
Plan to join big league

Company tax cut part of

The big surprise in the budget is set to

Company tax cut from 35% to 25%
Katz lauds job-creation benefits in tax cut

THE decision to cut the corporate tax rate from 35% to 30% gets a strong thumbs-up from tax commission chair Michael Katz.

Reviewing the tax reforms at an Investec presentation in Johannesburg on Friday, Katz said that, apart from the lower rate making SA internationally competitive, an important aspect was job creation among small and medium enterprises.

"A 30% tax rate is hugely beneficial to these businesses," he said.

Katz saw the move as strengthening SA's position as a tax haven for foreigners. "We have low corporate rates, no withholding tax on interest and no withholding tax on dividends."

He dealt neatly with the argument that secondary tax on companies (STC) lifts our corporate tax rate higher than other countries' rates. "If you include STC in our rate, then you must add the dividends tax on other country's rates. Then you see how favourable SA is."

The new lower corporate rate, however, increased the gap between the maximum marginal tax rate for individuals, at 45%, and the company tax rate, allowing arbitrage.

Katz said the arbitrage situation could be monitored by the SARS, but it was better to have a tax structure that naturally promoted compliance.

"In the short term, I'd sooner bring down the maximum marginal rate to address this issue. When the differential is only 6% or 7%, the incentive for arbitrage is not that great. The 30% corporate rate was right, but the differential is structurally unsound."

Katz took government to task on retirement industry tax. "I have an absolute obsession about it," he admitted.

"In the commission's third report, we identified the problem of taxing retirement funds and the industry. Huge funds were outside the tax system, and there was a tax incentive to one activity in the economy."

Pressures from the industry, he said, had led to an unhappy tax situation. The funds are now taxed on their net rental income and on their gross interest, while other income isn't taxed at all. "This distorts the investment markets. It makes retirement fund managers go into high-risk activities. "I would sooner have a 17% rate across the board (on all income) than a differentiated structure. This would achieve tax objectives and take tax out of the decision-making of retirement fund managers."
TAXMAN'S ALL-OUT WAR

Jail! R500 000 fines - and a special squad to shut businesses
Firms set for chop as taxman goes to war

“Until now we have concentrated on defaulters who have not paid PAYE and VAT. These defaulters are...in effect misusing trust money collected from their employees and the public instead of paying them over to the SARS for public coffers.”

“Our next initiative will be to use our newly acquired legal professionals to prosecute tax evaders. Typically these taxpayers under-declare their incomes.

“From now on, offenders will, in addition to interest and a 200% additional tax penalty, be prosecuted for fraud.”

Mr Maspero said the SARS local office had budgeted for even bigger teams of professionals to continue the assault on what he described “financial gangsterism”.

Companies face tax blitz, page 10
Receiver in battle to collect R17-bn

Cape Town – The South African Revenue Services (Sars) is battling to collect more than R17-billion owed it in arrears taxes, and the situation was spiralling out of control, the National Assembly’s finance committee heard yesterday.

“Sars has continued to concentrate on the collection of arrears debt, and although much effort has been made in this regard, we have been unable to stop the growth of our debtors,” Sars said in a presentation to the committee.

More than R7.6-billion was owed in income taxes, nearly R7.7-billion in VAT arrears and nearly R2.8-billion in PAYE debt.

Tax debt since April last year had risen by 16.11%, or R2.3-billion, Sars said.

VAT debts had shown the most alarming increase – 31.25%, or R1.6-billion, since April 1998.

Sars commissioner Trevor van Heerden told the committee the total debt had built up over a number of years.

As Sars had increased its tax turnover, so debts had risen accordingly.

He said there was evidence that people were using the VAT they owed to finance businesses, and steps would be taken to clamp down on this.

Sars had been successful in broadening the tax base: between October 1997 and December last year it had identified 142,860 businesses which were not registered for income tax, 19,965 which were not registered for VAT and 18,996 which were not registered for PAYE.

VAT fraud amounting to R46-m uncovered in Gauteng

were not registered for PAYE.

It had also intensified its campaign to prosecute tax defaulters.

A test by Sars on a sample of taxpayers in October last year revealed that 30% of them would receive free shares from the demutualisation of life assurance Sanlam.

About 24,000 of them who were due to get shares but owed more than R5,000 in back taxes for more than three months had their share certificates attached.

To date, Sars had collected R29.7-million in this manner and it was still holding about 14 million shares in terms of the attachment order.

In Gauteng, VAT fraud amounting to R46-million was uncovered. Two companies were placed into liquidation and three people were arrested.

Sars’s national special-investigations division had also improved tax collection capability. Between April and December last year its investigations resulted in an extra R750.7-million being collected.

Custom post controls were also improved.

Last year Sars had introduced a system whereby people could pay their income tax at First National Bank. As from August last year, an average of about 16,000 payments a month were made via this facility.

A new computerised income-tax system to electronically link Sars’s various systems would be introduced this year – Sapa
Taxman eyes prostitutes and informers

Johannesburg - If you are a freelance prostitute, rural taxi baron, informal trade kingpin, professional gambler or police informer and think tax is not part of your life, think again - sooner or later, the taxman will get you.

The South African Revenue Service (SARS) is out to broaden the tax base to lessen the burden on the individual and people who have slipped through the net for years are starting to feel the heat.

An SARS spokesman said teams were tracking the 1.2 million to 1.5 million individuals and small businesses still not paying up and meeting with some success.

He said last month (March), SARS racked in R21-billion, a record for a single month.
New SARS forensic unit recovering millions as it nets tax evaders

BY RYAN CRESSWELL

The taxman’s growing force of forensic and legal experts is making inroads into tax evasion and fraud around the country.

Early last year the South African Revenue Service (SARS) formed a new section of its national special investigations unit, called the forensic task team, and hired former commercial branch detectives, attorneys, advocates and forensic experts to complement veteran tax investigators.

In March the unit was prosecuting 151 cases of VAT fraud, 82 cases for Customs fraud, 18 cases for income tax fraud and six cases of sales tax fraud.

Between April and December last year, investigators recovered more than R153-million, compared with R96-million in the same period for the previous year—nearly R57-million more.

SARS spokesperson Christo Henning said the unit intends to form an alliance with the Department of Justice to speed up prosecutions.

The SARS has also established a joint mobile border police/Customs team that seized goods worth R12-million in a few months last year.

Fraud hotlines have been established so that irregularities can be reported anonymously.
Labour's planned BIG tax ‘aims at alleviating poverty’

By Frank Nxumalo

Johannesburg - Organised labour's solidarity tax or Basic Income Grant (BIG) of R100 a month for every citizen, as proposed at last year's historic Presidential Jobs Summit, was aimed primarily at alleviating poverty rather than discouraging people from working, Neil Coleman, the head of Cosatu's parliamentary office, said yesterday.

Writing in the latest edition of the South African Labour Bulletin, Coleman said as everyone would receive a grant, the system was a real component of developmental social welfare. It avoided the problems experienced by welfare states where the possibility of welfare created a disincentive for people to work.

To ensure the system targeted the poor and the unemployed, those earning R2,000 a month, for example, would pay back the BIG of R100 while those earning above R3,000 a month would pay back double what they received as BIG or solidarity tax.

"The money would be claimed back from higher income earners through the South African Revenue Service, and the balance would paid by the fiscus. Preliminary calculations indicate that the cost of a BIG of R100 a month from 1998 may peak at R23 billion in 2003-04, assuming 75 percent take-up rate within six years," Coleman said.

He said BIG would contribute towards making people more economically active through access to cash resources, improve community health and enable poorer households to pool cash resources.

BIG grants would be paid into people's accounts electronically and at a reformed and extended Post Office bank system.

Coleman said the state's old age pension should remain in place as it had proved to government's most effective system of poverty alleviation.
Zero-tolerance approach to tax collection nets R183-bn

BY RYAN CRESSWELL

The South African Revenue Service's new hardline approach to tax collecting brought in R183-billion last fiscal year, which was about R4.4-billion above the projected budget, according to the head of the organisation, commissioner Trevor van Heerden.

Van Heerden spoke about the successes of the zero-tolerance approach and the transformation of the service yesterday at the start of a three-day SARS National Forum in Midrand. The forum will present a strategic review and an action plan for 1999/2000 to managers from around the country.

Van Heerden said a prosecution drive in KwaZulu Natal, the Eastern Cape and the Western Cape had helped the revenue surge. The establishment of 17 customs posts between South Africa and neighbouring countries had already brought in VAT worth R97-million and a new investigation branch had also recovered millions.

The recouping of R88-million and the collection of 12 million shares from Sanlam shareholders who owed taxes at the time of demunualisation is also a major achievement. SARS now expects to get as much as R300-million from Old Mutual shareholders.

Van Heerden said there were many hurdles to overcome – one of the worst being "the low tax morality in South Africa".

Taxpayers who try to use the Y2K bug, which may crash many older computers, as an excuse not to pay certain taxes will be disappointed next year. Van Heerden said taxpayers were being warned that this would not be treated as a mitigating factor.

Star 13/5/99
CIVIL servants who have not been taxed on their cushy fringe benefits are in for a shock.

The taxman is to crack down on employees who have evade paying perks tax on rent for state houses, car allowances, interest-free loans and meal and refreshment vouchers.

State departments who have failed to deduct the taxes from their employees will also face the wrath of the taxman.

The first group to be targeted were about 50 doctors in Mpumalanga who, during the past three months, were forced to pay out thousands of rands in back-dated fringe benefit taxes they owed for occupying official houses.

South African Revenue Service commissioner Trevor van Heerden said that anyone who did not pay would be singled out. This included civil servants.

"They would then be subject to legal or other action as prescribed in the Act."

He said the only civil servants exempt from fringe benefit tax were those earning less than R20 000 a year.

However, a Sunday Times survey found that there was confusion in various provinces over whether or not civil servants had been paying perks tax. One reason for the confusion was the establishment of nine provinces.

It is estimated that in Mpumalanga and KwaZulu-Natal thousands of civil servants have not paid the fringe benefit tax on the state-owned houses they occupy.

More than 65 000 state-owned houses are being rented by civil servants and private individuals nationwide.

The SARS clampdown began in Mpumalanga in March.

Doctors were forced to pay up to R2 000 a month for March and April. But in May they were stunned when as much as R5 000 — more than half their net income — was deducted. The deductions were back to March last year.

One doctor, Mbonani Kabila, said he was stunned when he found out that doctors in other provinces were not paying fringe benefit taxes for state homes they occupied.

In a memorandum handed to the Department of Health in Mpumalanga, the doctors said they were aware that not all state employees occupying official houses paid fringe benefit tax.

SARS media spokesman Christo Hening said there were no exceptions to the rule when it came to paying taxes.

"No one is above the law, not even provincial or state employees. When it comes to paying taxes everyone is treated equally, including the President of the country," he said.

Meanwhile thousands of unsuspecting public servants working and living in official houses in KwaZulu-Natal may soon find themselves in the same dilemma as their Mpumalanga counterparts.

A senior official at the Department of Finance said that none of the thousands of civil servants in the province was paying fringe benefit taxes.

KwaZulu-Natal's head of health, Professor Green Thompson, said that if the more than 1 000 health workers occupying state houses in the province were taxed, serious problems could arise.

"It is already difficult enough trying to get health workers, including doctors, to work in rural areas. Providing them with homes at a nominal rent is one way of getting our professionals to work in rural areas."

According to Brian Caswell of the Department of Finance in the Western Cape, all civil servants in that province have paid fringe benefit taxes since around 1992.

Zakes Dube of the Department of Finance in Gauteng said civil servants had been paying fringe benefit tax since the time of the old Transvaal Provincial Administration.
SARS targets employment contracts made to close corporations

The system has been reformed to provide a

framework for the enforcement of employment contracts that is consistent with the law.

The new system is designed to:

- Provide a clear and comprehensive framework for the enforcement of employment contracts
- Ensure that employers and employees are aware of their rights and obligations under employment contracts
- Provide a mechanism for the resolution of disputes arising from employment contracts

The new system is based on the following principles:

- Fairness and openness
- Transparency and accountability
- Consistency and predictability

The new system will be implemented gradually over a period of five years, with the initial focus on large employers and those with significant employment contracts.
Taxman gets tough on corruption, pills the system.
Transforming
the taxman

Howard Barrett

IN HELMPOPULAR BY THE TAXMAN'S EARNINGS, IT IS NOT HARD TO see why. The taxman is a very powerful figure in South Africa. He has the power to make or break businesses and individuals. His decisions can have a significant impact on the economy and society at large.

NOW, IN A NEW ROLE, the taxman is taking on a new challenge: the fight against tax evasion. The taxman is no longer the silent figure in the background. He is now on the front lines of the fight against tax evasion, using the latest technology and techniques to catch those who attempt to evade their taxes.

The taxman's new role is not without its challenges. The taxman must balance the need for effective enforcement with the need for fairness and transparency. He must ensure that all businesses and individuals are treated equally, regardless of their size or wealth.

The taxman is working closely with other government agencies to combat tax evasion. He is also partnering with private sector companies to develop new tools and techniques for detecting and preventing tax evasion.

The taxman's new role is a testament to the government's commitment to building a fair and prosperous society. With the taxman on the front lines, we can be confident that those who attempt to evade their taxes will be held accountable.

The taxman's new role is a significant step forward in the fight against tax evasion. We must all do our part to ensure that the taxman is able to carry out his duties effectively. Let us join together to support the taxman and ensure that our tax system is fair and effective.
Farmers resist proposed land tax legislation

Linda Ensor

CAPE TOWN — Draft legislation that proposes to tax urban and rural land, including agricultural land, has encountered strong resistance from farmers, provincial and local government officials and the senior director-general of provincial and local government, Mr. Over said yesterday.

The proposed legislation, the Local Government Property Rates Bill, has been met with widespread opposition from farmers and the private sector, and has been subject to intense scrutiny by the National Assembly's Standing Committee on Finance and Economics Affairs.

Agricultural Union, was not in favour of any new taxes, arguing that they already paid regional service councillor (RSC) levies. They argue that if they are still to be taxed on agricultural land, then they should have the right to negotiate the rates. However, discussions were under way with the finance department about the restructuring of RSC levies.

Mr. Overy said the SA Agricultural Union was not in favour of any new taxes, arguing that they already paid regional service council (RSC) levies. The SA Agricultural Union was not in favour of any new taxes, arguing that they already paid regional service council (RSC) levies. They also argued that if they were still to be taxed on agricultural land, then they should have the right to negotiate the rates.

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underrmine economic policy

Flawed property tax bill could