TAXATION — 1984

JUNE — DEC.

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Small stores face sales tax problems

By Jennifer Tennant, Star Line

The exclusion of basic foods from general sales tax, which goes up to 10 percent next month, is causing problems for the small supermarkets and cafes.

Although the major supermarkets are already prepared to cope with the new GST, smaller supermarkets are still undecided as to how they should approach the problem.

The chairman of the Tearoom Restaurant Proprietors' and Caterers' Association, Mr D Michos, said the exclusion of basic foods from GST was a headache for smaller traders.

TWO POSSIBILITIES

At present these stores have the choice of an add-in or add-on system for GST.

But, from July 1, they will have to add on 10 percent sales tax to items which are not considered basic commodities.

There were two possibilities open to the smaller stores — to modify existing cash registers or buy new ones.

"Either they will have to spend money they haven't got and invest in a computerised cash register or they will have to ring up each food basket twice," said Mr Michos.

A possibility was that the smaller stores be given exemption, like that given to bars, by the Government and be allowed to use the add-in system, he added.

But the new GST system is good news to cash register dealers.

MANY INQUIRIES

A spokesman for a major corporation said there had been many inquiries about cash registers which could cope with both taxable goods and non-taxable basic foods.

The new tax had added impetus to the market and business had increased, he added.

Dairy Board: exempt cheese from GST

The Dairy Board has asked the Government to exempt cheese from general sales tax when the increase to 10 percent comes into operation on July 1.

The general manager of the board, Mr Eddie Roux, said: "We've made representations to the Government and it's for them now to decide."

The board last week announced increases in the prices of milk, butter and cheese from July 1.

The Minister of Finance, Mr Owen Horwood, last month announced a GST increase to 10 percent, but said basic foods such as milk and butter would be exempt.

It is not clear whether cheese will be exempt.

Some of the dairy products that will rise are:

- Butter: old price: R4,08 a kg; new price: R4,68 a kg; increase: 60c a kg; percentage increase: 14,7 percent.
- Cheese: old price: R4,75 a kg; new price: R5,10 a kg; increase: 35c a kg; percentage increase: 7,4 percent.
- Milk: old price: 62c a litre (delivered); new price: 66c a litre; increase: 4c; percentage increase: 7 percent.

The above-listed prices include the present seven percent GST.

GST list out soon

Political Staff

CAPE TOWN — Details of foodstuffs to be exempted from GST may be announced this week.

The list has been drawn up after discussions among the Internal Revenue Office, Assocom, the Federated Chamber of Industry and the Afrikaanse Handelsinstituut.

The Commissioner for Inland Revenue, Mr C F Schweppenhauser, said a list had been submitted to the Minister of Finance. He hoped for details by the weekend.

Star 6/6/84 (320)

GST rise: union acts

The Artisan Staff Association today lashed out at impending increased general sales tax, medical and dental tariffs and bond rates.

It said it would "definitely join hands" with other South African Transport Services-based unions in demanding "substantial" increases.

"The workers cannot be expected to exercise restraint in curbing infla tion if the Government is a protagonist in increasing the inflation rate," the 24 500-member association stated.

The association said it believed other commodities were also due to go up in price. — Sapa.

Shoppers may cross borders to avoid GST

ARGUS 6/6/84 (320)

Argus Correspondent

JOHANNESBURG. — Thousands of South Africans may soon be shopping for fridges, stoves, motorcars and other expensive goods in neighbouring states to avoid sales tax.

Executives of some South African groups represented in those states are predicting big increases in sales when GST in South Africa goes up to a record 10 percent on July 1.

Other rates

Especially likely to reap the benefits as South Africa's sales tax on everything except basic foods jumps from 7 percent will be Bophuthatswana, Swaziland and Botswana, all of which charge no sales tax.

The rates in other states are: Ciskei — 6 percent, Transkei — 7 percent, Venda — 6 percent, Lesotho — 6 percent and South West Africa/Namibia — 7 percent.

Mr Taffy Hewson, general manager (management services) of the OK, said the South African public was "not really switched on" at the moment.

"With sales tax at seven percent it's not really worth riding to a neighbouring state. But the tax going up to 10 percent makes a difference.

"This could be a new growth industry."

Expensive items

He predicted that Mmabatho, Mafikeng, Zeerust and Thaba 'Nchu would all profit from the gap between the tax rates.

Pick 'n Pay's financial director, Mr Chris Hurst, agreed that the rise in South Africa's GST would make it more attractive for South Africans to shop in neighbouring states for expensive items.

But, he added, Pick 'n Pay had no plans to jump in. "It's a different style of trading. We'll continue to concentrate on the highly-populated areas."

After-sales service

Dion Stores' director of operations, Mr Stanley Fleishman, warned that after-sales service could pose a problem for people who bought goods in areas far from where they lived.

Deliveries could also be difficult. "Items such as personal computers are one thing, but fridges and stoves are another.

"I would advise people to think carefully before buying."

Downtown's Mr Tony Factor said he was confident that when the Minister of Finance, Mr Owen Horwood, could reduce GST, he would do so.

It would be "totally unfair" of traders to take advantage of the tax gap. "We live in South Africa and we have to take the bad with the good."

Taxman in bid to water down housing perks

(320) S. Times 10/6/84

By Barry Sergeant

THE Department of Inland Revenue is out to block benefits from subsidised housing — the ultimate perk.

Many employers are preparing to offer employees housing and other perks if they agree to either a salary cut or temporary standstill in pay increases.

The tax authorities are said to be concerned because recipients of perks will pay less tax. A lower salary means less income tax, and because of allowances in calculating taxable fringe benefits, the employee will pay less overall tax than before.

Millions

Some employers have climbed in early and although the perks tax is not law, a financial consultant says that hundreds of millions of rands have been ploughed into housing schemes.

Previously, the public sector and financial institutions — because of the different basis of their tax — were more privileged than the private sector's housing schemes.

These housing schemes were costly and ownership and its costs were invariably left in the employee's hands.

Keith Clubb, of FSA management consultants specialising in remuneration and training, says: "Because the proposed perks tax clarifies a previously grey area and brings equality for all, it is unlikely that new private sector schemes will be attacked."

Miles Divett, of accountants Deloitte Haskins & Sells, says: "If new housing schemes are attacked, it will prejudice first-time buyers. This is because people already in such schemes will be unaffected."

It is believed that one of the possibilities being studied by the Department of Inland Revenue is the disallowance of phasing-in of perks tax for employees who accept salary cuts.

With an estimated 65% of SA's 600 000 bonds subsidised, the extent of the prejudice to first-time buyers is clear. Those on existing schemes have already made salary sacrifices.

Although the issue is cloudy, employers would be able under the new proposals to deduct from their earnings either bond payments or bond subsidies to employees. This would give them the same tax shelter as a straight cash package.

But employees would benefit from the perk by paying less tax and less on their mortgage bonds.

Budget

It seems that what the fiscus hoped to gain on the roundabouts from perks tax will be lost on the swings from reduced income tax.

Mr Clubb reckons the fiscus would lose up to R160-million from housing schemes alone in the first six months of perks tax implementation.

Perks revenue of R50-million was projected by the Minister of Finance, Owen Horwood, in the March Budget.

In some quarters, the perks tax proposals have been attacked as "unlikely to create equality before the tax law or to raise additional revenue in the current fiscal year".

Mr Clubb argues that it is unlikely that employees will accept salary cuts now for increased perks. Instead, they will probably sacrifice future salary increases and bonuses.

Subtle

Some observers have noted that the proposals contain many subtle exceptions which can be traced to the protection of public-service fringe benefits.

They say that although Mr Horwood is empowered to change the rates applicable to perks tax overnight, as in the case of GST, an increase in the housing rate of 8% is unlikely because this is the rate used for many public servant schemes.

The 8% rate is the official proposed rate to be used in the calculation of perks tax payable on housing subsidies. If an employee pays a rate of, say, 1% on his bond, he will be taxed on 7%. If the employee pays a rate of over 8%, no perks tax is payable.

Benefits

How employees can benefit from the proposed housing perks tax is shown by Mr Divett.

- Accommodation given by an employer. The standard R20 000 abatement is deducted from the employee's salary to give the amount used to calculate any taxable benefit under the proposed perks tax. Using an employee's marginal tax rate of 50% (for convenience), and assuming that the employee earns R30 000 a year, an employer can restructure the employee's package.

If the cost to the company of providing the employee with free housing is R10 000 a year and the employee makes a salary sacrifice of the R10 000, then his cash package would be R20 000, on which income tax of R10 000 would be payable.

The taxable benefit to the employee arising from the free accommodation would be nil — because of the R20 000 abatement — so that no perks tax would be payable. The total tax payable by the employee would thus decrease from R15 000 to R10 000.

Balance

- Housing subsidies.

A monthly bond payment on a house costing R69 141 at an interest rate of 17% a year over 20 years means a monthly payment of R1 000. This is the normal free market situation where the employee is self-housed with a building society bond.

It is only where the bond payment effectively paid by the employee (because of an employer's subsidy) is less than 8% that perks tax would be attracted.

If the employee pays an effective rate of 3%, his monthly payment is R383; the balance of R617 is paid by the employer (saving the employee cash of R7 404 a year from after-tax income).

What would happen here, under the proposed perks tax, is that the employer would reduce the employee's gross remuneration by an amount equal to the employers' cost of R7 404.

At the official perks tax rate of 8%, the monthly payment is R575. This means the employee would pay perks tax on R192 a month, or R2 304 a year. The tax payable at the 50% rate would be R1 152 a year.

Logic

If the employee receives a salary of R30 000 a year, R15 000 is payable in income tax. If the salary is dropped to R22 596 (R30 000 minus R7 404), income tax falls from R15 000 to R11 298. Adding this income tax to the perks tax of R1 152 would give a total of R12 450 for a saving of R2 550 on the previous total tax payable.

- Housing loans.

In the subsidy example above no distinction is made for perks tax purposes between subsidies of capital and interest.

Mr Divett says: "Although logic demands that favourable housing loans should attract the same tax consequences as housing subsidies, the fringe benefits proposals do not recognise this."

On the wording of the proposals, subsidy of capital repayments under housing loans would be fully taxable in the employee's hands and would not qualify for the favourable treatment afforded subsidy schemes.

It is believed that the authorities are aware of this anomaly and are seeking a solution.

Mr Divett says: "Any efforts to solve the anomaly are to be applauded."

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(320)

Burden of GST 'still on poor'

By EBRAHIM MOOSA

CONSUMER organizations welcomed the increase in the list of foodstuffs exempted from sales tax, but regretted that other essential staples were not exempted, following the publication of the list of GST-exempt items yesterday.

Not on the list are dehydrated vegetables such as beans, dried peas, lentils, barley and soya, tinned fish and canned fruits and vegetables. Most of these are high-protein foods and form part of the staple diet of the lower-income groups.

It is widely felt that the poor cannot afford refrigerators to take advantage of tax-exempted fresh vegetables, which means that they will be forced to buy taxed dry staples and tinned foods. The "burden of GST" will still fall on the poor, most organizations interviewed yesterday agreed.

However, relief was expressed that the Commissioner of Inland Revenue, Mr Carl Schweppenhauser, had exempted samp and mealie rice, and powdered milk. Originally these items were not exempted, but public pressure proved to be effective. Frozen vegetables, fish, meat and poultry, have now been exempted.

Last month the Minister of Finance, Mr Owen Horwood, refused to expand the list of tax-exempt foodstuffs. Now the list includes some items not previously exempted.

Mr Des Kruger, legal officer at the Department of Internal Revenue, said yesterday that it would be impossible to exempt more items "at this stage", but that it might be "possible in the future".

GST on all other items will increase from seven percent to 10 percent from July 1.

Mrs Joy Hurwitz, president of the Housewives' League of South Africa, said that while she was pleased by the increase in the list, she was disappointed that tinned fish, high protein beans, cheese and tinned meat were not exempted.

Her organization would keep a watch over the prices of tax-exempted foodstuffs to protect consumers from unscrupulous traders who could increase the prices of tax-exempted goods which were not price-controlled and negate the purpose of exemptions — which was to provide relief for the poor, she said.

She also expressed fears that the prices of controlled foods might be increased.

A spokesman for the Pretoria-based Consumer Council also criticized the list for not including tinned fish, which was an essential staple.

Mr Chris Hurst, financial director of Pick 'n Pay, said the list included several "unnecessary complications." He was referring to the distinctions which applied to various fish and meat types, some of which are exempted while others are taxed.

Mixed reaction

Own Correspondent

JOHANNESBURG. — Most black community leaders yesterday praised the government for exempting certain foods from GST.

Mr Vela Kraai, president of the Soweto Chamber of Commerce and Industries said: "My immediate reaction to the matter is that the exemption of only certain food items does not benefit those people — particularly blacks — who live below the breadline.

"The whole exercise is to assist people of certain communities and not the black people whose basic foods consist of some of the items that have not been exempted such as tinned fish, and soya products."

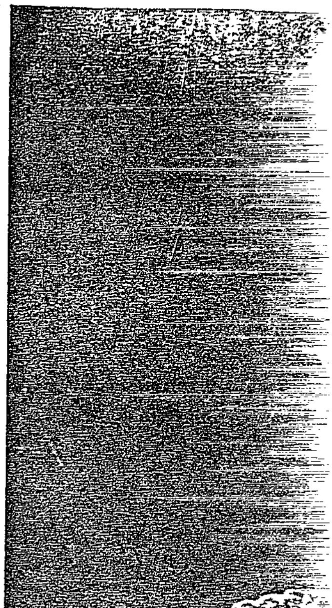
"The government should have exempted all foodstuffs from GST then it would have been a worthwhile purpose and effort."

Mr S M Kubheka, executive director for Nafcoc yesterday said: "That the basic foodstuffs generally consumed by blacks are exempted from tax comes as a relief..."

Mrs Ina Perlman, director for Operation Hunger said: "I am delighted at the exemption of GST on milk podwer ad maize meal because this is what our organisation needs most to feed the hundreds of starving people in the homelands."

● The full list and PFP comment, page 4

4



Toni Puller, wife of top jockey

Kahn provides more bits of legal humour

Staff Reporter

LEGAL practitioners can be the most serious and gloomy of men. But according to the University of the Witwatersrand's Professor Ellison Kahn, there is a streak of humour in everyone — and it's not always intentional.

"Mr Justice and Mrs Van der Merwe."

"I'm sorry Mr Justice, this is a respectable hotel," said the clerk.

Attempts by advocates and attorneys to knock confident and cocky witnesses off their perches are often

Baby off t

Staff Reporter

TOP jockey Garth Puller's baby daughter came into the world with a flying start.

She arrived just 1½ hours after his wife Toni noticed labour symptoms and the man who is used to racing round courses had to rush her from Milnerton to the Kings-

bury Nursing ... Claremont whe... sha immediatel... an appearance.

Their baby wa... pected for a ... weeks, and the ... fore she was bo... 22, was given ... shower. The fol... day, June 8, N... came into the ...

Mercury 12/6/84 (320)

TAX-FREE	TAXABLE
BREAD: white, brown wholewheat, compound bread	**BREAD** High-protein, French, super super white, rye, rolls buns, unleaven bread, and rusks.
EGGS: laid by domestic hens	**EGGS** any eggs laid by ducks, geese, ostriches, etc., or separate egg yolks and whites
FISH: ~~which has to be~~ cooked	**FISH** any invertebrate fish such as rock lobster, crabs, langoustine, shrimps, prawns, oysters, mussels, abalone, canned and bottled fish, marinated and pickled fish, cured fish, bait, fish extract and pastes, caviar or caviar substitutes, smoked fish, fish biltong, any fish products containing less than 60 percent raw fish and any fish sold which can be eaten immediately.
FRUIT: Fresh	**FRUIT** dried, nuts, glace, canned or bottled, jam or juices.
MAIZE MEAL: super maize meal, sifted and unsifted maize meal, samp and mealie rice	**MAIZE MEAL** maize flour or wholewheat meal
MARGARINE	
RAW MEAT: poultry, sausages, hamburger patties, steak and beef burgers.	**RAW MEAT** canned meat, marinated or pickled, polony, vienna sausages or frankfurters
MILK: from cattle, sheep or goats, skimmed, cream, buttermilk, sterilized milk and long life milk	**MILK** condensed or concentrated, flavoured, sour, sweetend or yoghurt.
MILK POWDER:	
VEGETABLES: for human consumption — fresh, frozen, blanched or scalded	**VEGETABLES** canned or dehydrated.

Schwarz: GST list too short

CAPE TIMES 12/6/84

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Political Staff

IT WAS regrettable that a number of basic foodstuffs were still not to be exempt from General Sales Tax, the Opposition spokesman on Finance, Mr Harry Schwarz said yesterday.

He was reacting to the final list of foodstuffs exempt from GST announced by the Commissioner of Inland Revenue yesterday.

Foods exempt from GST are:

- Bread, but not high protein, special bread, super white, unleavened bread, rusks and other unspecified such as rye bread, rolls and buns.
- Butter.
- Eggs — those laid by domestic hens.
- Raw fin-fish, but not non-vertebrates such as rock lobster, crabs, shrimps, langoustines, mussels and oysters. ~~Also~~ not exempt are canned or bottled fish, cured fish, fish sold as bait, fish extracts and pastes, caviar, smoked fish, fish biltong and fish sold ready to eat.
- Fresh fruit, but not nuts, dried or glace fruit, canned or bottled fruit, jam made from fruit and fruit juices.
- Maize meal with the exception of maize flour.
- Margarine.
- Raw meat, including sausages, hamburger patties and steak and beef burgers, but excluding canned meat, marinated or pickled meat, polony, vienna sausages and frankfurters.
- Milk, except condensed or concentrated milk, flavoured and sour milk, yoghurt and sweetened milk.
- Milk powder.
- Vegetables, except canned and dehydrated vegetables.
- Whole-wheat meal.

The commissioner pointed out that GST was not applicable where exempt foodstuffs were supplied for immediate consumption as in restaurants, or where board and lodging was charged inclusively.

'Excuse for increases'

Mr Schwarz said it was with a degree of satisfaction that he noted that "after so many years" the minister had finally accepted the principle of exempting basic foodstuffs from GST.

However, he said the list of exemptions was not complete and it was also to be regretted that they were accompanied by "a massive hike in the level of GST generally".

He expressed the hope that the exemption of certain foodstuffs from GST "will not be used as an excuse for price increases of those foods, and regrettably there are already signs of this".

He warned that the government and consumer should watch out for such exploitation.

Mr Schwarz also pointed out that the time for the business sector to adapt cash registers and other procedures was short and consumers should be on the alert to make sure the tax was correctly charged.

He said the minister "should make it compulsory to furnish every purchaser either with a cash register slip, invoice or some other written document".

Wide welcome for extended list

More foods exempted from GST

RDM 12/6/84 (320)

By GERALD REILLY
Pretoria Bureau

SOUTH AFRICA'S huge population of low income earners yesterday welcomed the extended list of basic foods to be exempt from general sales tax from July 1.

The Commissioner for Inland Revenue, Mr Carl Schaeppenhauser, announced the new exemptions yesterday.

They include sifted and unsifted maize meal, samp, mealie rice, margarine and milk powder.

These will be added to the original list of exempted foods — milk, butter, fresh fruit and vegetables, mealie meal, raw fish and meat and bread — announced by the Minister of Finance, Mr Owen Horwood, last week.

No canned or bottled products are exempt from the tax — a move criticised yesterday by the Consumer Council.

The chief executive of the Association of Chambers of Commerce (Assocom), Mr Raymond Parsons, warned that serious administrative problems and costs remained for both the Department of Inland Revenue and the business sector in the new GST system.

"An extensive education and publicity campaign between now and July 1 will be needed to explain the operation of the new system to consumers and traders, and to avoid disruption," he said.

The director of the Consumer Council, Mr Jan Cronje, welcomed the extended list.

It was to be regretted, however, that South African canned pilchards and sardines were not on the list as they were a rich and popular source of protein with the lower income groups, Mr Cronje said.

The Rand Daily Mail's Political Staff reports from Cape Town that the Opposition spokesman on Finance, Mr Harry Schwarz, said yesterday it was regrettable that a number of basic foodstuffs were still not to be exempt from GST.

Mr Schwarz said it was with a degree of satisfaction that he noted that "after so many years" the Minister had finally accepted the principle of exempting basic foodstuffs from GST.

However, he said, it was also to be regretted that they were accompanied by "a massive hike in the level of GST generally".

He expressed the hope that the exemption of certain foodstuffs from GST "will not be used as an excuse for price increases of those foods, and regrettably there are already signs of this".

Meanwhile, black community leaders yesterday praised the Government for exempting certain foods from GST, while others strongly criticised the exemption of "luxuries" rather than all basic foods, reports SOPHIE TEMA.

Mr Vela Kraai, president of the Soweto Chamber of Commerce and Industries, said: "My immediate reaction to the matter is that the exemption of only certain food items does not benefit those people — particularly blacks — who live below the breadline.

"The whole excercise is to assist people of certain communities and not the black people whose basic foods consist of some of the items that have not been exempted, such as tinned fish, and soya products."

The executive director of the National African Federated Chamber of Commerce (Nafcoc), Mr S M Kubheka, said: "That the basic foodstuffs generally consumed by blacks are exempted from tax comes as a relief after a long, heavy and difficult general price increase as a result of the drought that has affected the whole country."

● Graphic and list on Page 9

CITY

GST watchdogs to protect consumers

ARGUS 13/6/84 (320)

By TOS WENTZEL
Political Correspondent

THE Inspectorate of the Department of Inland Revenue is being increased as one of the steps to protect the public from exploitation when the new system of GST begins on July 1.

Among the other steps are efforts to inform both the public and businessmen on how the system will work.

The final exemption proposals will be included in a Sales Tax Amendment Bill to be published soon.

The Receiver of Revenue, Mr C F Schweppenhauser, confirmed this today.

Disputes

He said that apart from an increase in the number of inspectors in his department, members of the public could, after July 1, approach regional offices of the department in cases of disputes over goods

Basic foodstuffs will be exempted. There are already sharp differences of opinion over some of the examples the department has given, especially the classification of bread and the fact that tinned fish, one of the staple foods of the poor, has not been exempted.

There will be penalties in cases where GST is charged on exempted goods. Traders will have to keep records of goods on which the tax is or is not charged.

Discussions

Mr Scheppenhauser said today that his office was continuing discussions with the private sector.

Bodies such as the Association of Chambers of Commerce and the Afrikaanse Handelsinstituut are to hold seminars for businessmen to inform them of the exemptions. Pamphlets will be produced.

He said it was important that the public keep itself informed in order to guard against exploitation.

Mr Harry Schwarz, MP, the Opposition's chief spokesman of financial matters, said today that the list of exempted articles contained many illogicalities and did not have due regard for all the requirements of the lower income groups.

In particular, it did not pay adequate attention to the needs and eating habits of many people, including the elderly and those who could not afford refrigerators.

Basic food

"Tinned meat, vegetables and fish are more easily stored, and in many cases cheaper than the fresh product.

While expensive cuts of meat and fish, such as fillet steak and kingklip, are exempt, cheap tinned meat, fish and polonies are not. While some of the expensive fruit and vegetables are exempt, dried fruit and vegetables are not. Dried beans are a basic food for many.

"The illogicality of the exemption list is clear. More important, however, is the failure to appreciate what lower-income group people really live on."

Mr Schwarz welcomed the fact that there is to be a campaign to acquaint the public with the exemptions from GST.

It should, however, also be made compulsory for every business which sold goods subject to and exempted from GST to display prominent notices indicating the goods that were exempted, to allow customers to check the position at the point of sale.

"It is also necessary that organised commerce indicate how its members propose to deal with the different items which are, and are not, subject to the tax, so that the public may be aware of the procedures." Mr Schwarz said.

Mr Harry Schwarz

Mr Owen Horwood

Schwarz warns of tax increases to finance new deal

WARNING of further tax increases, including another possible rise in GST, Mr Harry Schwarz, PFP finance spokesman, said today the Government had lost touch economically and was groping in the dark.

Mr Schwarz was commenting on the refusal by the Minister of Finance, Mr Owen Horwood, to comment on widespread speculation that another increase in GST was in the offing before the end of the year.

Mr Schwarz said the Government had included nothing in the current Budget to pay for the new constitutional system.

"HUGE PRICE"

"A massive amount of money is going to be needed.

"The public must realise that there is a huge price to pay for the new constitution."

He said the additional costs could be divided into three phases. The first was the direct costs of salaries for the new MPs, their accommodation and facilities.

It could be estimated on the basis of the R15,7-million a year it cost for the present MPs, that the two new Houses would effectively double this bill.

The second phase included the creation of new departments to deal with "own affairs", to back up the members of the Ministers' Councils.

The creation of Ministers' Councils in addition to the Cabinet would itself neccesitate extra spending.

The third phase of expenditure would be the cost of meeting demands — particularly for equal education and pensions — made by members of the newly created Houses of Delegates and Representatives.

Mr Schwarz criticised the Government for the manner in which it was handling the economy, particularly tax increases.

There had already been a one cent increase in GST at the beginning of the year, followed by a Budget which was overtaken six weeks later by the announcement of a further three cent increase in GST.

This had proved claims by businessmen and the opposition that the expenditure figures in the Budget were incorrect.

Penalty for GST dodgers

Cape Times 14/6/91

320

Own Correspondent

JOHANNESBURG. — A penalty of ten percent a month could be imposed on traders for late payment of sales tax, the Commissioner for Inland Revenue, Mr Carl Schweppenhauser, said yesterday.

Mr Schweppenhauser said that because of the change in GST, an extra effort would be made by the department to ensure that there were no abuses.

"However, I believe the vast majority of traders are honest, and we don't expect a rash of tax-dodging efforts."

The department's inspectorate had been strengthened over the past few months.

Larger stores with sophisticated tills should have little trouble in implementing the new system, he said. Problems for the smaller trader were more formidable.

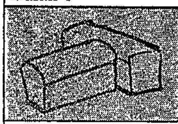
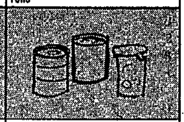
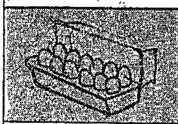
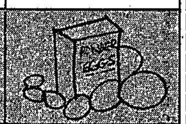
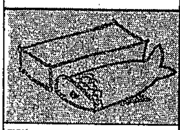
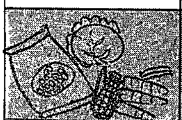
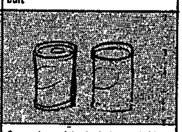
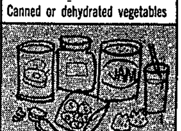
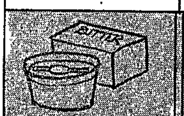
For example, the exemption of the basics would demand extra record-keeping.

Cut-out guide to GST exemptions

CAPE TOWN. — The full list of foods to be exempt from General Sales Tax from July 1 was released by the the Commissioner for Inland Revenue, Mr Carl Schweppenhauer.

The full list of items exempted from GST is:

- Bread which has a fixed maximum price, including white, brown, wholewheat and compound bread but excluding high-protein bread, special bread such as French loaves, super white bread, rye bread, rolls, buns, unleavened bread and rusks;
- Butter;
- Eggs laid by domestic hens but not those from ducks, turkeys, geese, ostriches etc, or separate egg yolks and whites;
- Fish, including all raw finfish which has to be cooked before being eaten, but not invertebrate fish such as rock lobster, crabs, langoustine, shrimps, prawns, oysters, mussels, abalone, canned or bottled fish, marinated and pickled fish, cured fish, bait, fish extracts and pastes, caviar and caviar substitutes, smoked fish, fish biltong, fish products containing less than 60% raw fish and fish sold ready to eat;
- Fruit not cooked or treated, except for protection against perishing, excluding nuts, dried fruit, glace fruit, canned or bottled fruit, fruit jam and fruit juices;
- Maize meal, including super maize meal, sifted and unsifted maize meal, samp, mealie rice for human consumption but not maize flour;
- Margarine;
- Raw meat, including poultry, sausages, hamburger patties, steak and beef burgers but not canned meat, marinated or pickled meat, polony, Vienna sausages or frankfurters;
- Milk of cattle, sheep and goats, including skimmed and full cream milk, buttermilk, sterilised milk and long-life milk but excluding condensed or concentrated, flavoured, sour, or sweetened milk and yoghurt;
- Milk powder obtained by removal of water from milk;
- Vegetables for human consumption which have not been cooked or preserved except by freezing, blanching or scalding but excluding canned and dehydrated vegetables; and
- Wholewheat meal.

EXEMPT	NOT EXEMPT
	
BREAD: white, brown, wholewheat	High protein, rye, French bread, rolls
	
MILK: cows', sheep or goats' milk, skimmed or buttermilk MILK POWDER	Condensed, concentrated or flavoured milk, yoghurt
	
EGGS: laid by domestic hens	Other eggs, powdered eggs
	
MEAT: raw meat, poultry, sausages, hamburger patties	Marinated, pickled or canned meat, polony or viennas
	
FISH: raw finfish	Lobster, prawns, oysters, caviar, canned or smoked fish, fish paste, bait
	
FRESH OR FROZEN VEGETABLES	Canned or dehydrated vegetables
	
FRESH FRUIT	Nuts, dried or glaced fruit, canned or bottled fruit, jams, juices
	
BUTTER, MARGARINE	Restaurant, hotel meals, fast foods
	
WHOLEWHEAT MEAL, MAIZE MEAL, SAMP, MIELIE RICE	Maize flour, white flour

(320) D. Dispatch 14/6/84

Penalty provided for traders

PRETORIA — Heavy penalties are provided for traders "caught with their hand in the till" the Commissioner for Inland Revenue, Mr Carl Schweppenhauser, said yesterday.

A 10 per cent a month penalty could be imposed for late payment of sales tax. This meant that in a period of ten months the relevant amount would be doubled.

Mr Schweppenhauser said, because of the change in GST, an extra effort would be made by the department to ensure that there were no abuses.

"However, I believe the vast majority of traders are honest and we don't expect a rash of tax dodging efforts."

The department's inspectorate staff had been strengthened over the past few months and this would aid the smooth operation of the new system.

With their more sophisticated tills the larger stores should have little trouble in implementing the new system.

Problems for the smaller trader, however, were more formidable, Mr Schweppenhauser said, as the exemption of the basics from the tax would demand extra record-keeping. — DDC.

HOW THE NEW SALES TAX WORKS

R1-R10		R11-R20		R21-R30		R31-R40		R41-R50	
Verkope Sales R	Belasting Tax R	Verkope Sales R	Belasting Tax R	Verkope Sales R	Belasting Tax R	Verkope Sales R	Belasting Tax R	Verkope Sales R	Belasting Tax R
1	0,10	11	1,10	21	2,10	31	3,10	41	4,10
2	0,20	12	1,20	22	2,20	32	3,20	42	4,20
3	0,30	13	1,30	23	2,30	33	3,30	43	4,30
4	0,40	14	1,40	24	2,40	34	3,40	44	4,40
5	0,50	15	1,50	25	2,50	35	3,50	45	4,50
6	0,60	16	1,60	26	2,60	36	3,60	46	4,60
7	0,70	17	1,70	27	2,70	37	3,70	47	4,70
8	0,80	18	1,80	28	2,80	38	3,80	48	4,80
9	0,90	19	1,90	29	2,90	39	3,90	49	4,90
10	1,00	20	2,00	30	3,00	40	4,00	50	5,00

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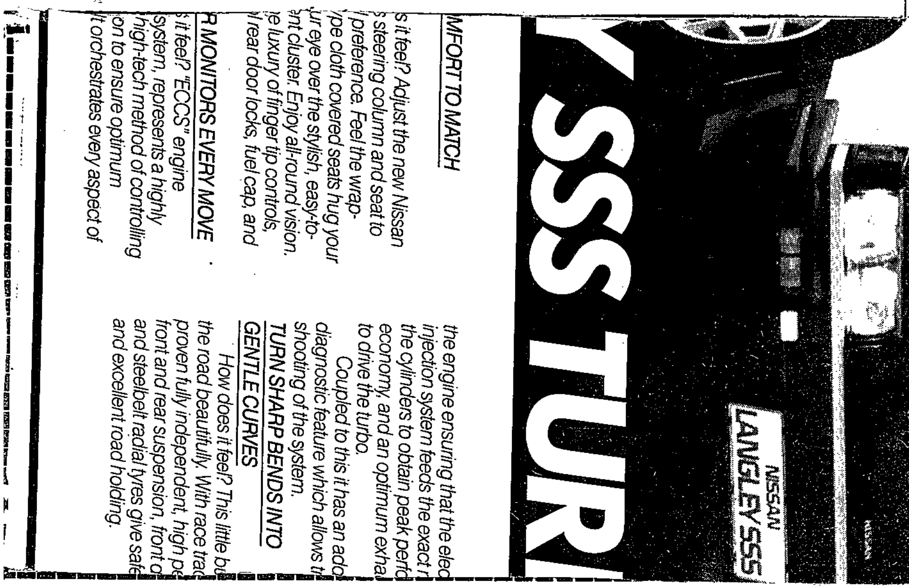

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1	0,10	11	1,10	21	2,10	31	3,10	41	4,10
2	0,20	12	1,20	22	2,20	32	3,20	42	4,20
3	0,30	13	1,30	23	2,30	33	3,30	43	4,30
4	0,40	14	1,40	24	2,40	34	3,40	44	4,40
5	0,50	15	1,50	25	2,50	35	3,50	45	4,50
6	0,60	16	1,60	26	2,60	36	3,60	46	4,60
7	0,70	17	1,70	27	2,70	37	3,70	47	4,70
8	0,80	18	1,80	28	2,80	38	3,80	48	4,80
9	0,90	19	1,90	29	2,90	39	3,90	49	4,90
10	1,00	20	2,00	30	3,00	40	4,00	50	5,00

R51-R60		R61-R70		R71-R80		R81-R90		R91-R100	
Verkope Sales R	Belasting Tax R	Verkope Sales R	Belasting Tax R	Verkope Sales R	Belasting Tax R	Verkope Sales R	Belasting Tax R	Verkope Sales R	Belasting Tax R
51	5,10	61	6,10	71	7,10	81	8,10	91	9,10
52	5,20	62	6,20	72	7,20	82	8,20	92	9,20
53	5,30	63	6,30	73	7,30	83	8,30	93	9,30
54	5,40	64	6,40	74	7,40	84	8,40	94	9,40
55	5,50	65	6,50	75	7,50	85	8,50	95	9,50
56	5,60	66	6,60	76	7,60	86	8,60	96	9,60
57	5,70	67	6,70	77	7,70	87	8,70	97	9,70
58	5,80	68	6,80	78	7,80	88	8,80	98	9,80
59	5,90	69	6,90	79	7,90	89	8,90	99	9,90
60	6,00	70	7,00	80	8,00	90	9,00	100	10,00

Higher taxes blow for De Beers mine in SWA

CAPE TIMES 15/6/84 ~~[illegible]~~ 320

By BRENDAN RYAN

JOHANNESBURG. — The tax increases slapped on Consolidated Diamond Mines (CDM) by the SWA/-Namibia government could shorten the life of the De Beers-controlled beach mining operation.

CDM's resident director, Mr Doug Hoffe, said in Windhoek on Wednesday that the higher the taxes levied on CDM the greater the areas of mining ground which became unpayable.

He said this trend was compounded by continued high working costs caused by inflation.

A CDM spokesman said yesterday it was too early to say precisely how the tax increase would affect the economic viability of the mine's future operations.

The diamond mining tax imposed on CDM was increased to 55 percent from 50 percent in this week's SWA/Namibian Budget for the year to March 31.

At the same time general sales tax was raised to nine percent from seven percent.

Mr Hoffe said that without taking into account the increase in general sales tax the total tax to be paid in 1984 by CDM will rise to about 75 percent of profits which he regarded as excessive.

CDM's previous total tax rate was about 66 percent.

The company does not disclose its earnings but it is a wholly-owned subsidiary of De Beers and the group's only operation in SWA/Namibia.

Operations

The 1983 De Beers annual report showed that its SWA/Namibian operations contributed 14 percent of group taxed profits — excluding share of retained profits of associates — of R360,1m which puts CDM's earnings for the year to end-December at about R50m.

CDM is taxed in a number of ways by the SWA/Namibia government. It must pay a 15 percent diamond profits tax in advance on estimated profits.

It then pays a 55 percent diamond mining tax against which the diamond profits tax is deducted so the combined effective rate is 55 percent.

In addition CDM pays diamond export duty of 10 percent on the sales value of all diamonds exported from the country.

This tax has particularly incensed CDM's management because it is a tax on revenue and productivity, as opposed to profits.

Mr Hoffe has called for its abolition saying the tax is wrong in principle and works against motivation for greater productivity.

Export duty is also applied to South African diamond mines but at a rate of 15 percent.

De Beers provides no detailed information on the financial performances of its various mines.

However, in the last three years of diamond market depression some mines, through the export duty, could have been paying tax while actually losing money on their operations.

CDM sells its diamonds to the Central Selling Organisation (CSO) through the Diamond Producers Association in South Africa.

It pays a commission to the CSO on these sales but cannot deduct this from the sales revenue on which the export duty is levied.

The CDM spokesman declined to say how much commission the CSO levied on purchases from CDM.

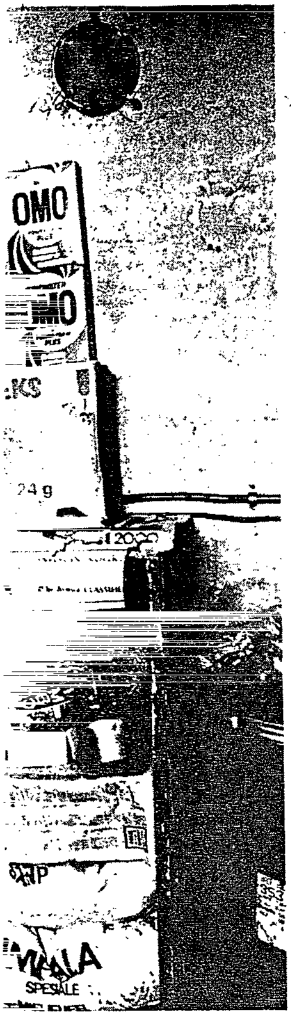
Bu

Spectrum

Little comfort for those close to the breadline

ARGUS 18/6/86 (320)

Report and picture by Labour Reporter PIPPA GREEN



...d in the Guguletu hostel room

THE Government announcement that certain foods will be exempted from GST has brought little comfort to those already living close to the breadline, since many are unlikely to reap much benefit from the exemptions.

Many Cape Flats households do not have electricity, and fridges are still regarded as a luxury. As a result, lower-income groups buy substantial amounts of tinned food — which will still be subject to the 10-percent sales tax from July 1.

And even the shopping baskets of workers who do own fridges contain a high proportion of taxable goods.

Examining the household budgets of workers interviewed showed that the tax exemptions hold little, if any, relief for the poor.

Household necessities

The newly-formed federation of independent black trade unions has listed a "range of household necessities" bought regularly by workers on which tax will increase.

They include tea, coffee, sugar, tinned foods, toiletries, candles, paraffin, clothing and household utensils.

● Mr Shadrack Mkila is a contract worker with a local firm in the building industry. He has worked with the same firm for 13 years and earns R51,75 a week.

He sends about R20 a week to his wife and six children in Transkei — leaving him about R31 a week to live on.

Six tins of vegetables

Neither he nor a fellow contract worker, who did not want to be named, have a fridge, so most of the food they eat — apart from the exempted samp, mealie-meal and bread — is tinned, and therefore not exempt from GST.

Mr Mkila and his colleague each buy about six tins of vegetables a week and several tins of fish. They also buy one five-litre tin of paraffin, soap and other toiletries.

Tea, coffee, sugar, jam and rice are bought once a fortnight.

"We buy fresh meat and vegetables once a week before the weekend; never more than that.

"It would be better if the Government were to reduce GST on more things. It would make it easier for people all round. We all have to spend money on these things, whether you earn a lot or a little," said Mr Mkila's colleague.

Typing school fees

● A municipal worker, who has worked for the City Council for nearly 14 years and who lives in Hanover Park with his family, earns a standard wage of R83,05 a week. His take-home pay, after deductions which include rent, is R64.

Of that, the family spends about R26.50 a week on electricity, hire-purchase repayments, the telephone bill and his daughter's typing school fees. That leaves R37,50 a week for transport, groceries, clothes and entertainment.

About R15 a week is spent on fresh vegetables, meat, milk and bread. The balance is spent on taxable goods.

● Mr Alfred Jacobs of Guguletu is an electrician with a construction company.

His basic wage is R108 a week, of which he pays R18,67 a month in rent and about R20 a month on electricity.

Mr Jacobs has three school-going children, for whom he provides bus fares, school books and uniforms.

Weekly bus fares for the family amount to R25,60 and hire-purchase repayments to R50. The fortnightly shopping bill comes to R82.

Because the family owns a fridge they can afford to buy fresh foods. Nevertheless, of the R82 shopping bill only about R29 is spent on GST-exempt goods like samp, fresh meat, milk, bread, margarine and vegetables.

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18/6/84

SALES TAX

Mr Shadrack Mkila examines his grocery cupboard in the Guguletu hostel room where he lives.

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ARGUS 18/6

Report

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Focus on GST

(320) E. Post 19/6/84

The difference between GST and Europe's VAT

THE main difference between a general sales tax (GST) and value-added tax (VAT), which is compulsory in European Community countries, is in the method of collection.

If the tax rates are equal, the total revenue and economic consequences are the same. In both cases, the final consumer bears the whole tax.

Neither method is a new idea. They have been discussed in the West since the First World War and were first introduced in Europe in the '50s as an alternative to cascading turnover taxes.

These cascading taxes were characterised by the payment of taxes at each level of production. Hence it was natural for the Europeans to favour VAT, levied at each stage at which value is added, over GST, which is levied directly on the end-user.

The introduction of a similar tax at Federal level in the United States has long been, and is still, under discussion.

Michigan was the first state to levy a form of state VAT between 1953 and '67.

HERE are the current value added tax (VAT) rates in European Economic Community countries, with the year in which the tax was introduced:

Country	Year	Rate
Belgium	1971	19,0%
Denmark	1967	22,0%
France	1954	18,6%
Eire	1972	35,0%
Italy	1973	18,0%
Luxembourg	1970	12,0%
Netherlands	1969	19,0%
Britain	1973	15,0%
West Germany	1968	14,0%

'What about pilchards, sardines?'

JOHANNESBURG — The Consumer Council has said that since partly processed meat such as hamburger patties and sausages had been included in the list of food items exempted from GST, canned South African sardines and pilchards should also have been included in the list because of their nutritional value.

Consumer Council director Mr Jan Cronje said the council welcomed the list of exemptions from GST on basic foods, which was "nearly complete".

Canned pilchards and sardines, he said, are a rich source of protein for the lower income groups and construction workers.

Complete list of exemptions from new GST

READERS are advised to cut out and keep the following full list of exemptions from GST, as supplied by the Commissioner for Inland Revenue, Mr Carl Schweppenhäuser.

- Bread whose maximum selling price is fixed, including white, brown, wholewheat and compound bread but excluding high-protein bread, special bread such as french loaves, super white bread, rye bread, rolls, buns, unleavened bread and rusks.
- All butter.
- Eggs laid by domestic hens but not those from other birds such as ducks, turkeys, geese and ostriches, or separate egg yolks and whites.
- Fish, including all raw finfish which has to be cooked before being eaten but not invertebrate seafood such as rock lobster, crabs, langoustine, shrimps, prawns, oysters, mussels, abalone; canned or bottled fish; marinated and pickled fish; cured fish; bait, fish extracts and pastes; caviar and caviar substitutes; smoked fish; fish biltong; fish products containing less that 60% raw fish; all fish sold ready to eat.
- Fruit not cooked or treated except for protection against perishing, but excluding nuts, dried fruit, glacé fruit, canned or bottled fruit, jam made from fruit, fruit juices.
- Maize meal, including super maize meal, sifted and unsifted maize meal; samp; mealie rice for human consumption, but not maize flour.
- Margarine.
- Raw meat, including poultry, sausages, hamburger patties, steak and beef burgers, but not canned meat, marinated or pickled meat, polony, vienna sausages or frankfurters.
- Milk of cattle, sheep or goats, including skimmed and full cream milk, buttermilk, sterilised milk and long-life milk, but excluding condensed or concentrated, flavoured, sour or sweetened milk or yoghurt.
- Milk powder obtained by removal of water from milk.
- Vegetables for human consumption which have not been cooked or preserved except by freezing, blanching or scalding, but excluding canned and dehydrated vegetables.
- Wholewheat meal.

Milk powder and margarine will be exempt from general sales tax from July 1 but items such as bread rolls, rye bread, caviar, shrimps and other invertebrate fish will remain subject to GST, according to the Commissioner.

He said in a press release listing the foods to be freed from GST when it is increased next month that the exemption would not apply to food prepared for immediate consumption, such as that bought in restaurants, hotels and at fast food outlets.

Canned, bottled or smoked fish, canned meat, polony, vienna sausages and frankfurters as well as condensed, flavoured or sour milk and yoghurt will also not be liable for the exemption. — Sapa

'Certain key items left out'

THE Director of the Port Elizabeth Chamber of Commerce, Mr Tony Gilson, said that if the list of basic foodstuffs to be exempt from general sales tax was intended to help those who could not afford to pay 10% tax on basic foods, then it did not make sense that certain essential items had been left out.

"The chamber supports a broadly based GST system at a low rate," he said. "As long as GST is kept low, there is no justification to push for any rebate, but GST has increased to 2½ times what it was when it was first introduced.

"The increase now warrants these exemptions, but the list of exempted goods must be kept to a minimum, otherwise other tax rates will go up," he said.

Assocom urges govt to postpone fringe benefits taxation

CAPE TIMES 20/6/84

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By HAROLD FRIDJHON

JOHANNESBURG. — Representations that the taxation of fringe benefits should not become effective on September 1 of this year but on March 1 1985 have been made by the Association of Chambers of Commerce (Assocom).

In a memorandum to the Department of Finance, Assocom points out that as the tax system is based on assessments for a full tax year, very real practical problems will arise if the provisions of the draft perks tax Bill are enacted from the middle of a tax year.

With less than three months to go, the phasing-in provisions to implement the tax proposals are still unknown. Finality will only be achieved once the legislation is enacted and that could be as late as August 1984.

Problems

Assocom is concerned that there will be insufficient time to resolve the problems that might arise, and for employers to set up the administrative systems necessary to carry out any changes that might have to be made.

These changes will involve discussions with individual employees to enable them to adjust their pay packages. Talks with trade unions will also be necessary.

Assocom states that in principle that all forms of remuneration including non-cash benefits should be taxed provided that:

- the employee is only taxed where he enjoys a benefit;
- the benefit on which he is taxed forms part of the remuneration structure;
- the employee is taxed only to the extent of the benefit that he enjoys; and
- employees in the public and private sectors as well as in other State bodies are taxed on the same basis.

Public sector

In spite of the Parliamentary Commission's support for the principle that people in the public sectors will be treated equally, Assocom says that a number of aspects discriminate in favour of employees in the public sector.

Housing subsidies, the most significant public sector fringe benefit will be phased in over a period of seven years.

Motor vehicles and entertainment allowances, the most prevalent perks in the private sector, will be taxed in the second year after the legislation is implemented.

The seven year phase-in period applies to all housing subsidy schemes, housing loan schemes that are offered to private sector employees only qualify for the seven-years phase-in if they are used to "acquire, erect, extend or improve" the residence. In the case of a loan granted for an existing residence, the seven-year phase-in does not apply.

Allowances

The special treatment of allowances to holders of public offices will primarily benefit employees in the public sector. Assocom believes that these allowances should only be excluded from taxable income to the extent that they are proved to have been spent for the purposes of the public office.

Other aspects of alleged discrimination in favour of the public servants are those which deal with the valuation on two residences benefiting only public officials attending parliamentary sessions, and certain travel facilities provided by employers "engaged in the business of conveying passengers".

Assocom says that employees in the public sector already enjoy favoured tax treatment by means of special provisions for pensions and gratuities and the Association urges that these and other forms of discrimination should be removed so that holders of office in the public and private sectors should be treated equally for income tax purposes.

Entertainment

In the case of entertainment allowances Assocom believes that club subscriptions should be excluded from entertainment allowances and that the amount of these allowances should be raised to R5 000 or 10 percent of taxable income whichever is the lesser.,

The proposed subsistence allowance of R100 a day with the excess expenditure being taxable is "quite unrealistic" taking into account that a single night's accommodation at a five-star hotel is R100.

Assocom urges that the allowance for local travel should be increased to at least R200 a day.

In the case of subsistence allowances advanced to persons travelling overseas, Assocom's view is that the maximum deduction permitted should be the daily amount permitted by the Reserve Bank in terms of the exchange control regulations.

The Commission has disregarded the principle that employees should be taxed only when they enjoy a benefit as part of their remuneration in the case of motor vehicles. The Commission has recommended that the fixed cost element of the motor vehicle should be taken into account in determining the value of the employee's benefit.

Private use

The fixed cost element remains the same to the employer irrespective of the extent to which the motor vehicle is used by an employee for his own private use. The benefit to the employee should be based only on fair wear and tear, maintenance and running expenses of private usage.

Taxing housing benefits by reference to earnings has no regard to the standard of housing provided. For example, two persons earning the same salary but one living in a free company house in Sandton and the other in a company house in Potchefstroom will be said to have derived the same benefit and will be taxed on the same basis. The is inequitable.

The exclusion from taxable income of transport services given by employers to employees to convey them between work and home is supported by Assocom which believes that this facility should be extended. It should include the provision of bus and train tickets for travel between home and work.

Assocom also believes that travel by company car to and from work should also be excluded from private travelling.

CAPE Times 20/6/84

Assocom paper on GST system

(320)

JOHANNESBURG. — The Association of Chambers of Commerce (Assocom) yesterday released its pamphlet on the new general sales tax system.

The free pamphlet, of which 30 000 copies have been printed, will be sent direct to Assocom members and will also be available from offices of the various commercial and industrial organizations such as the Federated Chamber of Industries and Afrikaanse Handelsinstituut as well as offices of the Receiver of Revenue around the country.

It sets out in brief, chiefly for the benefit of vendors, the foodstuffs which will be wholly exempted from tax from July 1 when the new 10 percent GST rate will take effect. In addition, it gives guidelines on how to apply the differential taxing system and gives the few exceptions to the add-on system which is to become compulsory on September 1.

Endorsed by Horwood

Assocom's executive director, Mr Raymond Parsons, said Assocom had compiled the pamphlet in close consultation with all interested parties. It was endorsed by the Minister of Finance, Mr Owen Horwood, and the Commissioner for Inland Revenue, Mr Carl Schweppenhauser, and consequently the Department of Inland Revenue would not be issuing a separate publication of this nature.

"We must accept however that it will be necessary to test the new system in practice, especially the definition of exemptions, and there may have to be further modifications to the system later in the light of experience," he said.

The add-on system will apply in all cases except, firstly, for sales of petrol and other fuel from bowsers, secondly, sales of services effected through coin-operated machines and, thirdly, "very exceptional circumstances".

Mr C E Kingon, the Johannesburg Receiver of Revenue, who was present at the press conference, urged traders who wished to retain the add-in system to make representations as soon as possible. — Sapa

Headaches for traders as GST D-Day looms

Staff Reporter

CAPE businessmen face a taxing time next month as more revenue inspectors enter the fray in search for GST evaders, while mass confusion reigns among smaller traders on how to apply the new system.

Mr B J van Dyk, Cape Town's Receiver of Revenue, said today that more inspectors were now available to ensure that payments of GST were not withheld from the Treasury.

GST goes up from seven percent to 10 percent from July 1, and some basic foodstuffs will become exempt from sales tax on that date.

EXTENDED

Traders who operate the "add-in" system of GST have been given until September 1 to change to the "add-on" system, in which tax is added on at the till.

In a bid to help to solve the mass confusion among smaller traders, Assocom has printed 30 000 copies of a business guide on GST, which will be available in Cape Town soon.

Mr Ed Verburg, Assocom's statistician, today described how the pamphlet would try to solve some of the GST headaches.

It recommends that traders have price stickers with various colour codes for exempt and non-exempt items.

MODIFICATION

Computerised cash registers could be modified to accommodate the new system, but small businessmen who could not afford these would have to introduce a system of separate baskets for exempt and non-exempt items so that the tax would be applied only to the correct items, he said.

Tygerberg Chamber of Commerce is holding a discussion at Parow Civic Centre at 6.45pm tonight.

'Ghost taxes' a reality by 1985?

(320) S. Post 23/6/84

By LOUIS BECKERLING
Business Editor

THE spectre of "ghost taxes" on turnover, payrolls, and assets may take horrifying substance before the end of the year, according to Mr Pierre du Toit, partner in the auditing firm Arthur Andersen.

Addressing a tax seminar staged by the Midland Chamber of Industries in Port Elizabeth this week, Mr Du Toit urged businessmen to protest vigorously against a summary and arbitrary introduction of such drastic proposals designed to glean between R1 000 million and R2 000 million for the financing of the new consitutional dispensation.

The strongly-rumoured introduction of such taxes came against a background of a near cash-panic in which the Government currently found itself — evidenced by a total onslaught on company incomes and the veil of secrecy which had been drawn over the rumoured efforts to boost Government income.

"Academics don't know what is being planned, tax practitioners can't tell us what is in the pipeline, and I believe the Department of Inland Revenue itself is ignorant of what is going on — and yet there is believed to be a 80-page-plus Bill circulating which contains details of the proposals," said Mr Du Toit.

"I would be willing to wager a few rand on the fact that that not even the Standing Commission on Taxation — established by the Government itself — is aware of what is going on," said Mr Du Toit, "yet this is a tax measure which could take anything between R1 000 million and R2 000 million out of businesses pockets."

"So here we have three new taxes being thrown in at the end of a Parliamentary session with everyone still in the dark. Who's is going to administer it all?

"Business should be warned there is a Siberian wolf prowling out there in the wings of 1984 — and they should beseech the Government to publish its proposals for comment and not simply push this through at the end of the session."

Mr Du Toit said the rumoured proposals followed drastic revision of the country's tax system and a series of tax amendments announced before, during and after the March Budget provided "eloquent evidence of the fact that the Government was in trouble — almost in a panic".

Under the circumstances of ever-tightening tax administration, businessmen had several courses of action open to them.

It was firstly necessary to dismiss the dangerous perception that efforts to pay as little tax as possible are somehow unpatriotic.

Every company had not only a clear right to reduce its tax bill to a minimum, but a duty to its shareholders to do so, said Mr Du Toit.

Under the circumstances of an increasing onslaught on companies' incomes, finance managers and auditors would have to work a lot harder to reduce tax bills; regular tax audits should be conducted to establish total taxes paid — across the spectrum from direct taxes through GST, import surcharges, estate-tax — "and it will come to a frightening amount of money", and priorities should then be set to obtain maximum savings.

"Be aware of the possibility of subpoenas, of the importance of considering tax implications *before* signing contracts — and don't lose site of your fundamental right to plan within the law to pay the least possible tax," said Mr Du Toit.

'Quarrels at the till' predicted when the new rules are enforced

320 Star 23/6/84

Great GST muddle

By Malcolm Fothergill

South Africa is heading for a king-size muddle when the general sales tax system changes in just over a week's time, say major retailers.

They accuse the Department of Inland Revenue of being unable to provide consistent rulings on which items will be exempt from GST, and which will attract the new tax rate of 10 percent when GST changes on July 1.

"We are going to have a lot of arguments at the till," predicted Checkers group merchandise executive Mr Lionel Blakeman.

"In theory, the list of exemptions put out by the department looks fine. But when one starts getting down to the basics there are dozens of anomalies — and nobody to sort them out.

"We've been getting different answers from different Inland Revenue offices, and even from different people in the same office."

Mr Mike Dobson, deputy managing director for Spar Inland, said the number of queries that had arisen since the list of exempted foods was released this month was "somewhat disheartening".

Spar was now relying on the Association of Chambers of Commerce to get direct answers to its queries.

If queries arose at the till "we will tend to take the customer's side — we believe the Commissioner will be realistic and reasonable in the initial weeks of the new system".

Mr Dobson welcomed a Checkers suggestion that Inland Revenue should set up a "hot line" able to give retailers immediate and authoritative answers to their many queries.

With regard to this the Commissioner for Inland Revenue, Mr Carl Schweppenhauser, said yesterday that all receivers of revenue had been well briefed on the subject of exempted products, and any problems could be directed at them.

"But if there is a strong demand for a special hot line service from the business community as a whole, we will seriously consider setting one up," Mr Schweppenhauser added.

Peta Lomberg of Checkers said the chain was prepared to let Inland Revenue have its commodity book to help it come up with comprehensive lists of which foods were exempted, and which would attract tax.

"The department must deal with every item by brand name. There are no definitions in terms of brand names at the moment, and that's confusing."

Among the anomalies pointed out by retailers are that tins of seafood cocktail and pet food will be exempt, but cheese, sugar, sour milk and peanut butter will not be. Marinated meat will not be exempt, but a brand of marinated burgers will be.

Baby formulas will not be exempt. Nor will milk blends, with one exception. Yet some brands of full cream will be exempt.

The "regular" flavour of a make of supplementary food will be exempt, but its other lines will be taxed.

A ruling is awaited on raw sausage rolls. Going by the Inland Revenue guidelines, the meat in them should be exempt, but the pastry around the meat should be taxed.

Now, sort that one out.

Big firms scramble to beat perks tax

W/C ARGUS 23/6/84 (320)

By AUDREY d'ANGELO

LARGE corporations which pay up to 50 percent of salary packages in the form of fringe benefits, and smaller companies which also make use of them, are looking for ways to go on doing this if the "perks tax" comes into effect on September 1.

If they fail to find loopholes enabling them to do so they will be forced to raise salaries and this will have a "wildly inflationary effect," according to the director of the Cape Town Chamber of Commerce, Mr Brian MacLeod.

Pointing out that higher salaries would result in higher prices and taxes, he said the effect would be to take more money from the consumer and give it to the Government to spend.

Government spending was already too high at 25 percent of Gross Domestic Product.

Executive skills

Mr Brian Robinson, managing director of Syfrets, said he believed more firms would now help their employees through approved housing assistance schemes.

Many were waiting only for the figures to be announced to make sure their new schemes would qualify.

He believed the proposed tax would not take effect until March and would eventually lead to a fairer distribution of the tax burden.

But in the short term it would be inflationary, with many firms having to pay employees more.

Mr C E McCarthy, deputy director of the Cape Chamber of Industries, said there was a shortage of executive skills in South Africa.

People whose skills were in short supply and who found themselves worse off as a result of taxes on their fringe benefits would pressure their employers to do something about it.

Some firms would undoubtedly increase salaries and this would be "most inflationary".

Professor John Simpson, director of the University of Cape Town Graduate School of Business, said it was inevitable that salaries would go up to compensate for higher tax on fringe benefits which were enjoyed not only by executives but by many people in less senior jobs.

Housing loans

Most of the larger corporations provided fringe benefits which added "something like 50 percent to salaries".

But he thought higher taxation of fringe benefits would be phased in gradually so that it would not have a major impact on salary bills.

Mr Jossel Lipshitz, managing director of Schus Datsun, is among city employers looking for ways to compensate staff for higher tax on their existing fringe benefits.

"Housing seems the main area to be exploited. Our auditors have been asked to draft a report on the possibility of giving senior staff low-interest housing loans which would mean lower bond repayments."

Cheaper cars

Mr Lipshitz said that although having a company car would become a less attractive fringe benefit if tax payments on it were higher he did not think middle and senior management would give them up.

But there might be a swing to smaller, cheaper cars. "An executive might prefer an R11 000 car to a R13 000 car if it means he pays less tax."

He thought the main reason for a stricter "perks tax" was not to bring down inflation by taking money out of the economy but to raise more for the Government.

"If employers have to put up salaries the main beneficiary will be the Government, which will get more in taxes."

"Incentive travel"

Mr Philip Krawitz, President of the Cape Town Chamber of Commerce and managing director of the Cape Union Mart group of companies, said higher taxation of fringe benefits would not be a bad thing if it introduced equality into the tax system.

But it was essential that the phasing in of the perks tax should be accompanied by a reduction in income tax. Without this, the tax would simply make inflation worse.

Mr John Robert, managing director of Captour, said that "incentive travel" — the rewarding of employees with free trips — was big business in the US.

But it had not yet caught on to any great extent in South Africa, so he thought a perks tax would have little effect on the tourist industry.

Mr Benjamin Mayo, group accountant of Protea Hotels, said all hotel staff were traditionally given a free meal every day.

If they were taxed on this the group would have to compensate them.

It was possible that a reduction of tax-free entertainment allowances might result in a fall in the number of business lunches for a time.

"But I believe this business will come back."

THE REX PAGE An economist's view of the South African and world scene

24/6/84

Consumers must cough

(320) S. Times

EITHER the Government or the consumer is going to have to cut spending sharply to pay for teachers' increases and the new constitution. In this uneven tug-o'-war, reasons Business Times' economic columnist, there can be only one winner, for Government has the power — and the will — to effect a major redistribution of wealth in SA

FOR a trade-reliant country like South Africa, the balance of payments is a key constraint on economic performance.

If overall demand is too high, imports tend to soar, sending the BoP into deficit. This cannot be allowed to go unchecked for too long.

For some time now, SA has had a weak BoP position. Government action in lifting interest rates and allowing the rand to fall has forced the corporate sector to ease pressure on the BoP by reducing import-sensitive stocks and investment spending.

The remaining two partners in the economy, the Government and the private consumer, have so far refused to make their contribution to frugality. An unequal tug-o-war has for some time been in the making and only the Government can win.

It is only in drips and drabs that Government's true spending priorities and the associated tax burden are being made known to an incredulous public. By the end of this year it will be difficult to believe that we started 1984 with six percent GST.

Optimistic

It is obvious that the March Budget only reflected last year's spending level plus a very optimistic view of this year's inflation rate. That Budget of R25-billion did not reflect new spending demands, particularly in the areas of defence, drought relief, teachers' salaries and constitutional development.

It would appear that the R800-million due to come in from the GST increase to 10 percent will be entirely swallowed up by additional drought relief and defence spending, among other things. But this will not leave enough for teachers' demands and the new constitutional dispensation.

Minister Horwood's sleight of hand in the March Budget of comparing Budget 1984 with Budget 1983 figures (instead of the actual figures for 1983) has backfired badly.

It revealed, for instance, a 23 percent increase for education, when, owing to overspending in 1983, the rise was actually going to be much smaller. But teachers latched on to the magic 23 percent and started expecting a 20 percent to 25 percent salary increase.

The Budget did not provide for bringing teachers' salaries into line with the rest of the public sector. By delaying increases until December the Minister is saving himself nine months of increases this year. It means, though, that an extra R500-million will have to be found somewhere next year.

An increased tax burden on account of this one item alone seems inevitable.

The biggest imponderable though, is constitutional development at central government level.

Pressure is building up for spending on coloureds and Asians to rise significantly as a quid pro quo for their participation in the new dispensation. Parity with whites seems to be a minimum expectation, particularly in the areas of education, housing, public service pay, opportunities (and defence?).

Even though the Minister appears to have heavily underestimated his revenue from various sources, it is unlikely that all these new demands on the Treasury will be financed from the existing tax base through further recourse to borrowing.

Staggered

As the Minister has so far staggered his tax increase, rather than lump the taxpayer with a maxi-increase, it may be expected that future tax increases will be similarly paced.

A further GST increase before or as part of the main 1985 Budget and a future capital gains tax cannot be ruled out.

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SA's population is rapidly urbanising without an adequate mechanism for financing the costs of essential services, except at the expense of the white tax payer via handouts by central government.

To make coloured, Asian — and black — townships financially self-supporting, the Croeser Work Group proposes three business taxes that will be collected in large metropolitan areas, and will be channelled to municipalities by way of a sharing formula, according to need rather than wealth of residents.

Speculation is rife about these taxes: a turnover tax, a payroll tax and a tax on investment in plant and machinery. This proposal, when finally adopted, could possibly raise a huge amount of new tax, which would benefit blighted Black urban areas.

The taxes will hopefully lighten the burden of central government in the areas of public transport, roads, housing and other necessary services.

If the Croeser proposals were to be implemented, either during the coming months or in the course of the next two years, it would be wrong to speak of "business" taxes.

For no businessman is going to sit around and let his profits be eroded if he can unburden himself. As these taxes would hit all competitive businesses equally in the main urban areas, there would be no penalty for businesses to pass this new burden on to the consumer by way of increased prices.

A rapid build-up to R2 000-million a year in new taxes would probably not be far fetched. It would come straight out of the consumer's pocket, equate to another three percent on GST and do wonders for inflation during the next few years.

It would seem that the Government means business with its constitutional development, both on the central and local level.

In the process, a major redistribution of income is being imposed on the SA economy in very little time. And these changes are being pushed through at a time when the economy is in the worst possible condition. Many other demands (defence, education, agriculture, SWA) require attention as well.

Reallocation

One is reminded of the magician who calls a member of his audience to the front and proceeds to take off his victim's clothes one by one without the latter noticing it. And yet that is what has been happening since the beginning of this year and is likely to continue next year.

The Government, being the strongest entity in the SA economy, is forcing a reallocation of resources that will allow it to pursue its spending objectives, even in the face of a weak economy and a weaker BoP. The private consumer, like the corporate sector before, is being prevailed upon to make the necessary sacrifices to make this possible.

In order to correct the weak BoP situation while the Government continues with its redistribution plans, it is necessary for the private consumer to reduce his spending, and thereby his related imports.

While sharply higher taxes and unemployment are eroding the consumer's real disposable income, the consumer has so far refused to accommodate the Government's wishes. For that reason we have seen the dip in savings and the increase in consumer borrowing.

It is neither high-minded nor arrogant to question the consumer's wisdom in overspending at the expense of his savings. The consumer cannot win this tussle with government priorities. The quicker the former acknowledges the latter's politically superior claim, the less painful it will be.

The consumer has a choice of sorts. He can reduce his spending after July of his own volition in the wake of the GST increase. Or, he can wait for the Government to loose patience and slap on credit restraints. Either way, in the absence of a rapid sustainable increase in the gold price, the consumer is going to be forced to cut back in the months ahead.

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Sanlam Economic Survey (320)

Sept. 1984

It is therefore apparent that there has been serious overspending by both private and public sector. Stated in another way: Our country has been living beyond its means and an essential corrective process is unavoidable. Individuals and business undertakings are already burdened by the harsh restrictive measures of the authorities and it seems that these steps are having a drastic effect on business activity. It is important consequently that government expenditure, particularly current, should also be curtailed substantially. The announcement that spending will be cut by R650 million is therefore a step in the right direction.

2.2 Inflation

2.2.1 General

Although the change in the scales of general sales tax resulted in a decline of 3,9% in the food price index in July, the total consumer price index rose by 0,4%. However, taking into consideration normal price increases as well, the food price index dropped by 2,29% and the total consumer price index increased by 1,34%.

Percentage change in the consumer price index

	Compared with the preceding month		Compared with the same month a year ago	
1984	Food	Total	Food	Total
February	1,47	1,35	9,1	10,0
March	2,02	1,26	9,6	10,2
April	1,72	1,49	11,1	11,0
May	0,52	0,77	11,6	11,0
June	1,68	1,01	13,7	11,7
July	–2,29	1,34	11,2	12,4

Source: Central Statistical Services

In July the consumer price index in respect of those in the higher, middle and lower income groups was 12,8%, 12,6% and 10,8% higher respectively than in the same month last year. In view of the fact that people in the lower income group spend a markedly larger share of their income on basic foodstuffs – exempted from GST – the change in the tax rates has caused the annual increase in the consumer price index to be appreciably less for them than for the other income groups.

At this stage it seems that on average the consumer price index will be about 11,5% – 12% higher this year than in 1983.

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2.2.2 **Inflation and indirect taxes**

In South Africa – as in many other countries – changes in the official consumer price index are accepted as the general indicator of inflation. It is, however, but one of several measures normally used to obtain a broad indication of trends in the general price level of goods and services in a country. Other possibilities are to use retail prices, wholesale prices, production prices, etc. as a basis for calculation.

In the short term the introduction of or increase in an indirect tax (whether it be during one of the production stages or at the final point of sale) normally results in an increase in the selling price of consumer goods and services. (At times it is expressly used as a policy instrument to influence the relative prices of goods.) In order to obtain a broad impression of inflation in a country it is therefore correct to include such tax changes in the relevant index.

Many entrepreneurs and individuals have, however, adopted the consumer price index as a measure of their real welfare (or changes to it). Inflation in terms of changes in the consumer price index is then used as point of departure in price, wage and salary bargaining. This action causes the initial purpose of the tax as an instrument of economic policy (e.g. to obtain increased revenue for the exchequer, to curtail surplus consumption, to promote a fairer distribution of income, etc.) to be largely neutralised. In any case it makes little sense economically to compensate a consumer or producer for a tax that was created to have the opposite effect.

Sales tax – which admittedly may serve the beneficial purpose of curbing inflation in the long term – has the drawback, as has been pointed out already, that it causes consumer prices to rise immediately and that it places the consumer price index on a permanently higher level. Linking costs or remuneration to an index that includes tax, means that the relevant tax becomes an inherent portion of the next round in the inflation spiral and that it erroneously forms an integrated part of inflationary expectations.

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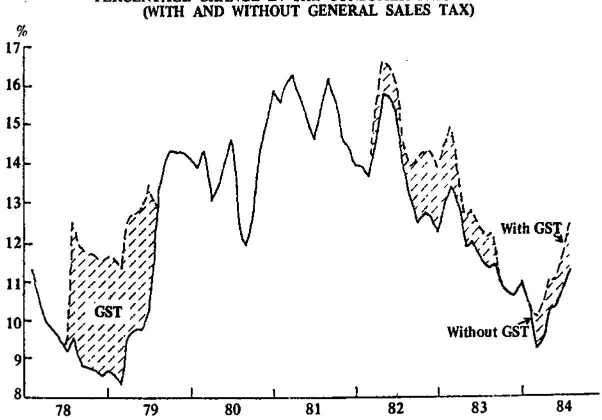
The introduction of GST in 1978 and the subsequent changes in the rate have caused the official consumer price index to be about 5,5% higher than it would have been otherwise. Because consumer prices are subject to other forms of indirect taxes too (e.g. customs and excise duties, which in the past fiscal year amounted to more than R3 000 million or about 78% of the revenue from GST), an index without these taxes would naturally be even lower.

The following graph which reflects the year-on-year rise of the consumer price index – with and without general sales tax – shows clearly that in a given period there can be a marked difference in the inflation rate depending on the basis of measurement used.

PERCENTAGE CHANGE IN THE CONSUMER PRICE INDEX*
(WITH AND WITHOUT GENERAL SALES TAX)



*Monthly, compared with the same month a year ago
Source: Central Statistical Services (basic data)

Because the consumer price index, with all its failings, will continue to be used as the most important measure for calculating inflation – also in wage claims – and in view of the fact that changes to the scales of indirect taxes will occur continually (and probably increasingly), we consider that the publication of a consumer price index with the exclusion of indirect taxes could fill an important gap.

RDM 17/9/84 (320)

Payroll tax a threat to jobs, says clothing industry boss

By ROBERT GREIG

A PAYROLL tax would worsen unemployment and threaten existing jobs, the clothing industry has warned the government.

The chairman of the National Clothing Federation, Mr Mike Getz, said recently that imminent payroll tax — "this latest reaction of the central authorities to the acute economic problems we face" — threatened "the very basis of present and future socio-economic priorities".

"The creation and motivation of job opportunities for our under-employed population could be seriously undermined.

"We believe that this contradiction is an unfortunate result of the absence of a consistent policy towards the encouragement and development of job-providing industries".

The payroll tax has been accepted in principle by the government as one of three tax means of raising money for local authorities, clothing industry sources say.

The other forms of tax are on capital investment and turnover.

Further details of these have not been released, nor when the taxes will be introduced.

Mr Getz predicted a moderate decline in clothes manufacturing in 1984, compared to 1983's 8% volume decline in clothing sales and 14% decline in manufacting volume.

He said the industry's prospects depended on:

- A cost structure that would help develop manufacturing industries.

Rents were high by Western standards and extremely high for the small, complex domestic market. "Realistically, they may well be too high for sustained growth of consumption in real terms.

"The gap between average income growth and the rise in forward costs a square metre is widening," Mr Getz said.

- An up-to-date foreign trade policy.

Mr Getz said: "It is important to understand that SA's preoccupation with the price of gold masked a far more serious problem.

"This is the lack of awareness in both the private and public sector that we are presently approaching world markets with an ageing and vulnerable mix of commodities and products."

Tax concessions cost State R5bn

320 S. Times 16/9/84

By Barry Sergeant

TAX concessions will cost the Treasury at least R5 000-million in the 1984-85 financial year.

This is the finding of J van der S Heyns, professor of economics at the Durban campus of the University of Natal. His findings are published in the August quarterly news bulletin from the Board of Executors, and comprise part of a larger study Professor Heynes is conducting on income-tax expenditure — in effect money that is not received.

The estimated R5 000-million exceeds the R4 503-million expected from company income tax in the 1984-85 fiscal year, and 69% of the R7 265-million income tax expected from individuals.

INCOME TAX EXPENDITURE IN SOUTH AFRICA

	Year	R(m)
Child rebates	1984/85	240
Special rebates for persons over 60 and 70	1984/85	54
Insurance and Funds rebates	1984/85	93
Deduction for medical expenses	1984/85	303
Exemption of employers' shares of medical aid contributions	1983	84
Deductibility of current and arrear contributions to pension and retirement annuity funds and the exemption of employers' contributions	1984/85	1330
Exemption of housing benefits in the public service	1984/85	50
Concession on building society investments	1982/83	78
Training allowances	1981/82	32
Total or partial exemption of interest on certain Post Office investments and Treasury Bonds	1982/83	57
Exemption of in-kind income received by members of the defence force	1984/85	31
Machinery allowances	1983/84	800
Industrial building allowances	1983/84	110
Decentralisation concessions (other than machinery and building allowances)	1984/85	32
Allowances for farming expenditure on "developments and improvements"	1983/84	117
Exporters marketing allowances	1980/81	74
Exemption of state assistance for experts	1984/85	34
Deductibility of wife's earnings allowance	1984/85	434
Deductibility of leasehold property improvements	1983/84	100
Mining capital expenditure allowances	1983/84	838

Reasons

Income-tax expenditure, says Prof Heyns, is financially equivalent to direct expenditure. For example, the R1 600 that can be deducted from the joint income of married working couples will cost the State R434-million in 1984-85.

Like the rebate for children — costing R240-million — the deduction for working wives is a special deal for social reasons.

Other concessions have economic reasons, such as industrial building allowances costing R110-million this year.

Other expenditure is made after taxes have been collected, and is published in the Budget.

Logical

The estimated R5 000-million forgone is more than the largest item in the 1984-95 budget — Constitutional Development's R4 559-million.

Prof Heyns says: "It is therefore entirely logical that the cost of each concession should be known and that it should be reviewed as closely and as regularly as any other item of expenditure."

If Prof Heyn's argument were heeded and a tax expenditure list were published, it would answer many queries.

Prof Heyn's analysis probably errs in being conservative — a prime example being his estimate for machinery allowances of R800-million in the 1984-85 tax year. One of SA's largest plants is receiving tax relief on capital spending of about R1 000-million. Of this, at least R200-million represents revenue lost to the fiscus this year.

Some of the larger items in the tax expenditure list are pension and retirement annuity contributions costing the fiscus R1 300-million in 1984-85 and mining capital expenditure allowances costing R838-million.

Prof Heyns urges the Government to disclose tax expenditure and says the issue is not whether special provisions would survive the glare of publicity, but that all tax expenditure should be scrutinised as meticulously and regularly as direct expenditure.

Formats

There are about 150 cases where tax rules depart from what may be regarded as generally accepted formats. As examples he lists exclusions from income, income exemptions, special deductions and allowances, concessionary tax rates, rebates, and deferrals of tax liability, such as accelerated depreciation allowances for business assets.

Prof Heyns says the concept of tax expenditure in SA is still in its infancy, both from a conceptual and presentational point of view.

The US started tax expenditure budgeting in the 1960s, and forms of the concept are used in many other Western nations.

Canada introduced a management system in 1979; Australia has a form of tax expenditure budgeting; and since 1979 the UK Budget has included a list of indirect allowances and relief.

Taxman doubles his slice of the cake

S. Express 16/9/84

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By TONY KOENDERMAN: Financ

TAX measures by the government this year have almost doubled the effective tax rate which will be paid by many companies, according to a preliminary estimate by the Federated Chamber of Industries.

In this year's Budget the nominal tax rate was raised to 50% from 46% last year. In addition, the hidden agenda of curtailed tax concessions means that instead of an effective rate of 23%, many companies will pay 38% this year.

And once the investment allowances fall away next June, companies will find themselves paying the nominal tax rate of 50%.

The change comes about through the loss or substantial reduction of a number of tax breaks in the Budget last March:

● The LIFO (last in, first out) concession, which was removed overnight.

Under the LIFO system of valuing stocks introduced in 1976, companies enjoyed a considerable reduction of tax in the year of changeover to the system and a lesser reduction in subsequent years.

The former Minister of Finance, Mr Owen Horwood, said in his Budget speech that traders were thus tempted to make the change primarily or solely for tax reasons. "I am not convinced of the advantages of LIFO over conventional methods of valuation," he said. "The loss of revenue caused is excessive."

Now the rule is 'anything but LIFO'.

● The phasing out of investment allowances as from next June.

Effect

It is expected that the end of these concessions will have an even bigger effect on manufacturers than the loss of LIFO. At present, manufacturers enjoy a 30% allowance — effectively a cash gift — on the capital value of new manufacturing assets.

Now the initial tax allowance will be increased by 30%. This, however, is no longer a tax gift but an accelerated depreciation allowance.

● A substantial reduction in training allowances.

Training allowances were reduced from 100% to 50% of training expenses, with effect from the beginning of this month, and the allowance now only applies to training of employees earning less than R15 000 a year.

● Curbs on tax benefits being enjoyed under conditions of suspensive sale.

Under a suspensive sale arrangement, instead of a manufacturer buying plant, a bank buys it and sells it to him on a delayed payment basis.

It is like a loan, except that instead of charging interest the bank sells the plant at an inflated price. This means the purchase price is higher, and the claimed tax allowance is higher as well.

Now only the cash cost of the plant will be eligible for capital allowances.

Horrifying

"The results are frankly horrifying," said a leading industrial spokesman. "The impact of the changes will be substantial on the cash flow positions of corporations at a time when the whole growth rate of the economy has declined significantly.

"We have a very strong increase in the burden of tax on corporations which is likely to adversely affect their expansion plans and after-tax profitability.

"Together with the measures taken by the government to cool off demand, this looks like overkill to me. Everyone agrees we needed a dose of medicine, but now we have a combination of a diet and a purge.

"Whereas the one is definitely necessary and the other is possibly justifiable, both together may be hazardous to our health."

Even without the tax measures, the manufacturing sector looks set for a nasty end to 18 months of rising output (see graph). What is particularly depressing is that for the first time in at least three decades, manufacturing output will be peaking at a level *lower* than a previous peak.

Capital expenditure, under pressure from rising interest rates, has already taken a severe knock. The heavier tax burden and the reduction of incentives for investment will only se
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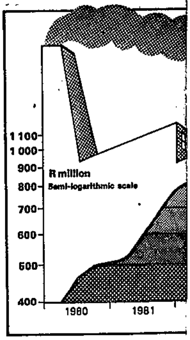


● Graphs showing the t

Taxman doubles his slice

S. Express 16/9/84

● From PAGE 1

structural elements.

"We need an adjustment, but it must be effective in the short term. Pushing up the tax rate will make it difficult to take corrective action in the short term, while it will damage the economy and have political consequences in terms of rising unemployment."

Industrial performance so far has been very variable from sector to sector. Output of glass, for instance, was up 31%, non-ferrous basic metal products 20%, machinery 18%, and rubber products 16%.

At the other end of the scale, wood and wood products were down 15%, transport equipment down 14%, and leather goods and furniture both down 2%.

The picture across some leading sectors, showing the percentage change in the first seven months of 1984 compared with the same period of 1983:

Beverages	+ 6,8
Clothing	+ 4,4
Footwear	+14,5
Wood and wood products	-14,6
Printing and publishing	+10,3

Tax returns: Court cases up

Argus 15/9/84

(320)

Weekend Argus Reporter

AN EXTRA day a week is being set aside by the Cape Town Magistrate's Court to hear the cases against people and companies who have not submitted 1983 income tax returns.

The court now handles tax matters four days a week.

In the past six months an average of 730 criminal court summonses a month have been served on individuals and companies who failed to submit returns.

Mr Walter Rode, Cape Town's deputy receiver of revenue, said the department's 600 employees managed to stay on top of Cape Town's tax returns — but the magistrate's court had been running behind.

Mr Rode warned people who had not yet filed their tax returns to do so at once, even at this late date.

"It doesn't pay not to file on time because a return filed too late can cost a considerable amount a money — we are entitled by law to raise a treble tax."

He said individuals who failed to file their income tax returns on time often blamed employers' tardiness in supplying IRP-5 certificates.

"There is still a certain amount of understanding in this office if a person or company informs us early, at the beginning of the year, that a late return might be filed and asks for an extention.

"However, it is their duty to see the returns are filed as quickly as possible — and there's a lot less understanding from the courts than from us once summonses are served," he said.

The department posts reminders first, stating that it is a criminal offence to file late.

He said these notices were "very effective indeed".

Perk up — it's not so bad after all

By Michael Chester

Hundreds of companies have launched brainstorming sessions to find how to cushion the impact of income tax on the pay packets of employees.

The puzzle is how to thread a way through new legislation on taxation on fringe benefits — originally intended for introduction on September 1 but now postponed until the start of a new full tax year on March 1 next year.

Tax experts have discovered that the new rules, instead of threatening new burdens on work incentives, as widely feared, may well usher in a revolution that promises treats for most salaried staffers.

The intensity of the search for solutions to the perks tax puzzle is shown in the interest in special ventures begun by tax consultants to explain it all.

Among the current bestsellers is a guide published by P-E Corporate Services — with a price tag as high as R875 a copy but already with a long waiting list as demand outpaces production.

The management consultancy has been obliged to run at least two courses daily — and often four a day — to cope with the demand.

Business Seminars Promotions has hurriedly planned a whole string of special seminars to give the main guidelines — and reports that within weeks it has been overbooked and has had to plan repeat talks.

The opportunity to negotiate perks was once regarded as the reserve of the boardroom and executive suite. Now even secretaries and artisans have a chance to work out new deals.

One tax firm took as an example a secretary-typist married to a man on an annual taxable income above R40 000, meaning that the taxman, because of marginal rate ladders, has been waiting to snatch 50 c in every rand she tries to add to the kitty.

At the moment, out of a salary of R15 000 a year, the secretary has only R7 500 in take-home pay.

Under the new tax rules, however, she may be able to negotiate a clothing allowance of perhaps R3 000 a year — and deduct the amount from her cash salary.

It does not all escape the tax net — but, aside from providing a new wardrobe every year, the deal also increases her take-home pay to R9 000.

If the company tried to match the after-tax total it would need to boost her cash salary to an annual R18 000.

In another example, the consultant took an employee earning R27 000 a year. He is advised how to pick a package agreeing to see the cash salary slashed to R12 000 — clipping R5 000 off tax bills and ending with R4 500 more cash in his pocket, plus a cornucopia of perks.

Higher up the pecking order, employees have the chance to negotiate perks packs that start at housing subsidies and company cars all the way to buying new suits and hiring a chauffeur.

"It is possible and legitimate to reduce your tax liabilities by as much as 50 percent," says Miss Jane Ashburner, manager of the remuneration division at the P-E group.

"There are tremendous possibilities for employees to cash in on perks now that there is clarity at last. So far, it has been a murky zone and often reserved for the top hierarchy.

"Benefits to the employers are twofold. Firstly, with official recognition, perks can now be offered down the pecking order.

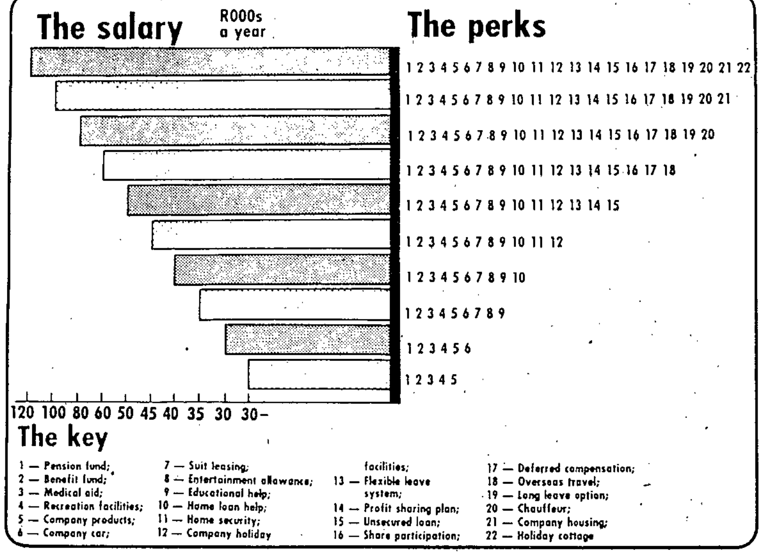
"Secondly, and most important, benefits can be offered at no additional cost to the company if on the basis that they are trimmed off cash salaries exposed to full tax rates.

"The Receiver of Inland Revenue has been in no way as heavy-handed as everyone has expected in the prolonged row about fringe benefits."

BEYOND THE FRINGE

6/8/84 Star

(320)



Food prices increase despite lifting of GST

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10/8/84 S Few

Consumer Reporter

Despite the lifting in July of general sales tax from many basic foods, prices have continued to rise.

Consumers, caught between the Government's new hard-hitting campaign to cut spending and spiralling costs, face a bleak future.

The Star surveyed the prices of 13 basic foodstuffs at four supermarkets last week and compared these with the prices of the same goods surveyed six months ago (see graph).

A shopping basket of foods now costs R37,30 (with 10 percent GST included on those items which are not exempt) compared with R36,10 (including 7 percent GST on all items) in February this year — an increase of R1,20.

Potatoes have risen in price by the largest margin. A 2 kg bag of potatoes costs R1,04 compared with 78c six months ago.

The only item to go down in price — by a substantial 19 percent — is chicken.

Lamb prices have remained fairly constant.

The average price has increased marginally from R7,05/kg in Febru-

DATE OF SURVEY JULY 31 1984 Prices exclude GST	PICK 'N PAY HYPERMARKET NORWOOD	OK BAZAARS ROSEBANK	CHECKERS SANDTON CITY	PICK 'N PAY, BENMORE	AVERAGE PRICE	AVERAGE PRICE on FEBRUARY 1 1984	PERCENTAGE INCREASE OR DECREASE
1 kg Porterhouse* steak	R8,28	—	R8,59	R8,28	R8,38	R7,63	+9,8%
1 kg frozen chicken* Grade A	R1,79	R1,99	R1,89	R1,79	R1,87	R2,33	—19,7%
1 doz large* eggs	R1,18	R1,26	R1,26	R1,22	R1,23	97c	+26,8%
2 kg medium* potatoes, Grade A	98c	89c	R1,25	—	R1,04	78c	+33,3%
1 kg I & J* hake fillets	R2,89	—	R3,19	R2,89	R2,99	R2,70	+10,7%
250 g Eskort* middle bacon	R1,85	R1,90	—	R1,97	R1,91	R1,62	+17,9%
1 kg super lamb* loin chops	R7,19	R7,15	R7,38	R7,09	R7,20	R7,05	+2,1%
500 g choice* butter	R2,35	R2,34	R1,99	R2,09	R2,19	R1,97	+11,2%
1 litre milk*	67c	68c	69c	67c	68c	61c	+11,5%
1 kg Tastic rice	R1,26	R1,35	R1,25	R1,29	R1,29	R1,10	+17,3%
500 g Kelloggs corn flakes	R1,15	R1,15	R1,19	R1,19	R1,17	R1,01	+15,8%
250 g Nescafe instant coffee	R4,45	R4,09	R4,56	R4,25	R4,34	R4,10	+5,9%

(320) S. Times 12/8/84

Shocks wait for perks tax hand-out seekers

By Barry Sergeant

THOUSANDS of employees are seeking perks as a result of clarification of how fringe benefits will be taxed. But they could be in for a shock.

Tax experts warn that the proposed law is designed to raise money — not make hand-outs to taxpayers.

They say that to make the most of the perks tax, employers would have to lay out substantial amounts in cash, an unlikely happening in SA's economic crisis.

The Commissoner for Inland Revenue, Carl Schweppenhauser, says perks tax is certain to be instituted on March 1, 1985.

Grey areas

Experts say the proposed tax merely clarifies formerly grey areas. The only way employees will reap advantages is by restructuring their remuneration packages. The emphasis will move from salary to remuneration.

Employees of financial institutions, public service and mining houses have received fringe benefits for a long time, but their tax will increase under the new law.

An example is an employee recruited by a bank three months ago. His salary is R1 000 a month, relatively low for his qualifications — but now he has a car which costs him R50 a month, including free petrol.

Banks have followed the low-salary high-perks tax strategy for some time. The intention is to keep salaries as low as possible as income tax is calculated on salary and excludes perks.

The changes will draw everybody into the tax net.

Onus shifts

Analysts say a welcome change is that the onus of declaring a perk is placed on the employer. Before nobody was obliged to disclose a perk. Penalties for non-disclosure will be severe.

Although perks have always been taxable in law, Inland Revenue has not collected the money.

One bank has told its staff that its housing scheme has been approved by the authorities and will not be affected by the perks tax.

Loans or bonds given to employees below the "official" rate will fall into the fringe benefits tax net. The official rate is now 12%. If the employee pays less than 12%, the difference between his payment and a 12% payment is added to his salary and taxed as salary.

As a result of interest-rate increases, it is expected that the official rate will increase to 15% — drawing more employees into the tax net.

Concern

The hesitancy of Inland Revenue to issue guidelines on housing perks tax is causing concern in the private sector and proving a headache for the tax collectors.

Prompted by the announcement that perks tax would come into operation on August 1, 1984, many financial institutions offered employers without housing schemes attractive packages, structured to the proposed perks tax.

With the lack of official guidelines, it seems that especially the banks have been caught out. Experts say the major concern is how Inland Revenue will treat new schemes.

Clothing

The perks tax may not be the bonus it appears. Many employees have perks which will be taxed. Tax experts say:

- Pensions, medical aid, flexible leave and profit-sharing plans are unaffected.
- Suit leasing and clothing allowances will not be available to latecomers under the proposed perks tax. Inland Revenue is against these allowances and can come down on abuses by invoking the Income Tax Act.
- If an overseas trip consists of a mix of business and pleasure, apart from the cost of the air ticket, all expenses paid by the company will be classified as a fringe benefit.
- Entertainment allowances will be available on the same terms as before. Inland Revenue reviews the allowance in terms of the employee's status in the company.

Sacrifices

- Interest-free loans for education, exempt from perks tax, require substantial cash. The employee would probably have to sacrifice salary, which would save income tax.
- Home security costs will probably only be allowed if the businessman can establish he is often away from home on business.
- Company holidays are not as attractive as has been reported. Each person on holiday will add R25 a day to the taxpayer's gross salary. With a family of four, this would be R700 a week before travel, food and other costs.
- Low-interest loans are not as attractive as before. Inland Revenue's practice of not taxing the interest on these loans differs sharply from the proposed official 12% rate.

of R1,20.

Potatoes have risen in price by the largest margin. A 2 kg bag of potatoes costs R1,04 compared with 78c six months ago.

The only item to go down in price — by a substantial 19 percent — is chicken.

Lamb prices have remained fairly constant.

The average price has increased marginally from R7,05/kg in February to the present average price of R7,20.

● Although salt (usually included in the shopping survey) has been included in the graph it has been excluded from the analysis of the shopping basket because no figures were available from the last survey.

500 g choice* butter	R2,35	R2,34	R1,99	R2,09	R2,19	R1,97	+11,2%
1 litre milk*	67c	68c	69c	67c	68c	61c	+11,5%
1 kg Tastic rice	R1,26	R1,35	R1,25	R1,29	R1,29	R1,10	+17,3%
500 g Kelloggs corn flakes	R1,15	R1,15	R1,19	R1,19	R1,17	R1,01	+15,8%
250 g Nescafe instant coffee	R4,45	R4,09	R4,56	R4,25	R4,34	R4,10	+5,9%
250 g Five Roses tea bags (tagless)	—	R2,29	R2,49	R1,59	R2,12	R1,87	+13,4%
500 g Buffalo salt	45c	52c	52c	42c	48c	No figures available	

● The OK Bazaars in Sandton, usually surveyed by The Star, has been replaced by the OK Bazaars in Rosebank.

*These items are exempt from tax.

(320)

10/8/84

Meat price drop not passed on to consumers

Consumer Reporter

Auction prices of top grade beef and lamb have dropped recently — but the reductions have not been passed on to the consumer.

The maximum auction prices on selected days show a steady drop in meat prices. In June, a kilogram of beef (super A) was R2,67; in July it cost R2,53 and this week the market price was R2,41.

Lamb has also dropped in price. In June, the maximum market price of a kilogram of top grade lamb (super) was R4,10. It dropped to R3,92 in July and this week it was down to R3,53.

But a survey of meat prices in Johannesburg and Pretoria by the Housewives' League of South Africa found that shops had dropped prices only on "specials".

One butcher confirmed that the auction prices of beef and lamb had come down.

However, other butchers felt it was time they made some money. Prices rose earlier this year as the demand for meat dropped, he said.

"We've been absorbing higher prices for some time. It is time for us to make a profit."

A major supermarket's meat division head, Mr Bernie Heffernan, said the auction price of lamb had been "unusually high" for a while. "We've taken the knock and did not raise the consumer price.

"We don't adjust the prices of our meat according to the daily fluctuations in auction prices. I think shoppers would find it confusing to find the price up one day and down the next."

Speculation about possible decreases in the consumer price of beef was fuelled by the Meat Board's announcement of a five percent drop in the floor price of beef last month.

But a housewives' league survey found that did not happen.

Although there had been a call from consumers for butchers to drop their prices it was not always possible, the South African Federation of Meat Traders' chairman, Mr Eddie Bielovich, said.

"The market has been stable and prices have not risen for a while.

"Where traders bought beef at floor prices they passed these reductions on to shoppers: a lot of these items are 'specials'," he said.

However, board spokesman Mr Koos Blignaut said he could see no reason why consumers did not benefit from the lower prices due to the reduced floor price.

"But I believe many butchers have dropped their prices.

"The five percent decrease in the floor price and the lifting of GST on meat last month should be an incentive to the trade."

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GST

Another rise likely?

Pretoria is in the midst of a new austerity package to back up the recent interest rate increases. Chances are that an increase in general sales tax (gst), softened by further exemptions, could be part of a resolute attempt by Pretoria in the next few weeks to curb the inflationary consequences of its own profligacy.

The increase in gst could be from the current 10% to 15%, which is still below levels in most Western countries. But it will be tough for consumers and business alike.

Government is likely to attempt to modify the sting of public outcry by tightening its own belt to emphasise the need for general austerity to arrest aggregate demand, steady the rand and stabilise prices.

A programme of departmental cuts is currently being prepared and the director generals of all departments have been called in to the Treasury and told to rein in expenditures.

The most obvious problem is the massive commitments already made in the various departments, which will be extremely difficult to renege upon but could also be creating a funding problem.

The fact that it is already halfway through the current fiscal year means that this austerity push must be made to work quickly. Indications are that current budget formulations within departments are concentrating on ways to reduce expenditure sooner than the next fiscal year.

Standard's Hamersma ... not the right thing

Says Joop de Loor, the Finance Ministry's director general: "The Treasury is going through next year's budgets with a fine-tooth comb at the moment. Although is is too early to say whether we are in fact going to be able to curb expenditure, we will be doing our darndest not to have to increase taxation.

"If we aren't successful, then a tax increase is obviously a possibility to be considered. This will be decided within the next few weeks," he says.

However, says Johan Cloete, Barclays group economist: "They don't even know what the July gst increase has brought in yet, or what the effect of the higher interest rates will be. Apart from this, however, it shouldn't be necessary. The gold price in rand terms should give the government all the revenue it needs."

Another factor

Another factor militating against an immediate rise is the current sensitive political atmosphere. Some commentators expressed surprise at such contemplations before the new constitutional elections, saying that the government would be extremely reluctant to jeopardise the new dispensation.

All agree as to the source of the problem, however. Says Johan van Zyl of FCI: "The real culprit has been the government itself. What needs to be done now is for them to give a public indication as to their commitment to curbing runaway government expenditure. If they don't, then we are looking at a repeat performance of the last few years.

"Unless they spell out their own objectives very clearly, they could find themselves in a very awkward position in a few months which would undermine their credibility. The public will expect these austerity measures to have the same effect that biting the bullet had for Thatcher and Reagan. But the objective is to prevent inflation escalating wildly, and to restore an equilibrium."

Increasing gst, however, will be an admission that they are not able to control State expenditure. One of the only alternatives would be to stem this shortfall by creating more money. The inflationary consequences of such action seem to rule out this possibility altogether, especially in light of a commitment to a tight monetary policy.

There is a unanimity among commentators that such a move would be a distinct overkill, and potentially disastrous. Says Gordon Utian, MD of Checkers: "Increasing gst is a frightening but distinct possibility." Adds Raymond Ackerman of Pick 'n Pay: "It would be chaotically wrong coming on top of recent other measures. The only way that it would perhaps be palatable is if all foodstuffs and medicines were exempt. This could possibly be an inspired stroke."

Says Andre Hamersma of Standard Bank: "For the moment we've really been hammered enough. It just wouldn't be the right thing to do. Economic activity is declining and taxation is already very high. What must be done now is to cut government spending, there is no other way.

"A further increase in gst would just weaken the economy too much," he says.

At Engelbrecht of Volkskas feels it might be the final straw. "I would honestly be totally astonished if they increased gst again. I would be totally against it. No more stringent measures are needed at the moment — it would be heading for an overkill. Increasing taxes is no solution at all."

With the seemingly excessive expenditure commitments the government has this year it is more than likely that cutting back will prove to be extremely difficult, if not impossible.

If, when everything is weighed up, the authorities deem it necessary to increase the tax, it will probably take place overnight — and without any fanfare.

Otherwise the effects on inflationary expectations, and the potential consumer panic-buying will cause more harm than good.

BILL BLUEPRINT

Initial response to the publication of the Draft Building Societies Amendment Bill 1985 is mixed. Generally, it appears to be pretty well in line with the recommendations of the De Kock commission as embodied in its second interim report (*FM* September 9).

According to one commentator, however, "certain discrepencies have crept in. the Bill looks like the Banks Act by another name, and certain provisions appear inappropriate at this stage."

However, informed comment is not easily forthcoming ahead of a further appraisal of the draft bill.

One general observation was that while the broad thrust was appropriate, in its detailed application, "it needs further discussion. We have to talk to Pretoria first on this one. If we cannot come to terms with them then we must fight the issues in some other way."

HWL worry over rural exemptions from GST

(320) E. Post 25/8/84

Woman's Editor

SHOPPERS in smaller shops in the rural areas may not be receiving the full benefit of the essential goods exempted from 10% GST.

Large supermarkets have electronic tills which automatically block out the 10% on their electronic tills, but the Housewives League of South Africa's (HWL) national president, Mrs Joy Hurwitz, has expressed concern that the situation may not always be above reproach in small centres.

In their annual report the HWL also expressed strong views that there should be a more efficient system of identification of GST tax evaders and that the penalties should be swift and heavy.

"It is no wonder that many consumers find it hard to make ends meet — if you bought goods for R1 in 1975, those same goods cost R2,70 last year," Mrs Hurwitz said.

This is based on a Department of Statistics survey conducted in November, 1983.

At the outset, consumer buying did not decrease owing to easy lending from financial institutions but now conditions have altered drastically and some consumers are forced to borrow money to keep up essential payments like their increased bond rates and other essential commitments.

The HWL says that, although it accepts the Government's plea for less spending, it would like to see the Government itself set an example by proving how they are cutting back on unessential spending.

Compulsory from today: 'Add-on' GST

320

1/7/84 **Staff Reporter** C-Times

THE new "add-on" method for the recovery of General Sales Tax would become compulsory from today, the Commissioner for Inland Revenue, Mr Carl Scheweppenhauser, reminded vendors yesterday.

He said special permission to continue use of the add-in method would be given to those vendors in whose case it was found that difficulties had been or might be caused by using the new method.

Certain categories of vendors were allowed to remain on the inclusive add-in method. They were:

- Sales of petrol and diesel.
- Transactions operated by coin-vending machines.
- Sales of drinks from bars on licensed premises in cases where vendors had not yet replaced their point-of-sales equipment with facilities capable of adding GST to bar prices charged. This type of authorization would be subject to review after 12 months.

The following two categories would also be exempt after authorization had been sought:

- Clubs which sold goods from bars and dining-rooms conducted for the benefit of members.
- Enterprises in rural and farm areas where trading with unsophisticated customers became difficult and the add-in method was considered more convenient.

ir 4, 1984

Housing perks for 7 years still?

4/9/84 (320) C. Times

By GORDON KLING

HUGE GAINS from housing perks available to the public service and some employees in the private sector seem likely to remain for years to come, in spite of assurances by the government that its aim in introducing fringe benefits taxation was to remove inequities in the tax system.

Hopes by financial institutions that benefits available to schemes approved by the authorities prior to March 1 this year would apply to similar schemes launched later, are being dashed.

It now appears certain from sources at Inland Revenue that only those employees who were members of schemes in existence before March 1 will gain a seven-year reprieve from the full force of the tax.

Those joining new schemes will lose their benefits after two years, with 50 percent going in the next tax year and the remaining 50 percent in the following year, much the same as if they held other fringe benefits such as a company car.

New members of approved schemes should technically not be entitled to the seven-year reprieve, but they were likely to get it for practical reasons, said the Chief Taxation Officer, Mr Ian Micklejohn, yesterday.

Private sector employers yesterday noted that this would maintain the relative attraction of employment in the public service, banks and insurance companies at the expense of other sectors.

A top banker who met the authorities in Pretoria on Friday said yesterday that he was disappointed at the outcome of the talks, which were intended to clarify the position regarding the new schemes.

"It is very disturbing to us that they are to a large extent negating a lot of the benefits we have been proposing by denying benefits we were previously allowed," said Mr Brian Button, managing director of Syfrets Bank.

All the institutions offering schemes appear to be in the same boat, and some maintain the authorities at Inland Revenue are not showing much interest in discussing the matter.

A report published in the Cape Times at the weekend found that an unsubsidized employee in the private sector could require double the salary of a subsidizd worker to end up with the same take-home pay.

"We think it's very one-sided," said one banker who accussed the authorities of being intent on preserving the "sacred cow" status of the public service when it came to bond subsidies.

"We are now hoping the weight of public opinion will force them to listen to us."

'Inequities'

Mr Meikeljohn agreed there were inequities in the system which would remain for some time, but he emphasized that not only public sector employees had previously had access to big bond subsidies.

"As far as the seven-year phasing in of the tax is concerned," he said, "the law simply provides that this only applies to schemes that were in existence on budget day this year.

"You can understand the need for this. We can't put a sudden big burden on those who have not had the burden, but this consideration obviously doesn't apply to someone who has only now gained a benefit."

The fringe-benefits tax

Mercury 13/9/84 (320)

Seven more years on the perks pig's back

By
Brian Parkes

PERKS are going to play an even bigger part in South Africans' lives once they're taxed next year — or whenever the Government decides to bring in the new law, just gazetted.

Indeed, some commentators state categorically that employers who don't offer perks just won't get employees.

Put another way, they say that anyone who's risen to management level — even lower management — who doesn't get perks should asked himself or herself whether they're in the right job.

But wasn't the much-vaunted fringe-benefits tax supposed to do away with all that?

Well, yes and no.

Yes, because before the tax became law this month no one really knew how to tax perks.

Different Internal Revenue offices up and down the country had different interpretations on how perks should be taxed. Even different assessors working in the same office had different ideas.

So the new law has been designed to bring about uniformity; in other words all taxpayers will be treated equally, whoever they work for.

Scales and formulas have been laid down now to ensure this.

Here to stay

No, because perks are here to stay — and for the next seven years many of those now enjoying them will still be on the perks pig's back.

The full weight of taxing housing subsidies is being phased in over that period and until it is, some — mainly public servants with their housing subsidies — will still be far better off.

To illustrate:

Latest building-society figures show the average bond to be about R45 000.

To repay that over 20 years means a monthly instalment of about R750.

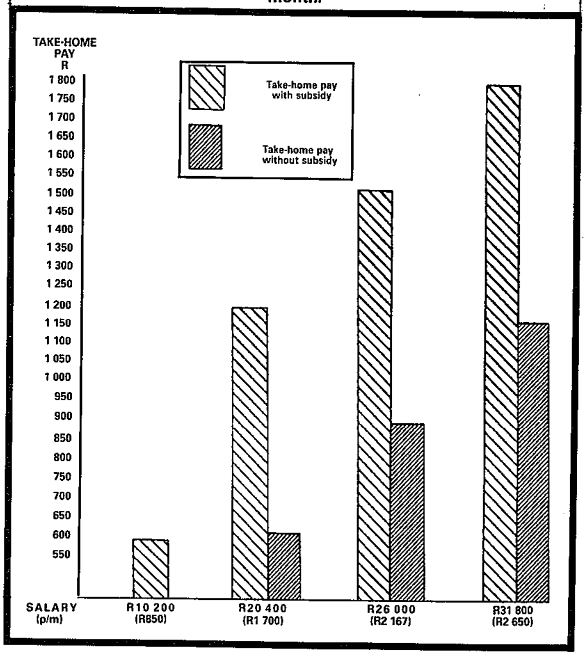
In turn, working on the building-society rules that repayments must not exceed 25 to 30 percent of monthly income, that means a monthly salary of between R2 250 and R3 000, or between R27 000 and R30 000 a year.

But — and it's a big but — a public servant earning only R850 a month — R10 200 a year — would qualify for that same R45 000 bond.

Why?

Because the Government — or you, the taxpayer — subsidises him to the tune of 62 percent.

YOUR GUIDE to the gap . . . the table shows the effect the public-service 62 percent housing subsidy has. The shaded column on the left: what a public servant has left in his pay packet after paying off his monthly share of a R45 000 bond; on the right: what the unsubsidised man has after meeting the full repayment of R750 a month.



Out of his repayment of R750 a month the Government would give him R500, leaving him R600 take-home pay after he'd handed over his R250.

It's this kind of thing that led one disgruntled employer to say: 'If you have a son — even a good employee — you have to advise him to go and work for the Government.'

A glance at the graph really brings it all home.

Of course, public servants aren't the only ones luxuriating in this atmosphere.

Banks, building societies, insurance companies offer many who work for them low-interest housing loans, some as low as 2 percent.

Compare that with the 20 percent rate the unsubsidised face.

So . . . what's the fringe-benefits tax going to do to sort things out?

12 percent

Subsidies will become taxable income, and the effective interest rate has been set at 12 percent — still well under building-society rates.

For example, a man gets a housing loan at 20 percent and his employer subsidises him to the tune of 10 percent. The employee thus pays 10 percent whereas the set rate under perks tax is 12 percent.

So, taking the subsidy (10 percent) less the rate of interest (20 percent) minus the 12 percent, which leaves a 2 percent difference, the subsidy is reduced to 8 percent for tax purposes. But only by the 1991 year of assessment.

In the seven intervening years only a portion of that will be charged on a sliding scale from 10 percent in the first year to 85 percent in 1990.

Other formulas

It has been noted in unsubsidised circles that seven years is the minimum period in which a public servant is allowed to repay a bond, and, of course, it is a fact that if that public servant increases his repayment to do just this, the Government increases its subsidy.

So far as interest-free or low-interest loans go, they, too, will be treated as taxable benefits. Again the rate has been set at 12 percent and the value of the benefit will be 12 percent less any interest paid.

For those who get their housing completely free — for example, mining men — other formulas are set down.

So much for housing.

But then there are things like free cars, free holidays — that beach cottage the firm owns at Umhlanga or Plett — educational assistance, entertainment and so on.

They're all going to be taxed.

After housing, the 'office car' is the most common perk.

The new law lays down a general scale based on the value of the car. If it's entirely free you pay one rate. If you put petrol in it, there's another.

For instance, a R12 500 car is rated at R166 a month all-found or R132 if you fill 'er up. You'll be taxed on those amounts. For a R20 000 car the figures are R243 and R206, and a R30 000 car R350 and R307. A car costing between R35 000 and R40 000 would be rated at R389 and R345.

If you use your own car and get a set allowance each month, that's taxable income, but a deduction is allowed at a set rate per kilometre for business use.

That entertainment allowance?

Deadline

Now it's been fixed at a maximum R2 500 or 5 percent of taxable income whichever is the lesser.

So it goes.

Since perks tax was decided on, many firms have put up housing schemes to take full advantage of it. But so far only those that beat a March 28 deadline have got the nod from the Government, which is sitting on all the others.

But the Commissioner for Inland Revenue has promised to issue guidelines soon.

● This article was compiled with the aid of Robert Stretch of the Durban office of Ernst and Whinney.

Tax legislation may prove a blessing in disguise

Thousands to gain from perks deals

320 Star

By Michael Chester
of the 24 Hours team

6/8/84

Tens of thousands of employees stand to gain from radical new perks-plus-cash deals being worked out by companies to cushion the tax blow after possible increases in wages and salaries in annual pay reviews.

The new deals are likely to inspire a full-scale revolution in attitudes towards a different shape of pay package stemming from proposals to introduce legislation for taxes on fringe benefits from next March.

New mixtures of cash and perks are likely to be offered by most companies to a far longer list of salaried staffers.

"Perks have usually been seen as confined to the executive suite," said Miss Jane Ashburner, manager of the remuneration division of P-E Consulting Services. "Now they are moving deeper and deeper down the pecking order and even secretaries and artisans can often join in the benefits.

"Business firms have been sweating for several years about the impact of taxation on fringe benefits. But now that legislation has been approved we can see superb opportunities for offering higher living standards to workers.

"We are going to see nothing short of a revolution in the way existing and prospective employees pick and choose between cash and perks to suit their own specific living styles, said Miss Ashburner.

"There's a bonanza in store for employers and employees alike if they find their way around the labyrinth of new legislation — virtually all salaried staff can share benefits.

More perks

"The only possible obstacle to perks filtering to the very bottom of the pecking order are strict wage packages insisted upon by trade unions in various sectors."

But the vast majority of companies will find that unless they offer more perks down the batting order in their staffs they will lose out to job-hoppers looking for better deals elsewhere.

Tax expert Mr Costa Divaris says: "The vagueness of tax rules has had a strait-jacket on perks. Now the new legislation has been approved companies know precisely how far they can go — legitimately. It's going to benefit everyone if they don't push their luck too far."

The primary aim is to safeguard key staff from being pushed faster and higher up the marginal tax ladder that ultimately leads to an income tax rate as heavy as 50c in the rand on pay packets that go over R40 000 a year.

● See Page 7, World section

MESTICHELLI (left) and DESIREE DORFLING, 15. Twelve volunteers collected funds for the fete the girl who raised the most was crowned queen.

Massive veld fire menaces Ladysmith

Post Correspondent

DURBAN — A massive veld fire, driven by gale force winds, threatened parts of Ladysmith in Natal yesterday afternoon.

At one stage the fire reached the outskirts and burnt large sections of the shooting range about two kilometres outside the town.

About 80 national servicemen, stationed near Ladysmith, together with the local fire brigade and the police fought the blaze for more than three hours. At one stage the fire threatened to encircle the fire fighters. Two farm labourers were overcome by fumes and later had to receive treatment.

It is estimated the fire, which swept through several farms, destroyed about 350 hectares of grazing.

The fire was eventually brought under control at about 4pm.

The police are investigating the cause of the fire.

Proposed tax funding 'not acceptable'

6/8/84 (320) (262) E. Post

By STEPHEN ROWLES

NEW forms of taxation proposed to fund separate local authorities have been condemned as "unacceptable" by Dr Herman Reinach, a past president of both the Cape Province Municipal Association and the United Municipal Executive.

The taxes proposed in the report of the Croeser Committee could, he says, kill initiative and incentive and lead to a reduction in employment.

Speaking from Bloemfontein today, Dr Reinach, a city councillor and prominent member of the National Party, said the new methods of raising funds for local authorities proposed by the committee were completely "unacceptable".

The committee has proposed three new forms of taxation to fund the new local authorities — a tax on turnover, on salaries and on plant and machinery.

These taxes are still under consideration by the Government.

Dr Reinach said the business sector was already highly taxed with additional levies on water, electricity and rates.

"These new taxes will kill initiative and incentive and lead to a reduction in jobs," he said.

Dr Reinach also expressed serious doubts about the economic viability of separate local authorities for whites, Indians and coloureds. He has proposed, instead, shared municipalities in the smaller towns, as opposed to the Regional Services Councils and separate municipalities proposed by the Government.

These will only be viable in the metropolitan areas.

(Report by S Rowles, 19 Baakens Street, Port Elizabeth.)

...0 to Kokstad

...e R50 000 winner of the latest monthly draw is the holder of certificate number ... at the Kokstad Post Office, the Trea...
...day.

R30 000 in the July draw goes to certifi... 790 827 6, bought at the Volkskas Bank in ... Northern Cape, while third prize of ... to the holder of certificate number ... ught at the Payneville Post Office on the ...

...ize list of the 1 361 Bonus Bond holders ... the R1 299 750 prize-fund will be published ... Post tomorrow. — Sapa

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SUNDAY EXPRESS July 29, 1984 3

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Receiver investigates Chiavelli's tax affairs

● Mr Marino Chiavelli, who earns R650 000 a day, paid R196 in personal tax

THE government has launched a top-level investigation into the tax affairs of Mr Marino Chiavelli.

The probe is being conducted by the Department of Inland Revenue through the office of the Receiver of Revenue in Johannesburg, where Mr Chiavelli is registered as a taxpayer.

KITT KATZIN reports

The flamboyant Italian, who has said he earns R650 000 a day, paid only R196 in personal taxes in two out of four years he has lived in South Africa — after informing the Reserve Bank when he arrived that his foreign assets were worth R2 500-million.

However, in terms of South Africa's tax laws and exchange control regulations, Mr Chiavelli was obliged within one year of arriving to bring into South Africa all investment income derived from his foreign assets, which he estimated in 1980 to be R240 000 a year.

Assuming he was granted permanent residence, he was further required to bring in all his overseas funds after living in the country for three years.

Mr Chiavelli has, in fact, lived in South Africa since 1979, and became a permanent resident in June, 1980.

Yet, for 1981 and 1982, he paid less than R200 in tax, and for 1980 he declared a personal income in South Africa of only R2 099.

Controversy

These disclosures, by the Sunday Express and other newspapers, sparked a bitter public controversy, and in Parliament the Progressive Federal Party called on the government to act.

However, the Sunday Express has learnt reliably that this is being done — an investigation by the Department of Inland Revenue is under way.

Though the outcome at this stage is not known, it is believed that the investigation is headed by Mr Clive Kingon, the Receiver of Revenue in Johannesburg.

Mr Kingon was not available for comment, but his predecessor, Mr Tony Chemaly, said before retiring last month that he regarded the disclosures of Mr Chiavelli's "tax bonanza" in a serious light.

It is understood the department was concerned about the implications of the reports, and carefully noted their contents.

Discussions took place between senior officials, and an investigation was launched.

It comes in the wake of the Advocate-General's report on South Africa's oil deals, which featured an investigation into Mr Chiavelli's links with oil supplies to South Africa.

While the Advocate-General, Mr Justice P J van der Walt, found that Mr Chiavelli might possibly be a link in the chain of delivery, he said he did not investigate Press reports about the Italian tycoon's tax liability as this did not fall within his jurisdiction.

However, said the Advocate-General, he presumed that the matter was receiving the "constant attention" of the Commissioner for Inland Revenue.

In an aside on Mr Chiavelli's free-spending sprees in which he has bought properties, paintings and sculptures worth millions of rands, Mr Justice van der Walt conceded Mr Chiavelli had made a lot of money as an international oil dealer and that he was spending it "ostentatiously" in South Africa.

Liable

While the actual extent of Mr Chiavelli's worldwide earnings is not known, experts calculate that if his foreign investments, worth at least R2 500-million, are taken into account, he could be liable for between R10-million and R30-million in tax for the four years he has lived in South Africa.

If Mr Chiavelli loses a court action brought against him by Johannesburg businessman, Mr Taki Xenopoulos, for commission payments and interest of R150-million, he will have to pay 46% — or R70-million — in tax to the Receiver of Revenue.

Along with all immigrants, Mr Chiavelli was obliged when arriving in South Africa to:

- declare within seven days all his foreign cash and bank accounts in terms of exchange control regulations;
- declare, within 30 days, all other foreign assets and capital investments;
- bring in his income on foreign investments within one year;
- bring all overseas funds into South Africa after three years from the date of becoming a permanent resident.

Most of Mr Chiavelli's foreign earnings are held in Dirinter Establishment, which is registered in Lichtenstein.

Taxpayers' cash invested — big firms make a killing

Argus Correspondent

JOHANNESBURG. — Some South African retailers are making fortunes out of investing taxpayers' money.

Others are not so lucky — they must pay the Government the tax before they collect it from the consumer.

Those who score are the largely cash businesses such as Pick 'n Pay. Those who lose are the businesses run largely on credit, such as Edgars.

Must cough up

All types of businesses must hand over their general sales tax takings for each month on the 20th of the following month.

But, while a cash business is free to do whatever it likes with the taxpayers' money from the time it collects it until the time it hands it over, credit businesses must cough up on sales — even when consumers will be paying for those sales over the next six months.

The Government lets credit businesses deduct the tax on half of what they are owed at the beginning of a month in a monthly roll-over system, but the end result is the same, says Edgars chief executive Mr Vic Hammond.

"Lose hands down"

"We have to pay out the tax before we receive it. We lose hands down."

Pick 'n Pay executives say the GST money is regarded as part and parcel of the group's takings and is invested with those takings, mostly on call where it earns around 18 percent.

The GST money is separated out only when the time comes to pay the Government.

Checkers administration executive Mr Sandy Black says Checkers also banks GST money as part and parcel of the group's takings.

"Six percent"

"It's difficult to quantify how much is involved, because the swing caused by seven percent GST all round changing to 10 percent on some lines and none on others hasn't settled down yet, but it should be around six percent of total sales."

OK director Mr Melville Pels says the OK regards the chance of investing GST money as "some recompense for the quite substantial costs involved in collecting the money and accounting for it".

In some parts of the United States, he says, Receivers of Revenue pay retailers a two percent commission for collecting sales tax.

"Small benefit"

Dion director Mr Brian Howard says although the group might get a small benefit from GST takings, "we don't see this as a way of making money".

Firms that invest their GST takings could make millions of rands in the course of a year.

Pick 'n Pay, for instance, has an annual turnover of R1,5 billion, giving it a monthly turnover of R125-million. Six percent of that is R7,5 million which, invested at 18 percent, would yield R1 350 000.

The big GST fortune

CITY/NATIONAL

Argus 25/7/84 (320)

320

Shops make a mint by investing GST

By Malcolm Fothergill

Some South African retailers are making fortunes out of investing taxpayers' money.

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SMALL BENEFIT

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EXPLODING TAXES

The power to destroy

Until roughly a year ago, taxation was not a controversial economic issue in this country. During the late Seventies, the tax burden was actually being lightened, fiscal drag was being reduced and the tax base broadened. And an intelligent programme of tax reform was under way that should have reduced the inclination of taxpayers to seek perks. How matters have changed.

By implication, this process was releasing resources from the public sector to the private sector, where there is greater probability of their more efficient use. Now the flow of resources has been reversed.

Taxation today has become the central topic of business conversation as the most productive sector of the economy braces itself to bear the burden of government's social policies. It has become a highly politicised and emotive issue. The fuss over the proposed perks taxes — which are going to raise very little for the Exchequer if they are ever implemented — is evidence of that unfortunate development.

There are two basic reasons. Government spending has got out of hand in relation to income, especially as the gold price has fallen. And the realisation that the new constitution is going to create new demands for spending on underprivileged communities has sunk home.

Pretoria has fallen into precisely the trap of the Western industrialised nations a few years ago: it cannot get its spending back under control and is relying too much on monetary policy to counter the fiscal profligacy that is behind the relentless rise in the general price level.

CIVIL SERVICE STORES
What can we do for you, Madam? — Royal Commission? — Select Committee? — Papers? — Careful Consideration? — Official Inquiry? — Anything to Oblige!
Punch, March 11, 1876

So the economy has been plunged into a severe recession for the second time in less than four years. Interest rates have risen to record highs and are likely to go higher — and, despite that, the rand's international value has sunk to a record low.

Pretoria has had to grub for cash to finance its extravagance; and, in the process, it has blown the tax reform process way off course. Its need for money has overshadowed equity and proper consultation. In fact, the Department of Finance appears to have set its face against consultation. Its senior officials are saying in private that consultation only breeds delay. And talk like that is the stuff of desperation.

The result is that instead of carrying with them the support of organised commerce and industry in persuading taxpayers that greater imposts are necessary for the public good, they have created antagonism. Tax proposal after tax proposal has had to be shelved or referred to some body for further examination.

Clearly, when Barend du Plessis takes over the Finance Ministry at the end of the month, taxation is going to be the first major issue with which he has to grapple. It will do him no good to call in more experts, each with his own axe to grind. Yet the temptation to do so will be enormous. As Disraeli was once lampooned in *Punch* as saying: "What can we do for you, Madam? Royal Commission? Select Committee? Papers? Careful Consideration? Official Inquiry? Anything to oblige." Du Plessis must have more to offer than that.

What he has to do is face up to the root cause of our current problems. And that means a new national Budget. High interest rates, exploding taxation and currency depreciation is not going to get him off the hook. SA is living beyond its means, and he has to bring expenditure back to what we as a country can afford. Thereafter, he needs to get tax reform back on course. And his first objective should be not to cut the marginal rate, but to raise the tax threshold for the top tax rate from an income of R40 000/year to R80 000.

The debacle over perks tax also needs urgent attention, although a higher threshold will go a long way towards eroding the need for perks to be singled out.

The new perks laws, the limits of which Pretoria shuffles with more dexterity than equity, need to be set aside. But the protracted perks situation has become so ludicrous now, that Du Plessis must specifically say they will not be implemented. Further delays in implementation will only convince taxpayers that there is an "acceptable" level of perks and that they must secure it for themselves quickly.

The vexed question of local taxation needs to await greater certainty over the devolution of regional representation.

To get tax reform back on course, Du Plessis needs to revamp the Standing Advisory Committee on Taxation, to which the arch perks tax protagonist, Mickey van der Walt (former Commissioner of Inland Revenue) has just been appointed. Officials on it should be in a minority; and representatives of commerce, industry and consumer bodies in the majority. The last official commission so composed, the Viljoen Commission into black housing, did its job with an expedition not often seen in commissions of inquiry in this country.

Rising taxation is not a permanent answer to official profligacy any more than a devaluing currency is to a trade deficit. Du Plessis must never be allowed to forget that the power to tax is also the power to destroy.

Milk powder GST (320)

14/7/84 Staff Reporter C. Times

PURE milk powder is exempt from General Sales Tax while blended varieties are not, Mr T R Robinson, the chief tax officer at the Cape Town Receiver of Revenue's office, said yesterday.

Because this ruling has caused confusion, the Pretoria office issued a list of exempt and non-exempt powders this week, he said.

Those products which are exempt are: Farmer's Pride, Nespray full-cream milk powder, Everyday full-cream milk powder, Semilko half-cream milk powder, Nestlé full-cream milk powder, Nestlé skim milk powder, Klim, Protea, Elite skim milk powder — full cream, Protea skim milk powder, Numel milk blend.

Those products subject to GST: All coffee creamers, all instant feeding formulas, Carnation Blend, Sungold, Make-a-litre, Dryco, Molico.

Items may be added to the list as they come to the Receiver's attention, Mr Robinson said. Consumers or vendors who had queries about milk powders not listed above should telephone (021)45-5752.

GST goes up in Ciskei

(320) O. Dispatch 11/7/84

BISHO — Ciskei has fallen into line with South Africa's new general sales tax provisions.

The second Sales Tax Amendment Bill, tabled in the National Assembly here yesterday, raises GST from 7 to 10 per cent, and exempts certain basic foods.

The measure comes into effect on August 1.

The minister of Finance and Economic Development, Chief M. E. P. Malefane, said this was to give the inland revenue branch the opportunity to arrange the printing of prescribed forms, to notify vendors and to afford them time to adjust pricing and accounting procedures.

Chief Malefane said unless Ciskei followed South Africa's lead in exempting some foods, Ciskeians would be forced to buy from shops in South Africa which provided these exemptions. This loss of revenue would impede development of Ciskei's economy, he said.

The reduction in income arising from the exemptions on basic foods had to be compensated for and that was why general sales tax on other sales were increased from 7 to 10 per cent.

He said the greatest challenge facing humankind was the struggle to overcome hunger. The levying of general sales tax on basic foodstuffs posed a socio-economic problem.

If the Ciskei Government could alleviate the plight of the rural unemployed and low-salaried people by exempting certain basic foodstuffs, then his government would have met one of the most vital needs of its citizens.

He said the lack of wholesalers in Ciskei meant that the rate of sales tax had to correspond with the rate in South Africa. An owner of a small business with a turnover that precluded registration for GST purposes, would be compelled to raise prices in Ciskei to recover the higher tax he had paid to South African suppliers.

Foodstuffs exempted from GST as in South Africa, are bread, butter, eggs, fish, fruit, maize meal, meat, milk and milk powder, vegetables and whole-wheat meal. — DDR

Angry consumers lash out at shopkeepers

'Great GST rip-off' gettting into top gear

By Lucille McNamara

The "great GST rip-off" is how angry and confused consumers have begun to describe the way in which certain retailers are apparently abusing the imposition of the Government's new 10 percent taxation.

Apart from across the board increases for most commodities — with the exception of certain basic foodstuffs — they are now facing an onslaught of price hikes by manufacturers apparently trying to offset their additional costs.

Since Monday, fruit juices increased in price by 23 percent, cooking oil by 15,5 percent, butter by 14,7 percent, cold meats by between 12 percent and 14 percent, margarine by 13,6 percent, cheese by 7,9 percent, milk by 6,3 percent and flour by 1,3 percent.

Another anomaly which is adding to the confusion is that a number of family butcher shops are charging GST on meat which should be exempt from taxation, such as bacon, marinated meat, salted beef and pickled tongues.

The hefty increase in the cost of cooking oil is having a ripple effect throughout the catering industry, with consumers paying more for everything from a hamburger and chips from a takeaway outlet to deep-fried calamari in restaurants.

But the July 1 increase on certain perishables was no excuse for prices charged by some food handlers, said one angry consumer, Mr H J Britz, who works in Johannesburg's central business district.

He said certain shop owners in the CBD had used the 10 percent GST scale to increase their prices by the same amount — instead of the additional three percent.

The Tearoom-Restaurant Proprietors' and Caterers' Association chairman, Mr Demosthenes Michos, said the new GST scale would result in traders altering their price structures.

"Consumers will undoubtedly pay more for commodities from a shop in the CBD than from a trader operating in the suburbs," he said.

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...s of the detentions was released yesterday by the Minister of Law and Order, Mr Louis le Grange, who said they had been detained in terms of the Criminal Procedure Act after the police had received "certain information" from the Department of Foreign Affairs.

"Charges of theft and a possible contravention of the Protection of Information Act are being investigated," he said.

In terms of the Criminal Procedures Act the detainees — said to be brother and sister — may not be named. However, it is understood that one of them is married to a Conservative Party worker.

They are also related to one of the key figures in the recent political downfall of the former Minister of Manpower, Mr Fanie Botha.

They are expected to appear in court here today.

Mr Pik Botha, Minister of Foreign Affairs, said last night that he had nothing to add to Mr Le Grange's statement except to say that he and all their colleagues had been "deeply shocked and disappointed."

It appears from Mr Botha's statement that the first suspicions of the alleged irregularities came from within the Department of Foreign Affairs itself.

"I want to express my appreciation towards the officials in my department who showed the required alertness to suspect there was trouble brewing and who nipped this irregularity in the bud," he said.

He also expressed appreciation for the "speedy and effective" action by the police and said that his department had met the security requirements which applied to the posts occupied by the two detainees.

One of the detainees is believed to have worked in the office of the Deputy Minister of Foreign Affairs, Mr Louis Nel, and the other was employed in the Cape Town regional office of the department.

It is understood that one of them had worked overseas for the department at one stage. DDC.

Gold shows a slight recovery

JOHANNESBURG — Gold recovered modestly in world markets yesterday after slipping to $332,50 in London on Monday — its lowest level in two years.

Gold moved well up above the $340 mark yesterday to be fixed at $346 in London in the morning and slipped only slightly to $344,25 at the afternoon fixing.

The US dollar edged down yesterday from its record highs of a day before, apparently weakened by profit-taking and action from the US Federal Reserve to ease pressure for a rise in short-term interest rates.

The British pound, whichhit an all-time trading low of $1,3025 in London trading on Monday, before closing at 1,3045, rebounded to $1,3095 late yesterday.

But experts interviewed in Johannesburg yesterday have a bearish outlook for gold in the short term.

Mr Louis Geldenhuys, chief economist for Senbank, said: "South Africa cannot base its projections on windfalls. There is nothing to indicate that the dollar will crash. The best thing we can hope for is a sustained weakening of the dollar over a period." — SAPA-AP.

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Ciskei GST up to 10 pc

D. Dispatch 11/7/84

BISHO — General sales tax in Ciskei goes up from seven to 10 per cent from August 1.

The second Sales Tax Amendment Bill, tabled in the National Assembly yesterday, also provides for the exemption of certain basic foods. These measures bring Ciskei into line with South Africa's new GST provisions.

Introducing the bill, the Minister of Finance and Economic Development, Chief M. E. P. Malefane, said Ciskei had to follow South Africa in exempting certain foods.

If it did not, Ciskeians would be forced to shop in South Africa where shops offered the exemptions.

The resulting loss of revenue would impede development, he said.

The loss of income from the exempted foods necessitated increasing GST from seven to 10 per cent.

Chief Malefane also introduced a bill to provide tax exemptions for companies in Ciskei. The bill abolishes undistributed profits tax and exempts companies from income tax if they do not receive decentralisation benefits, except for transport, electricity and housing benefits. — DDR

See also page 3

SAAF mercy flight

CAPE TOWN — The South African Air Force has mounted a mercy mission to isolated Marion Island in a bid to save the life of the leader of the expedition team on the island.

A C-130 Hercules transport aircraft loaded with a life-saving canister of medicines, which was to be parachuted onto the island at daybreak, left for the island at midnight.

The mercy flight was mounted after the condition of Mr Graham Clarke, 25, of Durban, worsened and there was little prospect of the SA Navy hydrographic survey vessel, SAS Protea, reaching him before 8 pm tonight.

The vessel left Simon's Town on Monday after Mr Clarke had become "very ill" at the weekend with severe sinusitis headaches.

A further message said that this had developed into an infectious condition. — DDC.

Miss South Africa, Tisha Snyman, runner-up in the Miss Universe contest, congratulates the winner, Yvonne Ryding of Sweden.

UPI picture by ...

So close for SA's Tisha

From RICHARD WALKER

NEW YORK — South Africa's Tisha Snyman woke up yesterday a heartbeat away from being Miss Universe — and trying not to think about it.

If anything happens to dazzling Yvonne Ryding, then the 20-year-old green-eyed blonde from Durban assumes the crown, Miss Universe organisers made clear in Miami, where the vivacious Swedish nurse with the delectably fractured accent beat a bravely smiling Tisha into second place among 82 contestants.

A 22-nation television audience estimated by the producers at 700 million watched the contest.

But there was no immediate sign of Miss Ryding slipping on a banana skin as she breakfasted in bed, held court for photographers and went on her first shopping spree before flying to New York today and a hectic schedule of interviews and TV appearances.

For Tisha, there was a plaque and a ticket home. For Yvonne there was $175 000 in cash and prizes that included a year in a Manhattan apartment, a shiny red sports car, a motor boat, a first class air ticket for two . . . to anywhere . . . a mink coat, a diamond watch, several wardrobes of clothes and five years' supply of assorted cosmetics, scents, pantihose and a popular line in deodorant.

It was the nearest South Africa came to the title since the rocky 1979 reign of Margaret Gardiner.

Tisha's success was a victory of personality over body. She scored comparatively poorly in the bathing suit sequence and only just managed to squeeze into the final five, with nine-plus points (out of 10) for personality and an evening gown sequence.

The other contestants to make the final were Miss Philippines (a tall, confident model), Miss Venezuela (another blonde) and Miss Colombia, a sentimental favourite with the heavily Latin theatre audience. — DDC.

...rvice chief ... Minors ... Cinema patrons ...

Du Plessis backs 10 percent GST

320 C-Times 2/7/84

By BARRY STREEK

THE decision to introduce the new 10 percent General Sales Tax, which came into effect yesterday, was defended by the incoming Minister of Finance, Mr Barend du Plessis, at the weekend.

His defence of GST comes after speculation that the government may increase GST again later this year.

Mr Du Plessis said at a press conference that the acceptable level of GST was "the delicate balance of what the consumer can pay and what the country needs".

Mr Du Plessis

'Good form'

"This country right now needs revenue. It also needs to cool down expenditure in certain consumer lines."

After due consideration, the cabinet had decided on the 10 percent formula, he said.

He shared the responsibility for the GST increase, as this was a "cabinet decision and certainly not Minister Horwood's own personal responsibility".

GST was accepted world-wide as "a good form of taxation. It's fair in the sense that one has a choice to buy or not, to a degree, except when it comes to life-essentials".

Although the cabinet had decided to increase GST, it had decided to "alleviate the burden on those essentials".

GST was relatively easy to administer throughout the economy and was a useful instrument for both revenue and the State, he said.

GST achieved certain monetary objectives, such as helping to curb spending, thus arresting the outflow of capital.

It could be used as a remedy for a poor balance of payments position, he said.

He felt the rate of inflation in South Africa was inordinately high.

There were factors beyond South Africa's control which affected this, "but the government is not satisfied with the present level of inflation".

He also called for a speeding-up of the government's decentralization programme.

The expense of creating further infrastructure in metropolitan areas made it "sound economic policy to decentralize our economic activity away from the PWV (Pretoria-Witwatersrand-Vereeniging) area."

One of the main constraints in this area was the shortage of water.

If the PWV area were overdeveloped, water supply would be extremely expensive, which would be detrimental to the consumer, he said.

Pledge

The budgetary procedures in the new constitution would be different, but not much different from the present procedure with the provinces, where sums were budgeted and the provinces had power to regulate their own revenue.

"The same broad principle will prevail in the new constitutional dispensation, where certain centrally-accumulated amounts will be decided upon and dispersed."

The various chambers would be empowered to generate their own funds to a degree, he said.

Mr Du Plessis also pledged himself to increased spending on black education, and said the Department of Education and Training had its own internal momentum, which would require a larger budget.

Defence

But, with "the difficult times we have now and we may have for some years to come, black education will find it difficult to increase to the extent it would like to do".

He said that as a general comment, "it will be extremely foolish to decrease dramatically the budget for defence in South Africa".

The fact that South Africa was economically and militarily a force to be reckoned with contributed substantially towards negotiating strength both locally and internationally, Mr Du Plessis said.

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Transkei to keep GST at 7 percent

GENERAL Sales Tax in Transkei would remain at seven percent when South Africa increased GST to 10 percent on July 1, Minister of Finance, Sidney Qaba announced in Umtata this week.

Mr Qaba said his government had decided against increasing the GST, considering Transkei had to contend with external inflation imported into the country.

"It is therefore abundantly clear that this double inflation has contributed to the lowering of the quality of life of the Transkeian people, who at the best of times are living from hand to mouth."

He said the sales tax inspectors of his department would ensure people were not exploited, threatening prosecution for those caught.

"I know that the majority of business people are God-fearing people and will not stoop low to exploit the gullibility and ignorance of the masses on the pretext that the government has decided to increase the GST," Mr Qaba said.

—> cont.

FRINGE BENEFITS

Widening the needle's eye

329

Deferment of the perks tax Bill was unavoidable. To have promulgated the measure on September 1, as originally intended, would have shattered what is left of staff morale at Inland Revenue.

The truth is that the impending hike in general sales tax is going to provide a massive headache for tax collectors. Increasing gst is one thing; but to break a cardinal rule of taxation and introduce exemptions into such a broadly based instrument is another. So tax analysts are predicting the same fate for gst as value added tax in western Europe and the US — or even SA's own sales duty regimen, introduced about 15 years ago on the recommendation of the Franzsen Commission and scrapped about two years ago. A law of declining returns is at work. On introduction, sales duty yielded about R160m. At the death, more than a decade later and during a period of high inflation, it was bringing in a mere R190m — a massive decline in real terms.

The equation at work in such cases is simple: tax plus exemptions plus lobby pressure equals erosion.

According to highly placed sources, this is what Finance Minister Owen Horwood and his advisers told government, but the Conservative Party bogeyman won the day. The CP, it was felt, would be certain to exploit the effect of a uniform gst on the pockets of blue-collar and platteland voters.

As with gst, it is precisely the system of exemptions which may yet prove to be the Achilles heel of the perks tax proposals; although most tax accountants agree that the design of the Bill is tight and its scope wide enough to cover most counter-strategies — or "avoision" — that the experts are capable of designing.

Political and administrative considerations seem to have influenced Finance Minister Owen Horwood's announcement that the fringe benefits tax Bill be only implemented next year. In the meantime, there is going to be considerable research into the law — and some heavy bargaining by employees who previously were non-recipients of perks.

It is by no means certain that the new measure will yield all the effective tax-planning opportunities the advance publicity seemed to suggest. The intervening seven months before promulgation will see a rash of seminars at which the tax will be explained to employers, and perhaps even to a few employees. It is in the countless private consultations between tax accountants and their clients that the real hard thinking will be done.

This seems to have made people nervous at Inland Revenue, for Horwood warned in Parliament this week that government would maintain a close watch on new remuneration schemes implemented by employers ahead of the Bill's promulgation. Such schemes, he said, were patently for income substitution, in order to gain additional advantages from the proposed phasing-in provisions of the measure.

He needn't have got into a froth. Just about all possible schemes designed to give workers non-cash benefits are covered by the seventh schedule of the Income Tax Act. The real test of ingenuity for employers and their accountants will be to reduce the parameters by which taxable benefits are measured. Thus there could be heavy, renewed negotiations between large fleet owners and motor vehicle manufacturers to increase discounts and thereby reduce the "determined value" of company cars in the hands of employees.

Swapping cars

Also, the 15% depreciation allowance on used company cars may bear closer examination. A dodge that springs to mind is for employees to swap cars once a year and so reduce determined value. If they exchanged cars every year, value would run down 15% on every swap.

Another patent opportunity to reduce taxable benefits without depriving workers of perks relates to club membership. In determining the value of entertainment allowances to be added to an employee's gross income, the R2 500 or 5% deductible

Finance Minister Horwood ... a question of exemptions

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limit is inclusive of club subscriptions paid by the employer on behalf of the employee. Perhaps companies could arrange a system of corporate club membership to avoid liability being pinned on workers. And so on.

Apologists for the new regime say that it was designed to bring "equity, uniformity and certainty" into what some old government taxmen used to call a barbarous practice. To the extent that the new proposals will legitimise existing perks schemes — and invite widespread agitation for inclusion in such schemes among workers previously shut out — they will probably meet the lofty objectives for which they were designed. For that reason, it is probably a mistake to think that the perks tax was designed to yield huge additional revenue collections.

Some tax analysts point out that, in theory, the tax proposals in their present form contain a considerable element of balance — rather like a free floating currency exchange rate. The handing out of largesse is bound to run into the tax net somewhere along the line. If it increases the quantum of a company's pre-tax deductibles (and reduces its taxable income), then Inland Revenue scores on the roundabouts, because the value of benefits given to employees comes into the net. Conversely, benefits withheld should be reflected in the P & L.

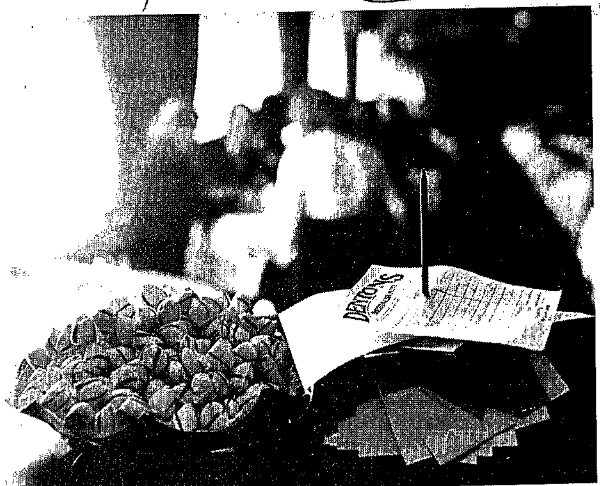
Tax shelters

Of course, that's only a theory, as the statistical review that accompanied the 1980-1981 Budget showed. In that year, thanks to tax shelters like leverage leasing, tax base warehousing and lifo valuation systems, companies paid R2 900m in tax. Arguing for the discontinuation of the "incentives" this year, government claimed that because of "some" of the allowance, R976m in tax revenue had been foregone in 1980-1981. Individuals paid R7 200m. Similar incentives were discontinued in the UK nearly 10 years ago because they were found to be not worth the revenue sacrifice.

Despite this well-researched evidence, the "incentives" remained in the Income Tax Act — presumably because the gold mines were laying such fat tax eggs. It required the government's current finance crunch to bring the fiscus to its senses — and, as usual, the remedy is worse than the ailment.

In the desire of the architects of the fringe benefits tax Bill to produce something effective, yet simple, lies the main shortcoming of the measure. For example, rates relating to the determined value of company cars are based on a "deemed" distance of 10 000 km/year travelled by an employee on private business. This is going to prejudice some, while favouring others. In fact, it may well stimulate a lot more private travel.

In trying to tax non-cash benefits "simply," while at the same time providing a number of exemptions, the legislators have weakened the Bill. It may be a good idea to



Eating out ... there's no such thing as a free lunch

try to rewrite parts of it and be more specific about exemptions. A simple example is that awards for bravery are to be exempt from tax — but what exactly is bravery? The Bill does not say.

There is a heavy onus on employers to determine a value for benefits given and then to declare it. In other words, they will be applying what is basically a non-uniform tax on a uniform basis. They will have to issue annual certificates stating benefits given, certified by a director as correct. Penalties for omission are tough.

Employers' response to the new regimen will differ according to the best advice they can obtain from the professionals. It does seem, however, that it would be advisable in almost every case to pay tax on the benefit given rather than give an additional consideration to make up for the depredations of the tax. The tax on the benefit is always lower.

At the other end of the employment spectrum, many thousands of workers who do not at present receive fringe benefits are almost certain to confront management with this fact. But will it reduce the leverage power of those skilled personnel who, because of their scarcity value, are holding employers to ransom for non-taxable benefits? Probably not. Nevertheless, some heavy bargaining lies ahead.

As the *FM* pointed out last week, employee consciousness about the nature — not to say the existence — of fringe benefits has been considerably heightened by government's attempted interference in this aspect of the remuneration process. This, surely, was not Pretoria's intention. Now the avoision experts will have a field day.

quotable

From a French television interview:

Question: "You said that one could not, solely on account of human rights, refrain from having relations with a country. You maintained we (the French) were thus at least able to tell that country what we thought. Then why are we not officially receiving the SA Prime Minister?"

French Foreign Minister Claude Cheysson: "I said long ago — and conveyed that to my SA colleague — that we would probably meet one day and that I would be able to tell him fully what I think of apartheid and SA policy. I don't imagine it will be a very cordial meeting. I doubt whether it will help to create closer ties between France and SA, especially if the press are kept informed, which I will not fail to do. It so happens I do not regard such a meeting as indispensable at prime minister level. We have no special reason to invite the SA Prime Minister. We are not doing so.

"He decided to come in a different way, to commemorate the 8 000 South Africans who died alongside our soldiers on the Somme in 1916. We respect those South Africans. It is, in fact, quite remarkable to think that their dead will be commemorated by the Prime Minister of an Afrikaner government, in other words, of a trend that opposed in every way SA's participation in that war. I am glad to see the SA Prime Minister now understands that that struggle for freedom was to SA's credit."

SALES TAX

Thrills at the tills

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There could well be turmoil at the tills when the new general sales tax comes into effect on July 1. Not because traders will have to adjust to the new rate, but because for the first time, a large number of items will be exempt.

Clive Kingon, tax director at Inland Revenue, believes that the principle of excluding certain basic foods is here to stay. For the consumer and trader, however, the major problem will be recognising just which goods qualify for exclusion from the tax.

As Raymond Parsons, chief executive of the Associated Chambers of Commerce (Assocom) put it: "It will be necessary to test the system in practice before deciding whether further modifications are necessary."

Assocom, aware of the confusion which could arise, has produced a pamphlet, to make it easier to understand the new tax. Endorsed by the Department of Inland Revenue, it will undoubtedly go a long way in reducing teething problems. But a look at its contents also shows just how tricky the tax could become.

Firstly there is the problem of deciding which goods are exempt. For instance eggs laid by domestic hens are exempt. Duck, turkey, and ostrich eggs are not. Neither are separate egg yolks and whites.

Meat is exempt, as is all "raw finfish which needs to be cooked." On the other hand, shell fish, fish products containing less than 60% raw fish, and prepared meats are not. Frozen vegetables are exempt; dehydrated vegetables are not. Milk powder is exempt; milk powder blends and infant foods are not.

In general, the principle is that whenever a food has been subject to some form of processing — as when minerals have been added or the food has been canned — it will be subject to the tax.

Then there is the problem at point of sale. For retail outlets with computerised equipment systems could be developed in time to differentiate between taxable and non-taxable goods. Where there is no cash register in use the shopping basket will have to be divided. It is difficult to foresee a smooth switch to the new tax in July. And there will be even more problems when, on September 1, all prices must be stated as exclusive of tax.

The tax in its new guise will obviously be harder and more expensive to administer. It will also provide a certain amount of scope for error and cheating. Whether selectivity in the application of gst will be worth the candle remains to be seen.

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FINANCE

State warned over move to curb tax free savings

ARGUS 28/6/84

320

The chairman of the Eastern Province Building Society, Mr H P C Almon, has warned the Government that the building societies would be hard-pressed to provide housing loans if they lost their tax advantages.

Addressing the society's annual general meeting in Grahamstown last night he said if these advantages were lost the funds would merely go elsewhere where such benefits existed. He asked why should the building societies be the whipping boy?

Mr Almon said the authorities were planning to remove the tax advantages because they believed that the investors who benefited the most were the more affluent.

But as almost the entire savings of the lower income group lay in pensions and insurance, the major portion of savings and investments came from people in the higher income bracket.

These people had in the past been attracted by the tax concessions. While the loss of these concessions could be partly offset by offering higher interest rates, the attraction of other investment opportunities would still make it extremely difficult for the societies to meet the growing demand for home finance by all population groups.

He referred to the tax concessions offered by insurance companies, the Post Office, the Government and the equity market, and said that ending the building societies' concessions would cause the flow of funds to be disturbed — unless the other organisations also lost their concessions.

LIMITED CONTRIBUTION

Tax-free savings in the Post Office were used to subsidise postage and telephones while insurance companies offered schemes that were patently capital investments with considerable tax benefits, he said.

Furthermore, insurance companies could invest their income to the best advantage on the stock exchange and elsewhere, and their contribution to housing was extremely limited.

Mr Almon said that it appeared that the societies would be expected to compete with the banks but would not be entitled to spread their activities across the financial board, as the bulk of their funds had to be spent on housing.

If, in addition to this, the societies lost their tax benefits on investments, the future for borrowers was serious.

Mr Almon said his society could not satisfy the demand for loans in spite of a slowing down in the property market. Gross loans granted reached R97-million, a 51 percent increase on the previous year's R64-million.

GST rise makes it a Gloomy Sunday for consumers

Buyers in rush to beat tax increase

By Sol Makgabutlane

A last-minute scramble is expected today and tomorrow as consumers flock into stores to use their last opportunity to buy goods before general sales tax goes up to 10 percent on Sunday.

In recent years income tax rates in South Africa have risen sharply and, for blacks, the beginning of March saw their inclusion in the taxation system under which they had to pay the same income tax as that previously paid only by whites, coloured people and Indians.

But it was the announcement by the Minister of Finance that GST was to rise by three percent from July 1 that triggered off a heated response, punctuated by appeals and accusations from consumer and non-consumer organisations.

Some members of Parliament described the hike as a "parting gift" from Mr Owen Horwood.

CUSHIONED

The Government cushioned the impact of the increase when it dropped GST from several basic foodstuffs. But the benefit of this will be nullified for some of these items, such as milk, when their prices are increased from Sunday.

The satisfaction that greeted the Government's announcement of the foodstuffs that would not be taxed was tempered with complaints ranging from dissatisfaction that not all "basics" had been freed from tax to anger that food, an essential consumer product, would, in general, still be subject to GST.

Among those who voiced surprise was the vice-chairman of the South Afican Cane Growers Association, Mr J A Ardington, who said it was amazing that sugar was not included in the list of basic foodstuffs exempted from GST.

Another was Mr E Roux, general manager of the South African Dairy Board, who wondered why cheese had been left out of the list.

Sunday's increase will be the fourth time GST has been raised since its introduction in 1978.

Starting at four percent, it was increased to five percent in March 1980, six percent in September of the same year, seven percent in February this year and, now, 10 percent from July 1.

Economists estimate that the latest increase will provide the Treasury with an extra R800 million during this fiscal year.

But, despite this, several people have questioned the Goverment's fairness in raising GST.

Mr Harry Schwarz (PFP, Yeoville), called for the appointment of a Consumer Affairs Minister to protect the interests of consumers.

"The consumer is taking a back seat in everything the Government is doing. Whenever the Government looks for money, it turns to the consumer," Mr Schwarz said

Mr Schalk Visser, Sandton's PFP MPC and town councillor, warned that the amount lost in uncollected GST — economists put this at about R500 million a year — would rise substantially when the higher rate of GST was introduced.

He recommended that the Government turn to the private sector for help.

Mr Horwood, in turn, emphasised that the exempted items had been selected carefully to give greatest benefit to the less privileged. The list of these items was adequate and no additions would be considered at this stage, he added.

Retailers, who are generally not optimistic about the system under which taxable goods will be distinguished from the non-taxable, have predicted quarrels between customers and cashiers at tills.

"The department must deal with every item by brand name. There are no definitions in terms of brand names at the moment and that's confusing," they point out.

Among the anomalies pinpointed by retailers are that tins of seafood cocktail and pet food will be exempt but cheese, sugar, sour milk and peanut butter will not be. Marinated meat will not be exempt, but a brand of marinated burgers will be. Baby formulas will not be exempt, nor will milk blends, with one exception. Yet some brands of full cream will be exempt. (See list of non-taxable food items).

The Receiver of Revenue, Mr C F Shweppenhauser, said that the number of inspectors in his department had been increased and, after Monday, the public could approach the regional offices of the department in cases of disputes the exemption or non-exemption of goods.

Organisations such as the Association of Chambers of Commerce and the Afrikaanse Handelsinstituut are planning seminars to inform businessmen on the exemptions.

Once the new GST is in operation, South Africa seems set to be plagued by a new spectre which could have far-reaching consequences on the economy. This is the possibility that consumers might soon launch cross-border incursions into States in which there is no GST, or where it is lower than in this country.

Especially likely to benefit as sales tax on most items goes to 10 percent in South Africa are Bophuthatswana, Swaziland and Botswana, where no sales tax is charged. The rates in other territories are Ciskei (six percent), Transkei (seven percent), Venda (six percent), Lesotho (six percent) and Namibia (seven percent).

YOUR GUIDE TO THE NEW RATE

Cut it out and take it shopping

	NO GST	GST
BREAD	White; brown; wholewheat; compound bread	High-protein; French; super white; rye; rolls; buns; matzah; rusks.
EGGS	Eggs laid by domestic hens	Eggs laid by ducks, turkeys, geese, ostriches; separated egg yolks and whites.
FISH	Raw finfish which when sold is customarily cooked before being eaten	Rock lobster, crabs, langoustine, shrimps, prawns, oysters, mussels, abalone. Canned or bottled fish; marinated and pickled fish; cured herring and anchovy fillets; bait; extracts and pastes; caviar and substitutes; snoek, smoked salmon; fish biltong; products containing less than 60 percent raw fish; fish sold ready to eat.
BUTTER		
MARGARINE		
FRUIT	Edible fruit not cooked or treated, except for protection against perishing.	Nuts; dried; glace; canned or bottled; jam; juices.
MAIZE MEAL	Super: sifted and unsifted; samp; mealie rice.	Maize flour.
MEAT	Slaughtered animals or poultry, required to be cooked before being eaten; sausages required to be cooked before being eaten; hamburger patties; steak and beef burgers.	Canned meat; marinated or pickled; polony; Vienna sausages; Frankfurters.
MILK	Milk of cattle, sheep goats, skimmed; full-cream; buttermilk; sterilised (unflavoured); long life (unflavoured).	Condensed or concentrated; flavoured; sour; yoghurt sweetened.
MILK POWDER	Unflavoured, obtained by removal of water.	
VEGETABLES	Vegetables supplied for human consumption which have not been cooked or preserved other than by freezing, blanching, scalding.	Canned; dehydrated.
WHOLEWHEAT	Wholewheat meal which is pure, sound wheaten meal.	

CAPE TIMES 27/6/84 320

Tax-free labels on Monday

Staff Reporter

BRIGHTLY-COLOURED labels identifying tax-exempt foodstuffs will greet shoppers at most supermarkets from Monday but hard-pressed consumers cannot look forward to a general drop in prices.

Although most supermarket executives spoken to yesterday said they were planning promotions linked to the tax-exempt items, several are retaining prices at present levels.

Supermarket chain staffs are hard at work labelling products, adapting cash registers and learning to cope with the new measures, and most outlets will have pamphlets detailing non-taxable items available at check-out points.

System

Only one of six major supermarket chains approached yesterday is to introduce a single computer-coded label which includes the price.

This system, the company spokesman claimed, would prevent items which shop attendants had forgotten to label as tax-exempt from "slipping through" at check-out points.

Shelves bearing these items would be prominently marked.

Computers

All five other supermarket chain spokesmen said they would be adding brightly-coloured labels marked "tax-exempt" to the relevant items.

Mr Ronnie Herzfeld, systems development manager for Pick 'n Pay, said his company's computer labels would "take the discretion out of the hands of the cashier", allowing the cash register-computer to decide whether the item was taxable or not.

Capetonians could also expect colour-coding at local outlets.

Adaptation

The marketing manager for Spar Supermarkets, Mr Dave Godding, said all Spar's tax-exempt foodstuffs would bear a bright lilac-coloured sticker, and promised that if any of his customers were incorrectly charged for a tax-exempt item, they would be given double the mistakenly-charged tax back.

Many of his supermarkets had already "converted" and staff had been put through intensive adaptation sessions.

"We are also planning to link most of our promotions to tax-exempt products," he said.

Posters

The managing director of Grand Bazaars, Mr Jackie Sachar, said his chain would be opening its Sea Point branch on Sunday, July 1, between 9am and 7pm to give shoppers an opportunity to "try out" the new system.

"In our shops we've put up huge posters the same colour as the labels on which will be a copy of the till slip showing how items are designated", he said.

Horwood: GST list 'will mean relief'

CAPE TIMES 26/6/84

Political Staff (320)

HOUSE OF ASSEMBLY. — The list ~~of goods~~ of goods to be exempt from GST from July 1 had been "very carefully considered" and would mean a "substantial measure of relief", the Minister of Finance, Mr Owen Horwood, said yesterday.

Speaking in the third reading debate on the Budget, Mr Horwood said: "The purpose of the exemptions was to give relief from the increase in the rate of tax and to do so in such a way that the broadest spectrum of the general public would benifit."

He added that the cost in terms of the "sacrifice of revenue" would probably exceed R600-million during the rest of the current financial year and close to R1 000-million over a full financial year.

"People who plead for further items to be exempted from tax could well bear this in mind. Here once more the value of the concession itself is apt to be ignored and more is asked for," he said.

Requests had been received for further exemptions of goods "which, it is said, are basic foodstuffs".

The requests had been considered carefully and the definitions finally decided on had in some respects been "quite generously framed".

The idea had not been to define basic or staple foodstuffs as such, "but merely to select such of those foodstuffs as are in general use, so as to afford a real measure of relief", Mr Horwood said.

He also announced that the deadline for implementing a compulsory "add-on" GST system would be extended from July 1 to September 1.

...scape the Receiver's net, warns Horwood

...tax put off

ARGUS 25/6/84 320

...ail crash scene in Northumberland, England.

Political Staff

THE Fringe Benefit Tax, which is proving one of the most difficult Bills to place on the statute books, has been postponed to March 1 next year, the Minister of Finance, Mr Owen Horwood, said in Parliament today.

The decision to exempt a number of basic foods from general sales tax had placed an additional burden on Inland Revenue staff and it had been decided to postpone the introduction of the "perks tax", Mr Horwood said.

Speaking in the third reading of the Budget debate, he warned employers over the feverish rush to design new schemes ahead of the original introduction date of September 1 this year. Such projects would not be allowed to escape the Receiver's net.

He said he was aware of this rush by employers and employees to devise new schemes, especially in housing benefits. These were patently plans for income substitution in order to get additional advantages from the proposed phasing-in provisions of perks tax.

Grant relief

The phasing-in was designed to grant relief to taxpayers from any sudden increase in their tax burden, Mr Horwood said.

It was not designed to allow time for the introduction of unwarranted additional benefits to any taxpayers through new schemes.

"All employers and employees concerned are, accordingly, duly warned that this fact will be specifically provided for in the drafting of the relevant Bill."

He said the postponement was an effective further phasing-in of the liability for tax and would be taken in to account in the drafting of the final legislative proposals.

Heavy spenders

The Argus Financial Editor, Derek Tommey, reports that Mr Horwood told the House the economy had risen strongly in the nine months ended March and that South Africans had also been heavy spenders in

Regent's Heir shock July withdrawal

DURBAN. — Punters were dealt a shock today when the fancied Regent's Heir was scratched from the Rothmans July Handicap to be run over 2200m at Greyville on July 7.

He was the only horse scratched this morning, which left 23 horses in the race.

Only 18 can run, so the Durban Turf Club had to eliminate five, which were: Royal Play, Tantallon, Mr Fabulous, Captain Ekels and French Festival.

The final field for the July Handicap with jockeys is:

9 Arctic Cove (Sutherland) 58
11 Spanish Pool (Sham) 58
17 Hawkins (Puller) 57,5
14 Sabre Dance (Anderson) 55,5
18 Gondolier (Sieg) 55
7 Count Du Barry (Marcus) 54,5
15 Versailles (Hill) 54
5 Rutland Arms (Leisher) 53,5
13 Devon Air (Coetzee) 52,5
1 Grey Sun (Chapman) 52,5
6 Spring Wonder (Fleet) 52
10 Lucinius (Verne) 51,5
8 Stella Maris (Van Zyl) 51
12 Bodrum (Lloyd) 50,5
4 Sure Sovereign (Fradd) 50
3 Turncoat (Roberts) 50
16 Charles Fortune (Kotzen) 49,5
2 High Fling (Wynne) 49,5

...crashes into houses

...sel engine and seven of the ... coaches left the track at ... Curve in Northumberland after midnight, sending a

The crash happened at the same spot were six people died in a similar accident in 1969.

New schemes will not escape the Receiver's net, warns Horw

25/6/84

(320)

Perks tax put o

ARGUS 25/6

LATEST:

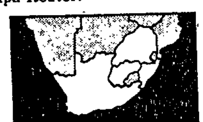
GLC's anti-Zola campaign halted

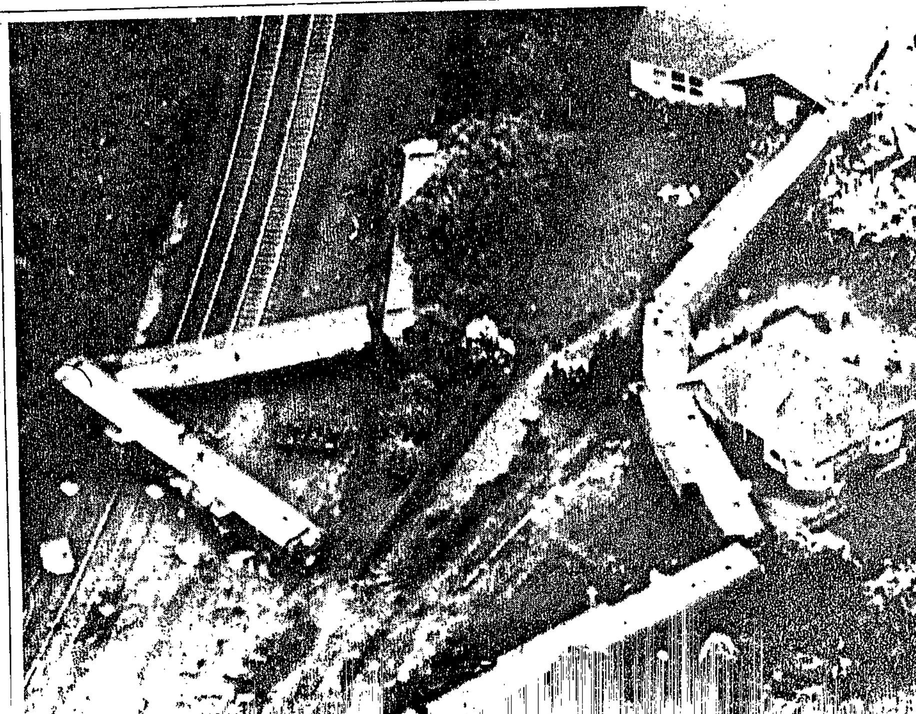
LONDON. — The Labour-controlled Greater London Council has decided to halt its campaign against Zola Budd.

According to reports here, the GLC's policy over Zola has split council ranks and now the issue is not even on the agenda for a meeting today. — Sapa.

Troop train blown up

LISBON. — Unita rebels using mines blew up a troop train in Kuanza Norte province east of Luanda on June 19, killing 250 Cuban and Angolan troops and wounding 94, a rebel communique issued in Lisbon said. — Sapa-Reuter.





Political Sta

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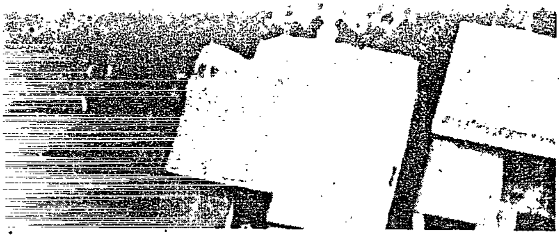

the rail crash scene in Northumberland, England.

25/6/84

n crashes into houses

The diesel engine and seven of the ain's nine coaches left the track at peth Curve in Northumberland nutes after midnight, sending a rrage of ballast from the line rough the windows of several uses.

One carriage careered up an emnkment and smashed into a cotge were 72-year-old Ina Oughton sleeping. She was shocked, but rt.

Another coach struck a nearby use. The owners were away.

The crash happened at the same spot were six people died in a similar accident in 1969.

320

A British Rail spokesman said three factors helped save the passengers. The rigid steel coaches, special coupling devices which kept carriages locked together after impact and the fact that most passengers were sleeping.

"They were all tucked up and relaxed and no one was wandering about the corridors," he said.

m pregnant with twins

Staff Reporter

he plane crash at the weekend Italy was pregnant with twins

eymour, of Woodland Park, recognised pilot, was married mercy-flight pilot and Spring-Seymour.

ur was manager of the team taking part in a rally as rld championships.

d one child, Myles, 2, who is by friends in Cape Town.

of the Cessna 172 was found mountainside near Albenga's the Italian Riviera.

e the pilot Mr Peter Wother-mmerentia, Johannesburg, corick Moolman, a 40-year-old African Airways, of Birchleigh North, Kempton Park, and Mrs Seymour, 32.

Mrs Seymour competed in the SA flying championships.

She was the Western Province precision flying champion last year, and the top private pilot outright in the national precision flying championships in 1982 and 1983.

A friend of the family said today that no funeral arrangements had yet been made. Mrs Seymour's parents live in Port Edward.

The Argus Foreign Service in London reports that the search for the Piper aircraft which disappeared on Saturday with two South Africans and two Italians aboard has now switched to the Lyons area in France.

On board were South African pilot Mr John Vosloo, 35, Mrs Frieda van Niekerk, 47, an employee of the South African Consulate in Milan, Mr Georgio Oldini, 26, and Mr Marco Nanni, 24.

more for alleged robbery, shooting

bed bakery employee Mr Henry ullen of R300.

Traffic Officer Mr John Tuck opped to help and was shot in the with his pistol.

During the scuffle one of the alged robbers was shot in the stomh. The man is under police guard Conradie Hospital.

Police arrested three other men at the weekend, two aged 18 and one 17, in connection with the incident. Police have recovered Mr Tuck's pistol.

The four men are expected to appear in Athlone Magistrate's Court tomorrow.

kills SWA police tracker

mauled and is recovering in Grootfontein Hospital.

The tracker, Mr Xai Kgaub, 35, Sergeant van Rensburg and Constable Jakes Jacobs, were called to he Tsumkwe area on Thursday to ill the lion, which had been wounded by a farmer.

They tracked the bleeding animal until sunset and resumed the rail the next morning.

The lion lay in wait and sprang on Mr Kgaub, mauling him badly before it turned on Sergeant van Rensburg.

Constable Jacobs shot the enraged animal.

Mr Kgaub died on the way to hospital. Sergeant van Rensburg is recovering well, a police spokesman said.

to any taxpayers through new schemes.

"All employers and employees concerned are, accordingly, duly warned that this fact will be specifically provided for in the drafting of the relevant Bill."

He said the postponement was an effective further phasing-in of the liability for tax and would be taken in to account in the drafting of the final legislative proposals.

Heavy spenders

The Argus Financial Editor, Derek Tommey, reports that Mr Horwood told the House the economy had risen strongly in the nine months ended March and that South Africans had also been heavy spenders in that period.

Mr Horwood said the behaviour of the economy had shown it had been able to to withstand the ravages of the drought and the low gold price far better than "destructive critics" were willing or able to appreciate.

The economy's performance in difficult circumstances had been remarkable.

Real gross domestic product, at a seasonally adjusted annual rate, had increased by six percent in the third quarter of 1983, by 11 percent in the fourth quarter and by a provisionally estimated four percent in the first quarter of 1984, averaging about seven percent in those nine months.

"Even more dramatically, real gross domestic expenditure increased by annualised rates of over 17 percent in the third quarter of 1983, nearly 16 percent in the fourth quarter and a provisionally estimated nine percent in the first quarter of 1984, or 14 percent on average over the nine-month period."

This demonstrated again the inherent strength and resilience of the South African economy.

"Difficult period"

However, Mr Horwood warned that the upswing lost its solid foundation when the gold price declined sharply during the second half of 1983 and the first half of 1984, and when drought conditions re-emerged in the early months of this year.

As the "mini-upswing" was sustained by rising spending and was no longer export-led, the economy began to run into new balance of payments and other constraints.

The economy now faced a difficult period of belt-tightening and adjustment to the lower gold price and the drought.

"This is what the prevailing high interest rates, the depreciation of the rand and the recent increase in taxation are all about," Mr Horwood said.

● SA economy in bad way — Schwarz, Page 3.

7 Count Du Barry (Marcus) 54,5
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5 Rutland Arms (Leisher) 53,5
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2 High Fling (Wynne) 49,5

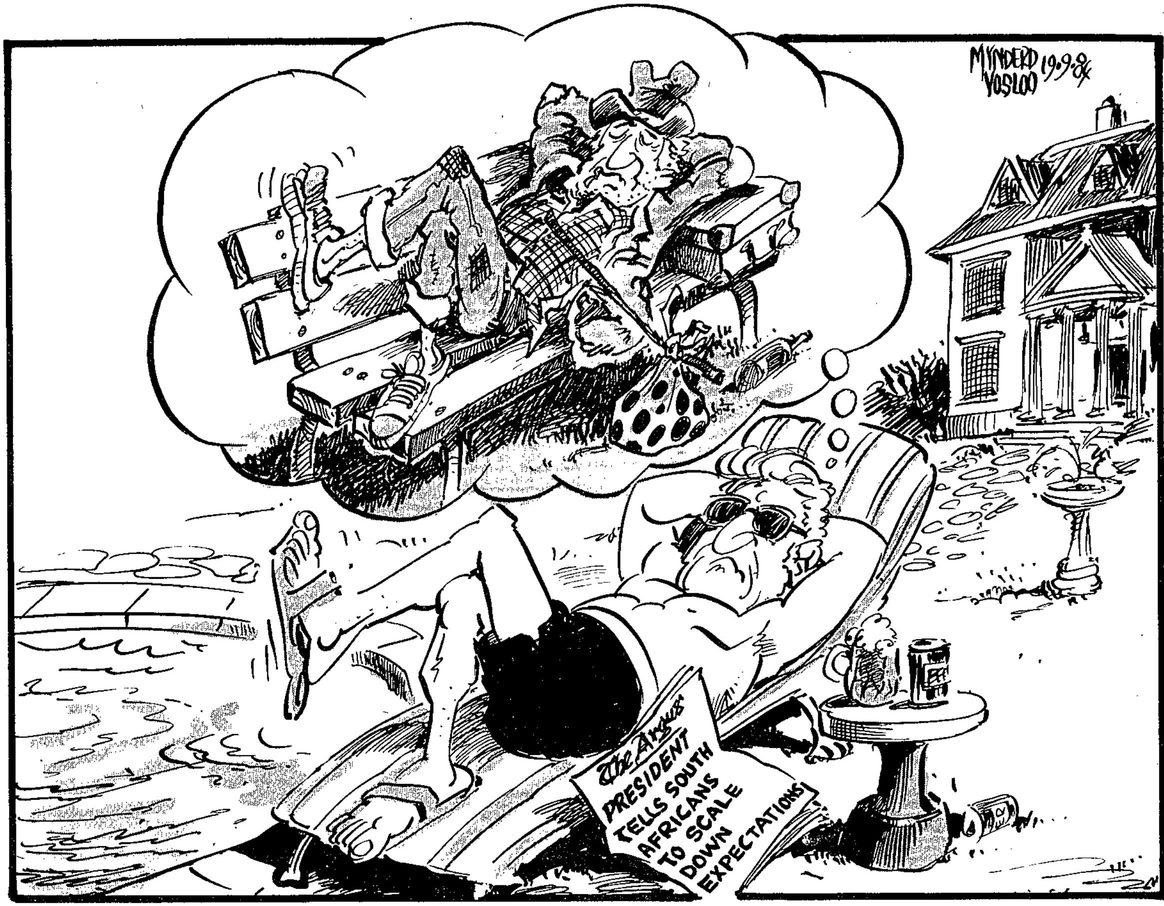
Spectrum

SPECTRUM ISSUE: Tax

Argus 19/9/84 49 320

Why we are poorer

This is the first of two articles by DEREK TOMMEY, Financial Editor, in which he looks at the increasing burden of income tax borne by the South African taxpayer and the prospects for any alleviation in the weight of taxation in the future



POLITICS, rugby and the latest theatrical offerings are no longer the main topics for discussion on the cocktail circuit. They have been ousted by a subject of far greater importance to most people — income tax and how it can be avoided and even evaded.

"I told my accountant to delay sending in my return as long as possible as I haven't paid last year's tax yet" is the sort of comment one increasing hears at any social gathering, as are remarks such as "get a private company — you'd be surprised at what you can get away with", and "I spent the whole afternoon with my accountant trying to reduce my tax bill".

South Africans have good reason for being concerned about income tax. Its burden, especially for those taxpayers who pay their dues in full, has become increasingly onerous, as official figures show.

Trebled

In the past three years personal income tax payments to the Government have almost trebled, rising from R2 090-million to R5 750-million, and are expected to rise a further 25 percent this year to R7 265-million.

Perhaps an even more impressive figure is that personal tax payments to the Government were rising at an average of 60 percent a year in the three years ended 1983-84.

This rate of increase in income tax payments is far larger than the rise in personal incomes, which means that the Government is taking an ever-growing percentage of everyone's income.

As a result it is evident that many South Africans are becoming progressively poorer.

Inflation

The apparent cause of the high rate of income tax is the high degree of inflation which this country has been experiencing. This has propelled taxpayers into increasingly higher tax brackets, a process known as bracket creeping, which has led to their paying the sort of taxes which only the rich paid in the past.

However, the real cause of the high tax rates has been the Government's overwhelming need for more revenue which has caused it to refuse to adjust the income tax rates for inflation, so enabling it to increase tax revenue without raising tax rates.

The Government's refusal to adjust the tax rates has in fact resulted in many taxpayers today being taxed twice as heavily as they were 10 years ago.

An analysis of the tax rates in 1974 and this year show that anyone earning the equivalent of R12 000 in today's money in 1974 would have had to pay 7,0 percent of their income in tax.

Today, anyone earning R12 000 has to pay 11,5 percent of his income to the Government — a 60 percent increase in his tax payment.

Those in the higher income brackets have been hit even harder. A taxpayer earning the equivalent of R24 000 in 1974 would have paid 9,7 percent of it to the Government. Today he pays 20,9 percent, an increase of 115 percent.

At current tax rates anyone with an income of R32 000 has to pay about a quarter of it to the Government. In 1974 he would have needed to have earned the equivalent of R80 000 before being taxed at the this rate.

Meanwhile, Adding further to the burden being borne by the South African tax-payer has been the introduction of general sales tax.

In 1979-80 it produced R1 249-million in revenue and in 1980-81 R1 653-million. This year it is expected to contribute R6 000-million to the Government's coffers.

Ten years ago income tax and sales duty, the forerunner of GST, took about 10 percent of individual incomes. Today income tax and GST together take between 18 percent to 20 percent of incomes.

However, in this period incomes in real terms have actually shrunk by about 2,8 percent, which means that the Government is continually taking more from less — which can have only one result — a poorer taxpayer.

TOMORROW: The prospects of a reduction in income tax.

THE Commission on Taxation has said it will report on the thorny subject of joint taxation this year. Then it's up to the minister, Mr Barend du Plessis. ROBERT STRETCH, a tax consultant with Ernst and Whinney, today puts forward a possible solution to the question. But beware, it involves a ~~hike~~ in GST. Yet that would be a much fairer way, he claims.

Mercury 25/9/84

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The case against joint taxation

LOTS of married working couples who have got their 1984 income-tax assessments have been shocked to find how much they have to 'pay in'.

With inflation running rampant, and the phenomenon known as fiscal drag or 'bracket creep', it is becoming increasingly expensive, taxwise, to be married.

More and more women are graduating into various professions, rising to senior positions and running their own businesses.

As a result their incomes are largely comparable to those of men.

But what happens when these women marry?

Under the iniquitous system of joint taxation, couples are penalised for being married.

The result is that many couples delay marriage until they want a family.

When they've had children wives shy away from returning to work.

Discrepancy

The table illustrates the additional tax payable under joint taxation as opposed to the combined tax a couple would pay if they were taxed separately.

But there's another discrepancy depending on the split of income between the husband and wife.

The table clearly shows that the more closely equated a husband's and wife's incomes are the more they are penalised.

A couple earning a combined income of R50 000, split R37 500 and R12 500 respectively, pay an additional R1 984 in tax.

Another couple also earning a combined income of R50 000, but split R25 000 and R25 000 respectively pay an additional R3 458 in taxation!

What sort of system of taxation is this!

Not only does it penalise you for being married but also penalises you depending on the split of income between you and your spouse?

The argument is often used that the most tax a working wife can pay is 50 percent of her income.

This might be so, but there are other costs relating to her working.

For example, help in the household, working clothes and travelling costs.

No wonder many wives are shying away from continuing with their professions.

In a country where skilled labour is at a premium this penal system of joint taxation is surely counter-productive.

In many cases wives who have had years of university education highly subsidised by the Government, and possibly been further subsidised through government or quasi-government grants or bursaries, no longer feel it worth their while to work.

In a sense, years of education are wasted.

The answer to this anomaly can only be to do away with joint taxation and to treat each individual as a separate taxpayer.

The counter-argument to this is that it will increase the number of tax returns and ultimately the burden on an already understaffed Revenue Office, and result in a loss of revenue which would have to be made up by some other means.

There is a simple solution to the first problem, and that is for married couples to continue completing a joint return and receiving a joint assessment, but the assessment would reflect the combined tax liability calculated as if they had both been taxed separately.

The second problem is perhaps not as simply solved.

Unfortunately there are no details of the additional revenue raised through joint taxation.

But, based on 1981 statistics, adjusted for inflation and 'bracket creep,' this additional revenue is conservatively estimated at R250 million.

This could easily be raised through an increase in general sales tax from 10 to 11 percent.

In a country already reeling from a 67 percent rise — 6 to 10 percent — in GST during the first six months of this year this suggestion is likely to be widely criticised, but consider the advantages:

A 10 percent rise — 10 percent to 11 percent — in GST will result in an additional R700 million revenue a year.

The R450 million additional revenue could be used to exempt more foodstuffs from GST; for example, tinned foods.

Although certain fresh foods are already exempt from GST what about those people in outlying areas who don't have fridges, etc, and for whom tinned foods are the only alternative?

Further exemptions will certainly benefit them.

We all know of people who avoid income tax through non-disclosure and other means, but they have to spend this money on something.

In this way GST is the fairest means of taxation and also the most easily policed from the Government's point of view.

However, there is a 'ray of light' at the end of the gloomy tunnel.

A commission has been appointed to consider the whole system of joint taxation.

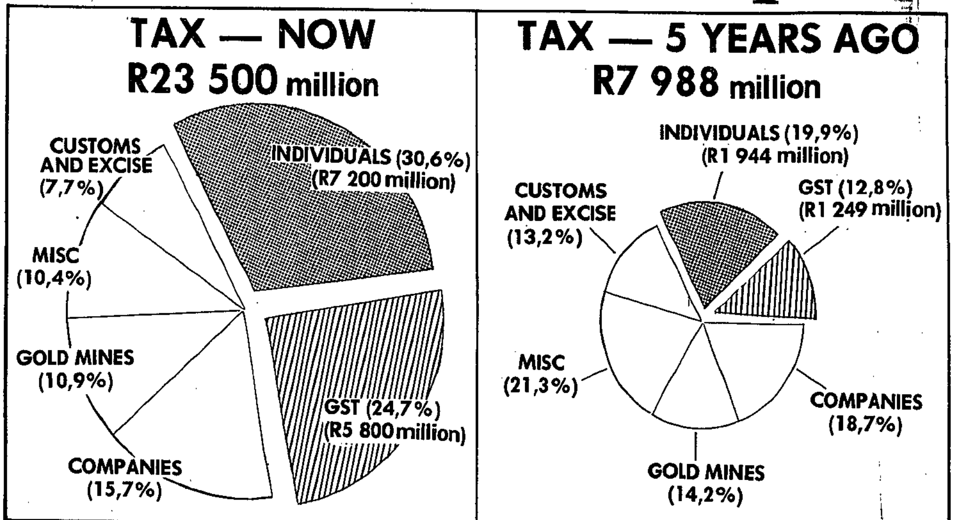
But, unfortunately, changes, if any, take time — especially when there's a government department involved.

Salary split between husband and wife	Combined Income Levels R20 000	R30 000	R40 000	R50 000
50 : 50	826	1 826	2 746	3 458
60 : 40	730	1 634	2 554	3 178
70 : 30	446	1 106	1 882	2 502
75 : 25	298	722	1 338	1 984

This table, compiled by Robert Stretch, shows the additional tax working married couples have to pay at various income levels depending on how the income is split between husband and wife.

NEWS (320) Star 29/9/84

Taxpayers' burden triples



By Michael Chester

The income tax bill to be shouldered by individuals in the current 1984/85 fiscal year will soar to a record R7 200 million — an increase of 270 percent over five years ago.

The increase, running at double the pace of inflation, means that individuals will pay more than all the gold mines and industrial and commercial companies combined.

The Progressive Federal Party intends to use the statistics in a full-scale pressure programme to try to persuade the Government that the tax system is out of control and badly in need of reform.

Standard Bank estimates that total revenue flowing into the tax coffers in the current year will reach R23 500 million — nearly three times the total netted in 1979/80.

The proportion of the burden carried by individual taxpayers will have grown from less than 20 percent five years ago to 30,6 percent, which contrasts with a decline from 18,7 to 15,7 percent for companies and a decline from 14,2 to 10,9 percent for gold mines.

Collections from general sales tax — much of which is also drawn from individual taxpayers — are expected to bound from R1 249 million five years ago to R5 800 million.

"The trends are dangerous and even frightening," said Mr Brian Goodall, MP for Edenvale and secretary of the PFP parliamentary finance group.

System penalises success and hard work, says PFP

Mr Goodall, also a member of the Select Committee on Public Accounts, feared that the contribution of individual taxpayers could go even higher than the Standard Bank estimate.

"We intend to hammer the issue until there is a radical change in attitude that will restore the incentive for initiative," he said. "It is nonsense that South Africa penalises success when we so desperately need to create more business enterprise and, thus, more jobs.

"The narrowness of the tax base has become farcical. We have a mere 10 percent of two million taxpayers footing a colossal 50 percent of the tax bill — and the penalties worsen the harder you work.

"It becomes almost idiotic to strive to climb the ladder into the middle and upper income brackets when each step means handing over most of the rewards to the taxman.

"As things stand, even allowing for a drop in inflation to 10 percent, anyone earning a relatively modest R2 000 a month who gets a 10 percent salary increase will find his standard of living actually slipping backwards.

"All that is achieved is an encouragement to develop a flair for tax-dodging inventiveness.

"It has twisted the tax system in a hopeless knot — as revealed in calculations that, while company tax is theoretically standing at 50 percent, the actual amount of tax paid by firms works out at an average of only about 26 percent — all because of the widespread abuse of various allowances.

"If the tax system were made more reasonable, there would be far less tax dodging and, in fact, the cash flow into the tax kitty would be likely to grow — vital to keep the economy moving and the creation of more businesses and more jobs."

OBJECTIVES

The objectives of the PFP campaign will be:

- A flattening out of the marginal tax rate curve so that the threshold of the maximum rate imposed on individuals is pushed from R40 000 to R100 000 a year.
- A reduction in company tax from 50 percent to about 37,5 percent at most, intended as encouragement to the launch of more business enterprises and an inducement to overseas investors.

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Poor are hit hardest by rises in GST

Own Correspondent

CAPE TOWN — General sales tax is the most regressive form of taxation because it hits the poor harder than others, according to research at the University of the Western Cape.

A paper on indirect taxation, to be presented this week at the university's conference on economic development and racial domination, claims that lower income groups pay GST on a much larger part of their expenditure than others.

The author, BA student Mr Tjaart Theron, says it is coincidental that this form of class discrimination affects more blacks than whites.

Mr Theron suggests that the Government opted for an increase in GST rather than an increase in other taxes for political and ideological reasons.

Other options, such as taxation of fringe benefits, "place a heavier burden on the higher income groups — a situation the Government has been avoiding for some time".

Higher income groups can counter GST increases by demanding higher salaries, but most lower income groups cannot do this.

UNEMPLOYMENT

"In the current economic climate, a rise in GST can have the side-effect of further dampening demand, and thus be an additional factor contributing towards higher unemployment," says Mr Theron.

"Recently, thousands of workers were laid off in the car industry, partly because of this."

Domestics and farm labourers are not organised into trade unions, and as a result have "abysmally low" salaries. Migrant workers are also particularly vulnerable, he says.

The groups which suffer most from GST increases are those which benefit least from State expenditure.

Exempting basic foodstuffs from GST was supposed to offer relief to poorer groups. But the list omitted basic items such as sugar, tinned fish, rice, dried beans and cooking oil.

Probe follows protests . . . firms profit, man in street carries load

New tax deal

Argus 6/10/84 320

By DEREK TOMMEY, Financial Editor

A NEW deal is on the way for South Africa's hard-pressed taxpayers, the new Minister of Finance, Mr Barend du Plessis, indicated last night when he announced the appointment of a commission to review the tax system.

The terms of reference and composition of the commission would be announced later, he said, and added that the intention was for the terms to be "widely framed" to embrace all aspects of the present tax structure.

While he made no specific commitments to cut income tax on individuals, he strongly indicated that the Government wanted to reduce the rate of personal taxation and instead increase tax revenues from companies.

Mr du Plessis said the committee would not investigate new sources of revenue but would seek ways to close loopholes in the system.

Inflation

Individuals were contributing too large a proportion of the State's revenue. In contrast, the amount contributed by companies had declined.

Although Mr du Plessis did not mention fiscal drag or its effects on personal tax rates, he did admit that inflation had led to distortions in the income tax rates, since the marginal rate of 50 percent on taxable incomes in excess of R40 000 had been fixed five years ago.

He added that South Africa could not allow high rates to dampen the entrepreneurial spirit needed for the creation of jobs and wealth.

High level

The appointment of the commission, which will be welcomed by all private taxpayers, follows mounting protests against the high level of taxation now being borne by the individual. Companies and their shareholders will probably not look on the commission with such a favourable eye.

However, private taxpayers have a strong case for a review of the system. In the four years ended March 1984 personal income tax payments rose by an average of 32 percent a year.

And figures given by Mr du Plessis last night indicated that the plight of the ordinary taxpayer had worsened recently. He said taxes on individuals now accounted for 33 percent of State revenue. Last year private taxpayers provided 30 percent of revenue and in 1980 only 20 percent.

25 percent

General sales tax receipts show a similar rising trend, and now accounted for 25 percent of State revenue, Mr du Plessis said. This compares with 20 percent last year and only 13 percent in 1980.

In contrast, the proportionate contribution of companies to the Government's coffers has been decreasing.

Last year, non-mining companies provided only 17 percent of Government income, against 21 percent in 1983 and 22 percent in 1982.

While part of the decline was the result of the economic slowdown much was the result of companies utilising all tax breaks. Last year this included the employment of the LIFO method of stock valuation and various investment allowances.

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(320) Star 1/11/84

Circumstances dictate whether goods, services are taxable

The baffling maze of GST

By Lesley Cowling

General sales tax on services is a contradictory maze for consumers, who pay now and puzzle later.

While you have to pay GST on steak in a restaurant, the same meat purchased in a supermarket is not subject to tax.

You also pay GST on repairs to your swimming pool pump, but not on repairs to the pool itself; for aerobics classes, but not for dancing classes.

In terms of the Sales Tax Act, a taxable service is:

- "The delivery, installation, repair, maintenance or other services connected with the sale of goods."

"Goods" here refers to movable goods, such as household appliances, cars, clothes and jewellery.

Your house, pool or any permanent fixture on your property falls in a different category, and the labour involved in repairs, maintenance or installation of these immovables should not be taxed.

If you sink a borehole on your property, you should not be taxed on that labour.

But the installation of the pump in a borehole is taxable because the pump is a movable piece of equipment.

The repair of a watch, the drycleaning of a coat and the servicing of a car would all be taxable, but the labour required to build a wall around your house, or have your roof painted or your windows cleaned is not taxable.

But the category does not cover heating equipment, air conditioning units or communication systems not installed by the Post Office.

- "Services rendered or facilities provided as aids to health, strength or beauty."

These include turkish or sauna baths, slimming courses or devices, gymnasium facilities and the services of a dental mechanic, optician or pharmacist.

Not included are professional services by dentists, dieticians, doctors and homeopaths.

Gym facilities for an organised competitive sport are not taxable.

- Accommodation and hotel and restaurant services — but not theatre, concerts or films — come under the heading of entertainment, which is not taxable.

You pay tax on a steak in a restaurant because it is cooked meat and therefore part of a taxable service. Meat and fish which have to be cooked are not taxable.

Biltong and smoked, tinned and processed meats are taxed because they do not have to be cooked.

Sweeping tax plan for Ciskei

(320)

E Post 23/10/84

By LOUIS BECKERLING
Business Editor

A SWEEPING reform of personal income tax is on the cards for Ciskei, in terms of which income of up to R8 000 will be completely exempt from tax and a flat rate of 15% will be applied above this level.

Legislation introducing the tax proposals was to have been tabled in Parliament in Bisho on November 14, but the special session of Parliament may now be postponed to November 21.

The dramatic effect of the proposals is illustrated by the following examples comparing the tax paid by a married man with two children in South Africa with the tax that will become due by his equivalent in Ciskei once the proposals become law:

- At an annual income of R10 000, tax deducted in South Africa is R525,24c. Due under the new system in Ciskei will be R225.24.
- At an income of R15 000: SA tax — R1 607 and Ciskei — R1 050.
- At R20 000 a year the SA taxpayer surrenders R3 087,60 in tax, whereas his Ciskeian counterpart will pay only R1 800.
- And at R40 000 a year, tax due in South Africa is R11 532,84, compared with a proposed R4 800 in Ciskei.

The proposals have come from a taxation sub-committee of the Ciskeian Government, which has already steered through Parliament in Bisho legislation scrapping all company tax for those companies which elect to abandon concessions.

A similar flat rate of 15% is applied to company profits only where these are repatriated out of Ciskei.

The chairman of the taxation sub-committee, Mr Ian Hetherington, declined to "confirm or deny" the proposals today, but the Evening Post understands from reliable sources that the proposals are already before the President and are due to be presented to Parliament next month.

The revolutionary approach to creating a true tax haven in Ciskei is based on the faith that income surrendered by scrapping company tax and pruning personal tax rates to a bare minimum will be recovered from a massive expansion of the tax base after new investments made in Ciskei.

Since Ciskei has budgeted for revenue of only about R6 million from personal income tax for the current fiscal year and R2 million in company tax, the maximum projected loss will in any event be less than R8 million, which compares with expenditure of around R30 million a year in concessions.

Though several industrialists in Ciskei have already indicated that they will prefer to draw concessions to electing a tax-free status, proposers of the tax revolution in the territory argue that it will progressively eliminate inefficient industrialists from the area and attract instead highly productive operations with a committment to remaining in Ciskei.

'Give taxpayers a new deal'

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S. Times 20/9/84

"LET'S give taxpayers a new deal" is the overwhelming call from almost all quarters of industry, commerce and the battered consumer.

By Barry Sergeant

Businessmen say the tax system has become unpredictable and complicated without need. Individual taxpayers are confused by the tax system and have to resort to outside help to save tax, or become exhausted in their own attempts.

Carl Schweppenhauser, Commissioner for Inland Revenue, said in a recent interview with Business Times that different tax reform programmes abroad had been investigated by his Department. The preliminary finding was that the programmes did not suit SA at its current stage of development.

In its last report to Prime Minister P W Botha before institution of the new constitutional dispensation, the Economic Advisory Council said SA's tax system should be investigated.

Harry Schwarz, chief opposition spokesman on finance, told a Wits Business School seminar last weekend that tax was likely to become a "major political hot potato" next year when Parliament convenes.

Debate

"Forms of taxation will become a major source of debate among the three houses. Those representing the lower-income groups will favour taxation based more on income and capital than consumption.

"The growing demand for equality and increases in social services will put increasing pressure on the Exchequer, which already faces the prospect of cutting back expenditure, upping taxes and finding new sources of revenue."

Costa Divaris, tax expert and publisher, said this week that his commentary on the 1984 tax amendment Act, written for publishers Juta's, runs to 250 pages. "And that excludes commentary on the proposed fringe benefits taxation," he said.

Bill Yeowart, Assocom president, says: "Highly expensive executive, legal and accounting time is spent on the legitimate business of tax avoidance. At the end of the day it is highly unproductive time."

Tax consultants say one of the most worrying aspects of SA's tax system is its duality. Official tax law is that in the Income Tax Act; the unofficial law, and that used mostly in practice is the set of rules known as Departmental Practice.

The Income Tax Act is peppered with discretionary provisions allowing the Commissioner to determine a wide range of rules for use by individuals and companies. This makes the tax system less certain than it could be and means much time spent in clearing details with overworked authorities.

Overall, the tax system is not collecting all the money it is designed to. Combined statements from Finance Minister Barend du Plessis and Mr Schweppenhauser indicate that tax-dodgers will rob the fiscus of at least R2 900-million this year.

One area where SA authorities have not followed a vital overseas trend but easily could is in the field of tax expenditure accounting.

Research on tax by Professor J van der S Heyns of the University of Natal's Durban campus shows that tax concessions cost the Government at least R5 000-million a year. He has identified 150 forms of deductions, exclusions and other special cases where the governing tax rules deviate from the norm.

Allowances

Examples of tax expenditure are deduction of pension fund contributions from employees' and employers' income, investment allowances for plant and machinery and export allowance incentives. Prof Heyns' appeal to the Government is to publish details and amounts of the 150 cases of tax expenditure.

Adding the estimated amount taken by tax dodgers to the cost of tax expenditures, there is some R8 000-million which is not being brought to account annually.

Cynics among SA's tax consultants argue that the authorities have lost sight of what tax is there for. Says one: "Inland Revenue tinkers at small areas of the law without considering the overall spirit of tax law.

"As loopholes are closed, the legislation proliferates and opens more and more chances for loopholes. The people in the best position to exploit the loopholes are big business and rich individuals."

Tax consultants can give many examples of the topsy-turvy situations which have arisen in SA's tax system. Among them:

Housing

● The massive revenues forgone from subsidised housing. The figure is not mentioned in Prof Heyn's analysis, but estimates of the amounts foregone in tax owing to subsidised housing run into thousands of millions of rand a year.

Building society executives say 65% of SA housing is subsidised. With 600 000 bonds in existence, an average R45 000 bond, a 17,5% rate over 20 years and a 70% subsidy (from the employer) the tax loss is R185-million per month. This translates to R2 220-million a year. The position will change when fringe benefits tax becomes operative in 1985 and may draw much of this forgone revenue into the tax net.

According to the Income Tax Act, this kind of fringe benefit has long been taxable. It has simply not been declared.

● An example of how big business can use tax allowances to considerable advantage is shown in the case of mining capital expenditure. A mining venture with a pre-tax yield of 15% could render a return of 35% for its shareholders.

Because 100% of mining capital expenditure is deductible against tax, a mine with a 50% tax rate saves R500 000 on tax payments for R1m capital expenditure. The allowance of R1-million means the company need not declare an amount of R1-million of profits, saving it the tax.

Loan

A loan of R400 000 could be taken out at say 20% and shareholders could chip in the balance of R100 000. If the mine yields 15% (R150 000) pre-tax in the first year, R80 000 is used to pay loan interest, R35 000 goes to Inland Revenue, leaving shareholders with R35 000, a return of 35% on equity of R100 000.

If the pre-tax return increases to 35%, shareholders will show a return of 135%. Ironically, as the tax rate increases, so shareholders gain more and more. To balance the large tax allowances mines can claim, they pay higher tax rates than the ruling tax rate.

Other investments offering handsome tax allowances are manufacturing, industrial buildings and hotels. Tax economists point out that none of these sectors are providing net new employment. The areas that are providing net new jobs, the services industry (mainly information) are given no tax incentives. In both Europe and the US, computer investments receive special tax treatment.

● The vagaries of the gold price can have dramatic effects on central Government's tax collections. Gold mines paid 55% of all company taxes in 1981. This fell to only 21% in 1983, one of the most dramatic shifts in any analysis of taxation trends.

Higher

The average gold price an ounce in 1980 was R477, substantially higher than 1977's R128. The effects began to flow through to the economy in 1981 (because of provisional tax payments) when gold mines paid R2 800-million in taxes, the same as 1982 and 1983 *combined*.

The tax system, argue tax consultants, does not recognise the swings in the gold price and has not attempted to overcome the problem of this volatile and unpredictably fluctuating revenue.

● The swings in the percentage of what contribution the different taxes make to the tax coffers. When the fiscus finds itself short changed, it often reacts in a panic-stricken way, such as the hike in GST to 10% from 7% six weeks after the Budget this year when the ex-Minister of Finance, Mr Owen Horwood, had said GST would not be raised again this year.

In the past decade, the lowest contribution of personal income tax was 18% of the total in 1980, rising to 26% in 1983. But this was not as high as in 1976 or 1977 when the proportions were 29% and 27% respectively.

Indirect (mainly GST) and gold taxes helped to push the individual contributions down. Indirect taxes contributed a low of 35% of the total in 1976 and a high of 40% in 1983. Over the same period, all company taxes averaged 29,75%, with a high of 36% in 1980 and a low of 30% in 1983.

21/10/84

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SUNDAY EXPRESS Business Octo

The tax problem: Where it starts

By TONY KOENDERMAN
Financial Editor

IN THE last 15 years government expenditure has risen from about 20% of gross domestic product to about 30%. That, in a nutshell, is the source of the tax problem facing the country.

This is because there are only three ways of financing government expenditure: taxes, borrowing (which means taxes have to be raised at a later stage to repay the loans), and printing money (which is inflationary and consequently also raises taxes in a surreptitious way).

Admittedly, the rise in government expenditure has been at a time of low growth. If the economy had grown faster and government expenditure had grown at the same rate, it would be smaller relative to GDP than it is now.

But, as Professor J A Lombard, special adviser to the Reserve Bank, said at the Federated Chamber of Industries annual congress this week, the growth of government spending has tended to "crowd out" the private sector.

Declined

Also alarming is the changing pattern of government expenditure: the amount going into fixed investment has declined from 5% to 3%, while that going to unproductive interest payments has risen from 1,5% to 4%. That on defence has risen from 8% to 18%, and that on education has fallen from 19% to 13%.

"So there is a decline in the support for the long-term growth potential of the economy," said Prof Lombard. "We are doing less on the capital formation side — building up the infrastructure and investing in human capital."

The rise in government spending has been accompanied by a rise in taxes, from 19% of GDP to 24%.

"Fifteen years ago we could finance our whole expenditure from taxation and leave something over for investment," he said. "We had a surplus on our income account. That has changed considerably."

Another change has been a decline in the corporate contribution to government coffers, from 29% to 22% over the 15-year period — despite an increase from the gold mining companies because of the higher prices of gold. To compensate, the man in the street is now contributing 27% bedirect taxation, compared with 24% before.

He is also carrying the burden of GST, which now accounts for 19% of government revenue. Prof Lombard generally favours GST, which broadens the tax base and results in less disturbance of relative prices and the functioning of the market economy in allocating resources.

The shift in emphasis from companies to people was an unplanned move, stemming from the investment and other allowances to companies, and inflation which steadily pushes people into progressively higher tax brackets.

Many critics argue, however, that companies have deserved everything they got because they have wriggled out of making their proper and appropriate contribution to the fiscus. On the other hand, companies make up the only sector of the economy that has been saving. Company savings have moved from 13% of operating surpluses to 48% (or from 2% of national income to 11,6%) in the past 15 years.

But the government has been dissaving, while personal savings are down to 3% of personal disposable income.

"We need to take a look at the inflation process and its erosion of the soundness of our tax system," said Prof Lombard. "In the last couple of years we have lost our grip on financial discipline in fiscal and monetary matters.

"The public sector borrowing requirement has risen from R300-million in 1980 to R6-billion this year. More alarming is that at least a third of that borrowing is required to cover deficits on our current account.

Borrowed

"This is simply a postponement of taxation. Since the application of these borrowed funds doesn't yield an income, it simply means higher taxation later — unless our growth rate rises and the tax base expands."

He said a very large portion of the rise in the tax burden had not been approved by Parliament: it happened as a result of "bracket creep."

A person who earned R5 000 a year in 1972 paid 10% of his salary in tax. To be on the same level in 1984 he would have to be earning R20 000 — and on this he would pay 20% in tax.

For a person in the R10 000 bracket in 1972, the tax burden would have risen from 14% to 31% on a comparable basis in 1984.

"There has been a dangerous erosion of the tax base in South Africa which is now undermining the nation's ability and willingness to grow," said Prof Lombard.

Vast public sector borrowing 'is bound to force up taxes'

(320) Star 17/13/84

By Stan Kennedy

In the last few years, the South African authorities had lost their grip over financial discipline in fiscal and monetary matters, with the result that Government expenditure was rising faster than the tax revenue, delegates to the Federated Chamber of Industries' executive council meeting in Sandton were told yesterday.

Tax revenue, as a percentage of GNP, rose from 19 percent 15 years ago to 24 percent this year. But government expenditure climbed from 20 percent to about 30 percent today

The deficit before borrowing of the central government, plus the borrowing requirements of all the other extra budgetary funds, had pushed up public sector borrowing from R300 million in 1980 to R6 billion last year.

"What makes it so alarming is that a large proportion of that borrowing is now required to cover deficits on our current account of the fiscal income," said Professor Jan Lombard, head of the Department of Economics, University of Pretoria and special adviser to the Reserve Bank,

"It is going to happen again this year, and we are going to have to accept the fact that since the application of these borrowing funds does not yield an income from which you can pay interest, it simply means higher taxes later on.

"Unless, of course, we can do something about increasing our domestic growth, but this is not likely in the near future."

He said inflation had caused havoc with the direct tax system. Although company tax had moved from 40 to 46 percent and now to 50 percent, the actual average was 32 percent and even fell to 28 percent last year.

"It could be that some companies are paying the maximum of 50 percent while others are paying very low rates. This is unsettling the whole system of company formation and expansion.

"There has been a shift in the burden of tax on to the middle income groups, and this is one of the main reasons for the continuous pressure for higher wages, cost/push inflation and a decline in personal savings."

He believed there was a "tremendous amount" of income in the 30 to 40 percent tax brackets that was not being taxed, particularly because of fringe benefits and "other ways of avoiding tax".

"It is becoming extremely dangerous as it erodes the tax base. As long as this erosion continues, this escalation of the tax rates on people who cannot escape them is going to become really serious and push up inflation and wage claims."

"We seem to have forgotten in South Africa that economic growth can arise only from the savings propensity multiplied by productivity through the use of capital and labour resources.

"We have reached the stage when we think that economic growth comes from some improvement in our terms of trade with the rest of the world or from a gold price increase.

"It is a syndrome with us and we have got to realise that it is higher savings and higher productivity that stimulates economic growth."

Levies: 'Public will pay'

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C-Times 13/10/84

By EVELYN VOSLOO
Municipal Reporter

THREE levies on commerce and industry proposed by the government as a means of financing the implementation of its new dispensation at local government level could help redistribute wealth.

This was said yesterday by the Town Clerk, Dr Stan Evans, in response to a statement in Port Elizabeth earlier this week by the president of the Institute of Town Clerks, Mr Paul Botha.

'Passed on'

Our correspondent reported that Mr Botha had told a meeting of the Port Elizabeth Relations Committee that the cost of the three levies — on turnover of businesses and professions; on total wages paid by businesses and professions and on investments such as the value of machinery — could be passed on to the public.

"The extent of this tax has not yet been determined but there can be little doubt that it will increase running costs," Mr Botha said.

Businesses and manufacturers would naturally not absorb this increase themselves but pass it on to the consumer through an increase in the cost of goods and of services, he said.

The income from these levies would probably be used to improve local government infrastructure and services up to a certain minimum standard in municipalities in all group areas.

Dr Evans said the taxes would lead to some redistribution of wealth, because money raised from business, or if passed on indirectly from everyone, would be used to improve the poorer areas.

Both men said some of the money raised would probably also be used to subsidize long-range commuter services through part financing of the functions of the Metropolitan Transport Advisory Committee as partliam relief of the subsidies presently paid to the South African Transport Services and bus companies.

The proposed levies have been sharply criticized by leaders of commerce and industry.

The president of the Cape Town Chamber of Commerce, Mr Philip Krawitz, said yesterday that the Chamber did not take kindly to "this proposed additional burden being placed on the private sector as tax collectors for the government".

The Wooltru Ltd (Woolworths and Truworths) annual report indicated in July that 14,5 percent of the company's total turnover, or about R98-million, was already going to the government in various forms of taxation, he said.

"They place an unacceptably high level of responsibility on the private sector, and anyway we are not convinced that they are a good way of collecting revenue," he said.

"The turnover tax could discourage further business expansion and the staff tax curtail employment."

Mr Krawitz said a much more effective way of collecting the revenue would be as a part of sales tax.

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SPECTRUM ISSUE: Tax

Mounting complaints by the public of overtaxation have resulted in the Government announcing that it is to appoint a commission of inquiry to investigate the whole tax system. Here two people — a leading economist and a leading tax consultant — with a deep interest in the tax system discuss what tax reforms they would like to see

Overtaxing the individual

By PROFESSOR J L SADIE of Stellenbosch University

WHEN the Franzsen Commission inquired into fiscal problems during 1968 and 1969 the main bones of contention were the bulge in the upward progression of the personal income tax rates, the high maximum marginal rate of the latter — which was then 66 percent — and the disproportionately large percentage of government revenue contributed by direct taxation (compared with indirect taxation).

Since the publication of the report of this commission the bulge has been removed, the maximum marginal rate has been reduced to 50 percent and a general sales tax has been introduced.

In the meantime, and particularly during the past five years, the tax picture has been changing quite drastically as can be deduced from the following relative contributions of the various taxes to the total tax revenue of the government in the two years 1979/80 and 1984/85:

	1979/80	1984/85
Companies (non Mining)	21,5%	14,7%
Companies (Mining)	20,9%	10,1%
Individual Income Tax	22,8%	36,9%
G.S.T.	14,6%	25,4%
Customs and Excise	15,2%	8,3%
Other	5,0%	4,6%
	100,0%	100,0%

Personal tax

It is clear that individual income tax and the General Sales Tax have become the major producers of Government revenue, being responsible for 62 percent in 1984/85 compared with 37 percent in 1979/80. This rise is no more than the obverse of the declining contribution of company taxation, from 42 per cent in 1979/80 to 25 per cent in the present fiscal year. This is not surprising as profits have been impaired by the severest recession since 1934..

However, it is fashionable at the moment to interpret the situation as an over-taxation of individuals. Authors of this persuasion can, with justification, point to the phenomenon of bracket creeping resulting from the raising of wages of salaries to compensate for inflation and not from increases in real income. The R40 000 taxable income at which the maximum 50 percent rate applies is indeed worth a good deal less than the R30 000 of 1980 where the maximum was applicable.

Evidence adduced in support of the "fleecing of the taxpayer" included the rapidly rising percentage of tax revenue contributed by those earning R20 000 and more a year, whose numbers have risen from 147 400 in 1980 to 274 770 in 1982, and which may now stand at 400 000.

While a recommendation by the commission that the maximum rate should be reduced to 45 percent or 40 percent would not be without merit, a much more important aspect to be inquired into is the inequity in the tax free income enjoyed by many — in some cases as much as R25 000 and more a year — by way of fringe benefits.

Horizontal equity requires that they be taxed in full. At best all benefits should be paid in cash to remove distortions such as those caused by housing subsidies.

The commission will undoubtedly have to listen to representations for the abolition of estate duty. A positive reaction would also undoubtedly be an error. As it is, the incidence of this tax is very light, it affects wealth which to a considerable extent has been accumulated out of untaxed income or as the result of social forces. It has, potentially, a less harmful effect than income tax for each rand of reevenue collected, and it removes some of the inequality that results from factors other than the economic merit of the heirs.

Concessions

A major item on the commission's agenda is going to be the erosion of the tax base by way of tax concessions which permit tax avoidance. The Department of Finance has estimated the tax foregone in this manner, for the 1980/81 fiscal year, at R976-million. The amount should be much higher now. It is known that whereas the theoretical or formal rate of company (non mining profits) tax has been between 45 and 50 percent during the past few years, the effective average actually paid has been around 26 percent, with some companies paying miniscule rates (such as 10,5 and even 1 percent).

The issue to be judged by the Commission, accordingly, is going to be to what extent the tax concessions are functional in the sense of inducing economic growth and job creation and to what extent they do no more than enrich certain individuals.

The commission may be able to make a worthwhile contribution to the combatting of inflation by investigating the possibility of differentiating between profits arising from price raises and those resulting from increases in volumes of turnover with the latter attracting lower tax rates.

A major problem is actually tax evasion rather than tax avoidance. The commission in the nature of things would not be in a position to make a very significant contribution.

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Inequality of taxpayers merely leads to frustration

By DAVID CLEGG, a Cape Town tax consultant

THE Minister of Finance recently announced a study of the need for tax reform in South Africa — reform from what? Reform from a system which, for whatever reason has come to be resented by the taxpayer and which has grown "like Topsy"!

In my view — and I must stress this is a personal one — the study should aim to achieve:

● Equality among corporate taxpayers. The Income Tax Act is riddled with incentives for sectional interests (exporters, manufacturers, insurers, farmers, miners, decentalised industries and so on). The intention behind all these concessions is laudable but the result is disastrous on the fabric of the tax system.

Tax warps

It is a widely held view that all taxpayers should be treated equally (although as this is 1984 it is possibly appropriate that some taxpayers will be treated "more equally than others") and there is no doubt that inequality leads to frustration and an attempt to equalise either by hook or by crook.

So far as possible these "tax warps" should be phased out. In the United Kingdom a similar programme of phasing out has enabled Mrs Thatcher's government to aim for a reduction in corporate tax rates from 50% to 35% over a period of 3 years.

Incentives, if they are needed at all should be granted in cash so they are more visible, measurable and less emotive than when given through the tax system.

● Equality among individuals. A campaign has been waged for many years for the "separate taxation of married women." I subscribe wholeheartedly to the view that there is no justification (although there may be practical difficulties) for treating the family unit as a taxable entity rather than the individual. But this is a matter of principle and it may well be that given government's requirement for funds those very people who think they would see a reduction in their overall family tax bill will instead see an increase if the tax rates are adjusted simultaneously.

● A limitation in the number of taxes. While not strictly a matter of "reform", serious consideration should be given to the proposed new tier of taxing authorities — certain local authorities under the new consitutional dispensation. It has been suggested and seems almost to be a *fait accompli* that local authorities, being given greater autonomy, will also be given their own taxing power.

Turnover

The proposed turnover and payroll taxes for local authorities, whereby each business in a particular area will pay a certain small percentage of its "turnover" or a levy per employee, sounds simple in theory. We have yet to see the legislation. Even if that legislation is relatively simple it would involve the employment of still more civil servants at a time when government is attempting to draw in its own belt.

● Equality between company and individual. Rather as with the case of married women, it is argued that the manner in which a person chooses to carry on his business should make no difference to the tax effects. Senator Owen Horwood, the previous Minister of Finance, achieved the equality of company and top marginal individual rates — unfortunately by raising the company rate rather than by reducing the individual rates — but more needs to be done. Company income is still taxed twice, once in the company itself and again when distributed to individual shareholders. The new Close Corporation avoids this double tax and this or some similar device should be extended to both public and private companies.

It must be recognised that the greatest obstacle to reform is government spending. Government needs to get away from the syndrome of deciding what it wants to spend and then raising the necessary taxes. Instead it must look at how much tax it has available and then do its budgeting. To approach reform from the point of view soley of collection technique is to tackle the symptom, not the disease.

Loud cries expected from sales reps

Perks tax hits motor industry

RDM 4/12/84

(320)

By DAVID FURLONGER and BERENICE MARGOLIS

THE proposed severe fringe benefit tax on company cars seems certain to provoke bitter protest from many sectors of the motor industry.

The loudest cries, however, could come from the country's thousands of sales representatives who use their cars almost exclusively on company business.

There will, as some had feared, be no distinction between reps and others who use their cars simply as a means of getting to and from work and for private use.

A spokesman for the Inland Revenue confirmed yesterday that salesmen would receive no special benefits.

Like other company car-users, the only way they could obtain relief was by proving that private use of their vehicle accounted for less than 10 000km a year.

He said: "If anyone can prove he travelled less than 10 000km a year on private use, we will adjust the figure he is assessed accordingly.

"The only way they are going to avoid paying anything is by parking their car in the garage at the end of the week when they finish work and leaving it there until Monday."

Estate agents and property economists believe the proposed new taxation on fringe benefits will have an adverse effect on the residential property market.

Property consultant and economist, Mr Neville Berkowitz, says that people who do not have approved housing schemes will be hit by March 1, when they will be taxed on the difference between 4% and 18%.

"The average executive, earning say, R3 000 a month, would not have an approved housing scheme, and from March 1 this could mean a cut in his income of R150 to R200 a month.

"Although it's difficult to generalise, it's likely that repossessions by building societies will increase, which is not good news for the property market.

"It is quite unlikely in these times that employers will foot the bill, but salaried employees might dip into capital savings. If they have none, their houses might be forced onto the market by mid-year when it starts biting, and not at top of the market prices."

EXAMPLES OF CHANGES IN TAX POSITION

Taxable Income	Present Tax	Proposed Tax	Reduction in tax	
R	R	R	R	%
R10 000	R 770	R 710	R 60	7,8
R12 000	R 1 150	R 1 023	R127	11,0
R16 000	R 2 150	R 1 905	R245	11,4
R20 000	R 3 390	R 3 039	R351	10,4
R30 000	R 7 190	R 6 609	R581	8,1
R40 000	R11 870	R11 103	R767	6,5
R50 000	R16 870	R15 933	R937	5,6
R60 000	R21 870	R20 973	R897	4,1
R70 000	R26 870	R26 223	R647	2,4
R80 000	R31 870	R31 473	R397	1,2

Mr Dave Miller, a director of Basil Elk Estates and a past chairman of the Southern Transvaal Institute of Estate Agents, says that in the main, subsidised bonds go to Government employees.

"You cannot apply today's thinking seven years hence. But I forecast the effects cannot be good."

Mr Eskel Jawitz, president of the Institute of Estate Agents, says property people have been expecting the move for some time: "It's another added burden for the taxpayer to handle, coupled with high interest rates."

"This fringe benefit taxation will be inflationary and create demands by wage-earners on employers for salary adjustments to meet increasing costs. Ultimately, these will be passed on to the consumer.

GERALD REILLY reports that organised commerce is worried that already-revised employment packages will be disrupted by the change in the basis of the fringe benefit tax system.

Mr Michael Weir, president of the Association of Chambers of Commerce, said it was regrettable that ad hoc measures had to be introduced at a time when an overhaul of the whole tax edifice was currently under way.

Assocom was critical of the late change in the basis for the fringe benefit tax.

The overall tax measures announced would increase substantially the tax burden at the upper end of the personal tax scale.

The chief executive of the Federated Chamber of Industries, Dr Johan van Zyl, said the FCI endorsed underlying principles of the adjustments and would make further comment to the Margo Commission.

"Nevertheless, it is unfortunate that a situation was allowed to develop where the rules were once again changed after salary packages had been reconstructed to accommodate the original proposals."

The president of the Handelinstituut, Mr Leon Bartel, supported the implementation of fringe benefit taxation, provided no distinctions were made.

It would be a move towards ensuring parity between the various classes of taxpayers.

The apparent discrepency between subsidised housing schemes and direct housing loans should be looked at urgently, however.

On the motoring side, Toyota's managing director, Mr Colin Adcock, said yesterday: "Salesmen can't perform their jobs without cars. There must be a difference between a car that is a tool of your trade and one that is for private use."

The cheapest Mercedes, retailing at R21 319, makes the driver liable to be assessed on an extra R553 a month, or more than R6 000 a year.

This will be phased in over two years, however.

The popular 380SEA, selling for R56 044, means an extra R1 200 a month, or R14 400 a year.

However, a spokesman for BMW, Mr Pierre de la Rey, said last night that because the tax was being phased in, the effect was not as bad as originally feared.

Mr De la Rey said: "It's a lot less severe than expected. Because it's being phased in, with only 50% being applied next year, we're actually quite relieved. It's not nearly as grotesque as it might have been."

He admitted, though, that the announcement came at a difficult time for the motor industry.

● The tax changes announced by Mr Du Plessis do not go far enough in compensating for fiscal drag, says tax specialist, Mr Costa Divaris.

He says the net effect is that middle to higher income group tax-payers will pay more.

"The mass of taxpayers may pay a bit less than they do now, but the middle-class taxpayer earning over R20 000 a year will effectively carry a bigger tax burden."

But Mr Ian MacKenzie, a partner of chartered accountants, Arthur Young and Company, says the changes appear to be "good news for all taxpayers".

The indications are, he says, that taxpayers who do not receive fringe benefits will benefit substantially, while those with fringe benefits will pay marginally less tax.

Graduates worse off than 11 years ago

Tax hikes eat up pay increases

RDM 23/11/84 (320)

By HAROLD FRIDJHON

HEAVY tax increases in the past decade have left many graduates in business and the public sector worse off, in spite of big pay rises.

A survey by the Human Sciences Research Council shows that real spending power has actually decreased, in spite of the more than threefold increase in the face value of gross earnings.

In many specialised fields, graduates employed in the public service are now relatively better off than their counterparts in private sector because their salary increases have been larger.

This applies particularly in engineering, medicine, dentistry and veterinary science, the applied sciences, social sciences, commerce and administration.

In these fields, the gap between private sector and public sector pay has narrowed since large pay increases were given to public servants in the last two or three years.

In 1973, the median gross salary paid to engineers in the private sector was R9 134 a year. This figure rose to R34 450 in 1984. The comparative rates in the public sector were R8 324 in 1973 and R30 445 in 1984. But there was still a gap this year of 13,2% in favour of the private sector compared with only 9,7% in 1973.

In the medical field, median rates of pay for people in private employ were R11 660 in 1973 and R40 075 in 1984; in the public service they were R9 100 in 1973 and R38 360 in 1984. Here the gap between the public and private sectors has narrowed sharply from 28,1% to 4,5%.

In the legal field, public sector employment has always held the edge on the private sector. Pay in the public sector was R7 760 in 1973 and R27 693 in 1984. In the private sector the median gross salary was only R7 000 in 1973, rising to R25 000 this year.

The public service advantage also applied to people in applied social sciences. Their 1973 median salary was R6 830, compared with R5 500 paid by the private sector. In 1984, public servants in these disciplines received R24 055 compared with R18 480.

People with degrees in commerce and administration employed in the private sector earned R9 000 in 1973 and R34 450 this year. The comparative figures for the public sector are R7 160 in 1973 and R28 800 in 1984. But the pay increases granted by the public service came at a faster rate than in the private service and the gap in favour of the private sector narrowed from a 25,7% advantage in 1973 to 19,6% this year.

These figures of course tell only part of the full story.

Because of the sharp increases in taxation over the past 11 years, the private sector began giving fringe benefits to employees in order to boost real take-home pay. The figures produced by the HSRC are median salaries and exclude perks benefits.

This means that pay, particularly in the upper brackets, was not increased directly. Instead, people were given a wide range of non-taxable perks enabling them to maintain high standards of living in spite of inflationary pressures.

Public servants, too, were given fringe benefits, particularly for housing. This has made a big contribution to easing costs of living. In addition, there are other public service perks which are unquantifiable in a current salary survey, such as large retirements, particulrly for senior public servants.

It is impossible at this stage — perhaps even in the future — to estimate what the effect of the perks tax will be on salaries in the private sector. Complicated pay packages are being put together which might have the effect of reducing nominal take-home pay but of increasing other benefits which may attract lower tax rates.

Some of these top-hat pay packages might not pass the scrutiny of the taxman but others, however, will. The leaders of commerce and industry will not be forced to lower their present standards of living.

Argus 14/11/84 (320)

CAPE

Government reaps a huge GST haul

Finance Editor

THE Government is reaping a rich haul from the recently increased general sales tax.

In September GST yielded a record R496,4-m — equivalent to a levy of about R18 on every man, woman and child in the country, Treasury figures show.

This was more than half as much again as the R315,8-m collected last September.

During the six months leading up to September, South Africans paid a total of R2,7-billion in GST. This was 45 percent more than the R1,8-billion in the same period last year.

Tax increase

A substantial proportion of the GST increase was the result of the tax increase.

Last year the rate was six percent, levied on all products sold to the end consumer. Today it is 66,6 percent higher at 10 percent. However, part of the impact has been softened slightly by the fact that certain foodstuffs are exempted.

The Treasury statement shows that the Government also has little cause to complain about the rate of income tax collection. This amounted to R1 077-m in September — R211,4-m or 24,4 percent more than last September.

Part of the increase in income tax collection is the result of the changes made in company tax in the last Budget. However a considerable proportion also arises from higher payments by individuals pushed by fiscal drag into higher tax brackets.

Huge amount

Altogether the Treasury collected R2 323,2-m in taxes in September — R663,6-m or 40,0 percent more than the R1 659,6-m collected last September.

This was a huge amount of additional money to remove from a flagging economy and must have contributed towards the downturn in business activity.

However, in spite of the huge increases in tax collections in September, the Government revenue for the six months ended September at R10 814,2-m was only 7,9 percent higher than during the same period last year. So the Government still has a large amount to collect to balance its budget.

TAX REFORM

The case for overhaul

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Taxation is likely to be the most important item on company agendas and in personal financial planning in the years ahead. The system as it now stands is inappropriate, outdated and unfair. Reform is long overdue.

Tax reform in recent years has become an illusion. It began well in the early Seventies, but since the introduction of general sales tax in 1978, it has eluded the authorities' best motives. It will continue to do so for as long as they fail to understand that the heart of the matter is the maintenance of equity and simplicity.

Tax reform does not mean tinkering with rates, unearthing new sources of revenue, handing out new concessions or making allowances. It is at the heart of economic policy and future prosperity, and demands boldness and original thought, and the courage to carry it through in difficult circumstances.

A new tax inquiry has been commissioned 14 years after the Franzsen commission reported. The ravages of inflation since then and racing government spending in recent years have made this commission even more important than the last one.

In recent years, government has been the sole beneficiary of the tax system skewed by inflation and Pretoria's own seemingly insatiable desire for cash. Fiscal drag and a catch-as-catch-can attitude has led in official circles to an infirmity of purpose. Professor Jack van der Spey Heyns of Natal University has identified more than 150 cases where tax rules deviate from the norm. They appear in a myriad of concessions, allowances, deductions, rebates and so on.

He has estimated (probably conservatively) that more than R5 billion is not being bought to account annually. Do the authorities know what the exact figures are? One of the pillars of sound taxation is ease of collection. In SA, growing complexity has bedevilled recovery.

Government, by its own admission, has lost track of taxpayers and reckons that tax dodgers are getting away with at least R3 billion/year. Gst evasion is costing the exchequer R1 400m/year. Small wonder: 383 gst inspectors (150 vacancies) have to keep tabs on 250 000 registered vendors. They are doing a fine job nonetheless. Last year they pinned down 7 464 dodgers, who paid no less than R32m in back-taxes and fines.

Yet, despite its authorised staff establishment of 6 383 (900 vacancies), Inland Revenue simply cannot cope with the volume and complexity of work.

But it is not only ease of collection that is a problem with the tax system. It is deficient in almost every respect. Much of the purpose of the Act has become blurred, its original motive defeated by political expediency or by the application of an excessive rate.

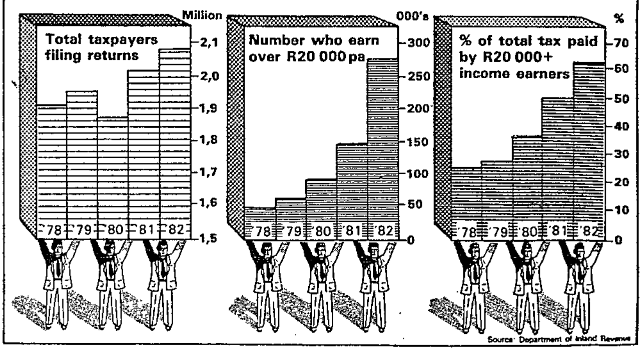
This has distorted the economy. The very lexicon of tax reflects how convoluted and contrived it has become. Tax lawyers and accountants are making a fortune identifying havens. Because of the complexity of the system, the latter abound. "Avoision" is the name of the game.

Progressive taxation, the cornerstone of SA income tax, is a graduated tax scale that taxes the rich more than the poor. Taken to excess, it stimulates cheating and kills the incentive that motivates the most productive members of the community. Tax allowances for companies, buttressed by protective tariffs, can and do lead to a growing misallocation of resources, unless under constant review.

Decentralisation allowances use taxpayers' money to induce soundly based urban undertakings — and some not so soundly based — to relocate in rural backwaters, without creating additional durable or sustainable wealth and work. It is a tax perversion used to reduce the number of black faces one sees around town.

In fact, SA has acquired the reputation of being a corporate tax haven. For example, why does SA have more car manufacturers than any other country in the world? Why is the only BMW manufacturing plant outside

FISCAL DRAG MUST BE REFORMED



Source: Department of Inland Revenue

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Germany in SA? Why does Mercedes manufacture in SA but not in the US?

The answers are not to do with the size of the domestic market, the low cost of factor inputs or high productivity. The reason, quite simply, is generous tax relief.

Like other investors who invest in plant and machinery, car manufacturers can claim 130% of the cost of the investment. They effectively get back in cash R3,2m of every R10m invested. Most car plants are built in areas qualifying for decentralisation allowances, and for every R10m spent, the eventual actual cost to the investor may be as low as R5m.

What could be more comfortable and reassuring than making cars in SA? Especially when they are protected against cheaper imports from countries where investment, far from being subsidised, is taxed.

Although manufacturers will get smaller allowances from next year, taxpayers' money will continue to be shelled out for plants that cannot produce goods competitive on world markets, and that are overpriced in the domestic market.

Joint taxation of husband and wife, an iniquitous system inherited from Britain (which introduced it in 1806), yields a paltry R150m, according to the Woman's Foundation.

Two unmarried working people taxed separately pay less total tax than they would if they were married. But if they are married and only one of them works, the worker will pay less than if he were taxed as an individual.

The answer to this apparent problem is to:

- ☐ Live in sin until deciding to raise a family;
- ☐ When the first child is born and the mother stops working, marry; and
- ☐ When the children are raised and the wife goes back to work, have a secret divorce.

In this way, the couple will save untold thousands in income tax.

It is remarkable that Bonus Bonds were discontinued as a result of pressure from the churches. In a predominantly Calvinist country which holds marriage sacred, it seems preferable to ban a lottery than remove a feature of the tax system promoting unmarried cohabitation.

Although marriage has become more popular since the permissive Sixties, the number of couples living in sin has risen faster. [illegible]es are that joint taxation has been a contributing factor, especially in recent years as taxes have bitten deeper and fiscal drag has pushed married couples into ever higher tax brackets.

In the past, the effect of joint taxation has been mitigated by relatively low tax rates and a flatter progression towards the top marginal rate. But in recent years the top rate has stuck at R40 000 per married couple, and inflation-boosted incomes have soared ahead. In 1978, only 43 714 people earned more than R20 000/year. This year, the number will be in excess of 300 000.

In the days when government spending was less out of control than it is now, tax rates were low and companies were encouraged to go to the Johannesburg Stock Exchange to raise capital. Debt was more expensive than equity. But company tax has risen to such levels that, today, equity is twice as expensive than debt.

Every time the company tax rate is increased, equity becomes a more expensive form of finance, and debt cheaper. The result is that in recent years the JSE has experienced a welter of de-listings and very few new listings.

Banks, as the primary debt-funders, favour the low cost of debt compared with equity. But, ironically, banks still do force customers whom they believe are too highly geared to issue new equity capital. This increases a company's costs, as it would be cheaper to fund further capital through debt.

Unequal tax burden

In its treatment of companies' income, the tax system favours investment in existing companies rather than investment in new business enterprises. This is because dividend income is worth twice income from any other sources at the prevailing company tax rate. Inter-company dividend receipts are tax-free. At present tax rates, this is probably one of the reasons for increasing concentration of ownership.

The present tax system does not make sufficient allowance for the unequal tax burden on large and small companies. Large companies, simply because of size, tend to qualify more readily for tax allowances. As a result, few pay the full company tax rate. Small business therefore bears a disproportionate burden. In fact, while company taxes have risen over the past decade, effective company tax rates have declined. Ironically, this has a ratchet effect: as company taxes rise, tax allowances become worth more in cash.

One way round this is for companies to pay an expenditure tax. This seeks to broaden the definition of income by including all forms of cash receipts, as well as some non-cash receipts, as income. From this is deducted all cash placed in savings, and the balance is taxed, preferably at a flat rate for the sake of simplicity and equality.

Because the tax would include a much

face to face

CARL SCHWEPPENHAUSER

Thinking about it

The *FM* put the following questions to Carl Schweppenhauser, Commissioner for Inland Revenue.

***FM*: Do you believe that none of the tax reforms being discussed overseas are applicable at this stage of SA's development because they do not fit in with SA's dual economy?**

Schweppenhauser: Your assumption is not correct. It is true that some ideas emanating from overseas are not suitable for our population; but there are others which may well merit consideration.

Some observers say that from a cost/yield point of view, it would be logical to double the gst rate and halve direct taxes. Progressive taxes increase the incentive to dodge and remove the incentive to work. An indirect tax penalises everyone equally and is quick and easy in its collection. It is also easier to catch gst dodgers than income tax dodgers. What is the possibility of switching more to indirect taxes?

The cost/yield theory is a point of view which I cannot accept at face value. It is impossible to prove that progressive taxes have the effects suggested. The idea that tax is a penalty is not acceptable.

Indirect taxes are actually criticised in some quarters as being regressive in effect because they impose a relatively heavier burden on the lower-income group. But on the other hand, it is said that the higher-income group bears a bigger burden because of its greater spending power.

Is it really easier to catch gst dodgers? I cannot speculate on the possibility of a switch to indirect taxes.

It is accepted overseas that computerisation is essential before any major tax reform programmes can be instituted. What is the position in SA?

All tax assessment and tax collection procedures are fully computerised and are continually updated as circumstances demand. Departmental receivers also have on-line access inquiry facilities to a central register of taxpayers, companies and vendors.

Research into ways and means through which the latest advances in computer technology can best be utilised in the interests of the department is continually being conducted.

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provide flexibility in the administering the Income Tax Act, he said. They were not intended to give extra powers to raise money. There had been a softening of the rules recently in favour of taxpayers, to reduce individual cases of hardship.

Finally, the Croeser committee's proposals on local government and its financing through additional small taxes came in for scrutiny, bringing to a close a congress more than usually devoted to assessment of government's role in the economy.

Focus on this role was also brought from a black point of view. Western Cape University's Professor Richard van der Ross pointed out that there was a widespread misconception that blacks did not accept the realities of a free market economy. This, he said, was largely unfounded if one looked at grassroots behaviour.

However, being denied reasonable access to the market system, and because of the multitude of restrictions and market-restricting practices (especially in the informal sector), the private enterprise system in its present form in SA had not captured the imagination of the majority of blacks.

The liberalisation of the system in recent years should have a positive connotation. But Van der Ross warned that the handing out of "privileges" that blacks regarded as their right anyway, was not viewed as being the "fruits of a particular system."

Government is large, powerful and pervasive in this country — and generally speaking insensitive to criticism of itself. The sticks and stones thrown at it by businessmen and others at the Assocom congress could easily be brushed aside. That's probably what Goliath thought when he faced the boy David. Except that David's pebble hit the giant's most vulnerable spot — and right now, despite the township unrest, the economy is certainly an area of enormous sensitivity for Pretoria.

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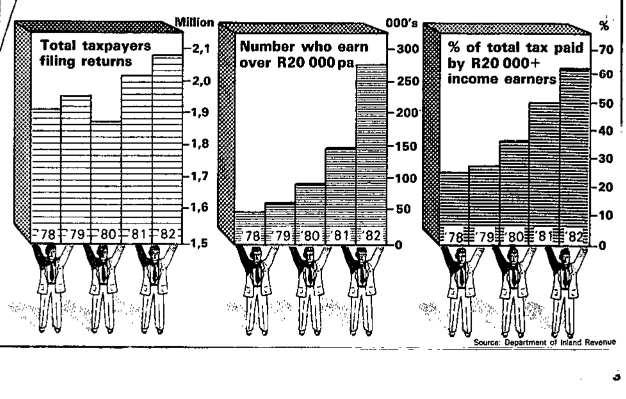

Source: Department of Inland Revenue

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broader base in its definition of income, the actual tax rate would be lower than prevailing rates. In the interests of equal treatment for all, there should be no exceptions, exemptions, deductions, allowances, special cases or rebates.

So far as individuals are concerned, an expenditure tax would enable the Income Tax Act to be repealed and replaced by a measure no longer than one page of the statute book. Annexed would be a schedule of so-called registered assets — investments which would qualify as deductions from income.

The list would include most investments such as property, housing, bank, post office and building society deposits; shares, unit trusts, life insurance and pensions. Others, such as current accounts with banks, and short-term insurance, fall into a grey area and would have to be scrutinised according to the time and the sentiment.

The overall advantage of the expenditure tax is that it encourages saving and discourages profligacy.

There are innumerable examples showing how the definition of income is blurred. It can be argued that interest earned on a bank account should be declared after accounting for inflation rather than declaring the nominal amount of interest.

People who live in a paid-up house effectively earn income on the rental they could charge if they let the house. But this kind of income is not conceived by politicians as income, and it is not taxed.

Another important principle of taxation is that indirect taxes be easily identifiable. A favourite device of government is often to keep as many as possible of these taxes, mainly customs and excise duties, invisible. This masks the extent of taxation and often leads to taxes being paid on taxes if they are linked to a proportion of the price.

Reform of the tax system should be a breath of fresh air in a fog of over-complexity. It should encourage productivity rather than rewarding the protectionist-minded at the expense of the majority. Above all, it should make life simpler and fairer for all concerned.

In addition, the system must be sufficiently robust to reduce the possibility of concessions being granted to special pleaders for political reasons. To achieve this, tax authorities will need to be stripped of their discretionary powers and clear departmental practice published.

But tax reform does not stop at the statute book. Equally important is the attitude of government to its role in the economy and to sustainable economic prosperity. It must budget within its income rather than use the tax system to squeeze resources to meet its spending ambitions. Better still, it should be prepared to limit its spending to a percentage of gdp, as Professor Brian Kantor advocates (page 29), thus linking expenditure to economic growth.

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Tax break for SA mines to be abolished

PRETORIA. — Legislation is to be introduced next year to cut the revenue lost to the State from gold and other mines in terms of merger schemes allowed by the Income Tax Act, the Minister of Finance, Mr Barend du Plessis, announced yesterday.

The schemes, essentially whereby a profitable mine can take over a non-profitable mine to substantially reduce or even eliminate tax liability, had undeniably had a beneficial effect on the economy, he said.

It was, however, equally undeniable that this had been at the expense of the general body of taxpayers as they had to make good the reduction in taxes paid by the gold and other mines.

Advantages

"Notwithstanding the technical and other advantages which, in certain cases, may flow from these mine mergers, the resultant potential loss of revenue has become a cause of serious concern."

Under the existing provisions of the Income Tax Act, a mining company was, subject to certain restrictions, permitted to deduct all capital expenditure incurred when determining taxable income from its mining operations.

The effect firstly was that taxable income was frequently reduced to nil, or very little, during the mine's beginning years.

A second effect was that, when original development costs had been fully absorbed by mining profits, the reduction in taxable income as a result of the deduction of current capital expenditure resulted, as in the case of a gold mining company, in a reduction in the rate at which normal tax was payable.

Mr Du Plessis said various schemes had been devised in recent times to take advantage of the benefits available to mining companies.

Profitable

The usual pattern was for a profitable gold mining company, paying tax at a high rate, to take over the gold mining operations of another company which was operating at a loss or low profit level, or which still had a large balance of unredeemed capital expenditure.

"Whatever form the scheme ultimately takes, the effect is always the same — the tax liability of the profitable mine is either substantially reduced or eliminated."

Some of these schemes had undeniably had a beneficial effect on the country's economy, making the recovery of minerals more cost-effective, creating additional jobs, and increasing the demand for mining machinery and equipment.

"But is is equally undeniable that much of this development has taken place at the expense of the general body of taxpayers, who have had to make good the reduction in taxes paid," the Minister said.

Amendment

He therefore intended to recommend the amendment of the Income Tax Act in the forthcoming Parliamentary session.

The effect would be that, "except in respect of those cases where, prior to yesterday, more than one mine was already being operated by the same person.

"The capital expenditure incurred by any mine may be deducted from the income of that mine only unless the Minister of Finance, in consultation with the Minister of Mineral and Energy Affairs, and having regards to the fiscal, financial and technical implications involved, otherwise decides."

The proposed amendment would apply to all types of mining.

Mr Du Plessis also said the recently appointed Margo Commission of Inquiry into the tax structure of South Africa would be asked to look into the fiscal aspects relating to the amalgamation of two or more mines and to make recommendations in due course. — Sapa and Own Correspondent

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JOHANNESBURG. — Anglo American's plans to merge its Free State gold mines into one giant operation may be blocked by the government — for tax reasons.

The Minister of Finance, Mr Barend du Plessis, announced last night that the loss of revenue from mining tax was "a cause of concern".

He proposed referring to the Margo Commission on taxation the fiscal implications of putting two or more mines together.

Anglo American's Free State plan, which would create the world's largest gold producing company, has been strongly inspired by the tax advantages possible at the present.

Mr Du Plessis seems determined that the Exchequer will not be the loser in any scheme.

This could cause Anglo to think again.

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→ cont.

PERKS PURGE

Nothing to smile about

If we were all paid in cash, without any fringe benefits or perks, the matter of fiscal equity would never have arisen. It is a principle over which few fair-minded men could quarrel. Pretoria's motives behind last week's perks purge are not questionable. But the manner and timing of the implementation deserve scrutiny for under present circumstances, they are crucial.

What can and should be questioned is whether the economic outcome of chosing to purge perks now — and in the manner in which it has been done — is in the best interests of the economy, and indeed the country as a whole.

It is all very well for Finance Minister Barend du Plessis to imply that he is soaking the rich to uplift the poor. What in fact he is doing is increasing the tax burden on the middle-income earner — who already pays nearly 70% of total personal tax — and reducing his incentive to work harder and save more.

The Minister's Christmas message to every skilled manager is clear: if you want to put your skills to the best use for your family, then emigrate. If he takes that option, not only will his savings be lost to the country, so will his brains.

As savings are needed to finance investment, the 10-year slide in fixed capital formation will continue and the country's productive resources will shrink further. That is a very serious situation. And when the turn in the business cycle comes, not only will the factories and plants be missing to take advantage of it, but many of the men with the flair to seize opportunity will be abroad. In plain words, that means that a return to real economic growth and the creation of more jobs will be even further delayed.

It is curious, too, that measures like these are implemented when the country is seeking foreign investment — which is being threatened by an unprecedented political onslaught abroad — and still needs imported foreign skills.

If the net outcome of the present package — higher taxes on perks and lower effective income taxes — is intended to be neutral, then why increase the burden on the most productive sector of the economy, doing serious harm to business confidence in general when the economy is in the midst of a serious recession?

Government has been procrastinating about taxing perks for 14 years and, ironically, during that period has handed them out faster than any other employer. Why now, at least so far as the private sector is concerned, is government attempting overnight to reverse the tide rather than stem it?

Indeed, it is by no means clear that the net outcome will be neutral. Well-intentioned the architects of the package may be, but it may yet turn out to raise more revenue for the Exchequer by effectively increasing the tax progression. Nobody knows yet for sure. And, indeed, some members of the State President's Economic Advisory Council fear this could happen. They are worried by the Treasury's lack of clarity on the eventual tax yield.

There are other aspects of the package that need to be questioned. While it sets out to restore equity, the measures do so in a most inequitable manner. Public servants and bank and insurance employees are given seven years before their soft housing loans become fully taxable. The executive with a company motor car has two years before he has to bear the full brunt, which is one of relative

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severity.

Nor is it yet clear whether all of the perks in the public sector will be taxed, especially the generous contributions made by the state to civil servants' pension funds.

Nor should it be assumed that most perks are enjoyed mainly by wealthy members of the private sector. With the growth in the size of the civil service, and government's active encouragement of perks for civil servants, it is more than likely that the total value of perks in the public sector dwarfs that of the private sector.

Nor is abuse of the perks system confined to the private sector. The *FM* has letters from former civil servants explaining how they were able to repay more than was required on their housing loans, enabling them to gear up their loans at the taxpayer's expense as property values increased.

There is also a political dimension to this inequality of implementation. Public servants are not only cushioned by a seven-year tax holiday from perks taxes, they have just been given a 30% or more pay increase. They will in relative terms be sitting pretty during next year's austerity while the private sector sweats. The majority of public servants support the government.

The disquieting aspects of the perks purge do not end there. The causal inequities that gave rise to fringe benefits in the first place remain deeply imbedded.

For instance, perks were sought in the private sector as a means of relief from a tax burden that has fallen too heavily and for too long on the middle-income group. That was brought about by the impact of inflation on a top marginal rate that was too low and a progression towards it that was too steep. This has only partly been ameliorated.

In the public sector, perks were encouraged because government was unable to pay competitive wage bills as the numbers it employed increased year upon year. Today roughly half of the workforce is employed by government or its agencies and there are few signs of this being reduced.

Both these factors have their roots in the increasing growth of government's activities and its inability to meet this cost other than by debauching the currency and printing money or by offering increasing fringe benefits.

As the *FM* has argued before, equity between civil service and private-sector pay is at best an unobtainable ideal — if an ideal at all — and of dubious economic desirability. Risk or insecurity of tenure alone will command a premium in the private sector. The growth of the size of the civil service is eloquent testimony to the iron tenure that exists there.

Self-righteous exclamations at the inequity of perks are out of place coming from Du Plessis. His government and officials not only acquiesed in their provision; they actively encouraged them.

Unless, therefore, there is soon a significant further reduction in government spending and further increases in tax thresholds, Du Plessis and his men are increasingly going to face the threat of a serious tax revolt. Dishonesty will in that event become entrenched in the system and be the rule rather than the exception; and tax revenues will in consequence tumble, despite the vigilance of the tax inspectors.

Meantime, part of the cost of Du Plessis' perks purge — or exercise in income redistribution — is going to fall on the consumer in the form of yet higher prices even if, at the lower levels, his tax is slightly less. For the increase in corporate wage bills will partially be pushed on to customers in the form of higher prices.

FRINGE BENEFITS

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What gets wiped out

Out go company cars and housing benefits. In come wholly cash-based remuneration packages — meaning fiscal drag for all and swelling coffers for the Receiver to fund an over-spending government.

Last week's overhaul of the proposed fringe benefits taxation, which takes effect on March 1 1985, amounts to a radical new treatment of perks by Pretoria. At a press conference last Thursday, Finance Minister Barend du Plessis made it clear that employees will achieve little benefit by taking perks instead of cash.

The new perks rules appear to be aimed at stinging the rich and benefiting the poor. The housing subsidy tax has been increased (although there are still anomalies); company cars have been dealt the severest blow; the benefits of soft loans have been negated and share option schemes severely curtailed. And, although the tax tables for next year reduce the tax payable, taxes have actually increased in some brackets because of the new 5% surcharge.

Penalising perks and encouraging cash remuneration packages reverses a trend all but entrenched in the tax system. Prior to the announcement of the new formulas and rates, an employee could benefit substantially by substituting cash earnings for perks.

Perks, although taxable in terms of the Income Tax Act, had infrequently been declared, and it had not been the practice of Inland Revenue to tax them anyway. Aided by punitive income tax rates, the loopholes in the Act had spawned perks schemes of greatly varying natures.

This is to be no more. The move to more cash and less perks is to be welcomed. It is more equitable in principle and will make employees more mobile and less beholden to their employers.

The estimate is that perks taxes will raise R720m in the 1985-1986 fiscal year, which will be filtered back to taxpayers by effectively cutting tax rates by raising tax thresholds.

But have rates actually been cut? One feature of the new tax tables is a 5% surcharge, effectively increasing the top marginal rate. It seems that giving on the one hand by cutting rates has been taken on the other by the surcharge — although the two would not necessarily net out.

In the R40 000 to R50 000 tax bracket for married couples, the nominal proposed tax rate is 46% (50% in this tax year). But the proposed 5% surcharge jacks the effective rate up to 48,3%, only slightly lower than before. In the R50 000 to R60 000 bracket, the nominal rate is now 48% (50%). The surcharge, however, means an effective rate of 50,4%.

Moreover, although the 50% marginal threshold for married taxpayers has increased from R40 000 to R60 000, the surcharge pushes the effective rate to 52,5%.

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tax holiday.

Furthermore, free or inexpensive accommodation provided by an employer is not deemed to be a taxable perk if a beneficiary employee's salary is less than R20 000.

Questioned on these points by the *FM* last week, the Minister said that if the phasing-in allowance was not granted, severe disruptions could result. Employees who had long enjoyed housing benefits would not be able to afford the new tax. In addition, there could be grave disturbances in the property market.

The Kotze Commission on perks tax, which reported on January 28 1982, recommended that motor vehicle perks tax be phased in over two years. The Minister has followed this, with 50% of the benefit taxable next year, rising to 100% in the next year.

However, the commission also recommended on page 24 of its report that "the phasing-in provisions be applied to subsidies payable under all ownership or housing schemes approved by the Commissioner, irrespective of the date of coming into operation of such schemes . . ."

This recommendation has been patently ignored, with the results outlined above. Expected developments may include a postponing of the cut-off date to March 28 1985. But, given Inland Revenue's craving for cash, what is said to be more likely is that only the public service will be given the phasing-in benefit.

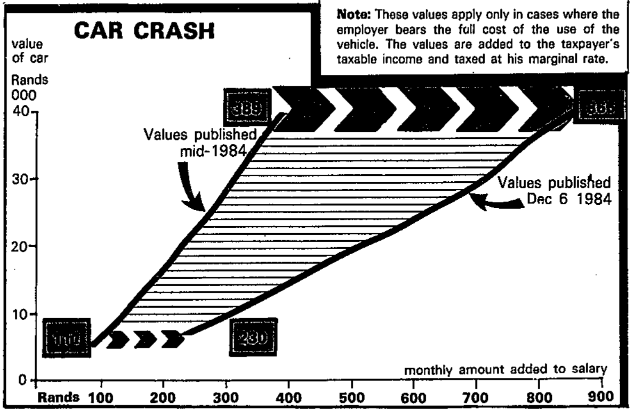
In line with making the choice between a perk and cash largely academic, the Minister has hit motor vehicles for a six. The monthly value of cars, depending on their cost, is to be added to an employee's salary and taxed at his marginal rate. The new published values have increased from between 200% to 300% from those published only as recently as July.

Only half the published value for each category of cost need be added in the 1985-1986 tax year, rising to 100% thereafter. Thus the employee who enjoys private use of a car valued at R40 000 must add R433/month to his salary next year. Taxed at the top marginal rate, this would mean additional monthly tax of R227, and a substantial salary increase to make good the extra tax payment.

MONTHLY VALUE OF CAR PERKS AFTER 50% ALLOWANCE

R Value of vehicle	Tax year 85/6 R
1 - 7 000	115,0
7 001 - 8 000	131,0
8 001 - 9 000	140,0
9 001 - 10 000	151,0
10 001 - 11 000	161,0
11 001 - 12 000	175,0
12 001 - 13 000	181,0
13 001 - 14 000	192,5
14 001 - 15 000	203,0
15 001 - 16 000	213,5
16 001 - 17 000	224,0
17 001 - 18 000	235,5
18 001 - 19 000	246,0
19 001 - 10 000	256,5
10 001 - 21 000	267,5
21 001 - 22 000	276,5
22 001 - 23 000	290,5
23 001 - 24 000	297,0
24 001 - 25 000	306,5
25 001 - 26 000	318,5
26 001 - 27 000	334,0
27 001 - 28 000	341,5
28 001 - 29 000	347,0
29 001 - 30 000	363,5
30 001 - 35 000	386,5
35 001 - 40 000	433,0

Note: These values apply only in cases where the employer bears the full cost of the use of the vehicle. The values are added to the taxpayer's taxable income and taxed at his marginal rate.



What's left?

Some perks are still available to employees and are not as badly affected by last week's developments as housing and motor vehicles.

Soft loans

The "official rate" no longer applies to housing benefits and will be used only to determine the benefit of soft loans. Provided the interest payable on the loan is 18%/year or more, no taxable benefit accrues to the employee.

But soft loans have nevertheless been severely penalised with the 50% increase in the official rate.

Share incentive schemes

It is proposed to *exempt* from tax any taxable benefit arising from provisions in employees' share incentive schemes.

Exempt from tax will be benefits derived from share incentive schemes:

☐ On cancellation of a scheme in which the taxpayer purchased shares; and

☐ On the repurchase from the taxpayer, *at a price not exceeding the selling price to him*, of shares purchased under a scheme.

The exemptions will only apply if the taxpayer derives only repayment of the purchase price actually paid by him and not any compensation or other consideration.

The problem with share schemes, however, is that most purchases are financed by soft loans granted by employers. And with the official rate at 18%, the most productive sector of the economy has been dealt yet another blow.

Entertainment allowances

Employees and the self-employed will (in most cases) be able to deduct R2 500/year from income for entertainment expenses. However, it appears that these amounts can be increased by reclassifying the nature of the allowances.

Travelling allowances

The portion of a travelling allowance which the Commissioner is not satisfied was expended on business travel will be added to salary as deemed income. This does not significantly change present practice, but the taxpayer will have to keep immaculate records to benefit in full.

Subsistence allowances

The proposals deem a rate of expenditure on subsistence allowances. If the employee can prove the costs were in excess of the deemed amounts, the claim will be allowed. If the cost is less than the deemed amount, it can be claimed.

Bursary schemes and educational grants

If a bursary or scholarship is granted by an employer in certain circumstances, and approved by the Commissioner, a beneficiary's parent will not have the value added to his salary. A soft loan for the same purpose is deemed to be a bursary. Educational grants to an employee's relative where the employee earns less than R8 000/year are tax-free.

Relocation costs

Relocation costs of a defined nature, such as transport, interim hotel accommodation and settling-in costs paid for by the employer will not be added back to the employee's salary.

Acquisition of asset for less than full value

The proposals change the emphasis from

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the value of the benefit to the employee to the *value or cost of the asset acquired by the employee.* Any asset acquired from his employer by an employee for little or no value will thus be taxable. Exempted are meals, refreshments, vouchers, board, fuel, water (which are separately covered) or marketable securities, dealt with elsewhere in the Act. The measure of the benefit is the difference between the *value* of the asset (as defined) and the consideration given.

Use of an asset
This area is a Pandora's box, and the proposal does not apply to housing or vehicles, which are covered elsewhere. The taxable benefit is the difference between the *value* of the use of the asset and *the amount paid by the employee for its use* or *the amount expended on repairs and maintenance.*

Use of residential accommodation
Free use of accommodation, as opposed to housing schemes, covers the situation where the employee does not have a vested interest in the property. It is taxed according to a complex formula, but employees who earn less than R20 000/year are given tax exemption for the use of free residence.

LOWER TAXES?

83/84 Tax year	**Low Bracket**	**Medium Bracket**	**High Bracket**
Gross income.....	**R30 000**	**R50 000**	**R70 000**
Taxable car benefit	0	720	720
Taxable income	30 000	50 720	70 720
Tax payable	7 045	17 085	27 085
Take home pay ...	22 955	32 915	42 915
Living expenses ...	22 955	32 915	42 915
Shortfall	0	0	0
86/87 Tax year			
Gross income	**42 148**	**70 246**	**98 345**
Taxable car benefit	0	4 920	8 196
Taxable income	42 148	75 166	106 541
Tax payable	11 988	28 783	45 255
Take home pay ...	30 160	41 463	53 090
Living expenses ...	32 250	46 244	60 292
Shortfall	2 090	4 781	7 202

Assumptions: The medium bracket taxpayer has a car valued at R15 000, the high bracket taxpayer one valued at R28 000. It is assumed that salary and living expenses increase at 12%/year. The taxpayers are all married.
Source: PE Corporate Services.
The 1984/85 and 1985/86 tax years have been omitted to show the effect of fiscal drag.

Cheap meals and meal vouchers
The taxable benefit to the employee of cheap meals/meal vouchers is the difference between the cost to the employer of the meal/refreshment voucher and the amount paid by the employee for it. Generous exemptions to the rule are proposed, so that these perks are effectively not taxable.

Free or cheap services
The value of a service paid for by an employer for the benefit is easy to determine; it has simply not been declared in the past. The taxable benefit to be added to the employee's salary is the difference between the cost to the employer of rendering it/having it rendered and the amount paid for it by the employee. Some generous exemptions apply.

Waiver or payment of employee debts
The taxable benefit is the face value of the debt paid for or released by the employer less any amount reimbursed by the employee.

Phasing-in provisions
A 50% allowance next year applies to the right to use certain assets, motor vehicles, residential accommodation, and certain loans. Special provisions apply to entertainment and travelling allowances. Phasing-in allowances applicable to housing subsidies will evidently only be available to employees in certain sectors, as outlined above.

BUSINESSMAN'S HORROR

The perception of the new perks tax rules by businessmen is that there will be a brain drain, slowing productivity, and companies' profits coming under pressure as never before.

Rennies' Charles Fiddian-Green says: "Right now, the country's best business brains have taken their minds off producing, and are seeing how they can get around the new rules. In particular, the salaried man and the small businessman will be hit. The overall effect will be decreasing productivity.

"Some of the new rules, for example, those affecting share options, will take the incentive from the entrepreneur."

SA Breweries' Meyer Kahn believes it was unnecessary to penalise everyone for the dodgers, who until now had been making a meal out of perks. He says the new rules will be demotivating, particularly for middle management. "Add that to our social and political problems, and it will be no surprise to see the best brains leaving the country."

Tony Bloom of Premier says he is sorry to see the tax arrive at this time. He forecasts that the magnitude of the impact will be massive, with increasing pressure for salary increases and consequent inflationary spin-offs.

Some anomalies

Bloom finds some of the perks measures puzzling: "Why should a man who lives in a R1m house be taxed the same as a man in a R50 000 house? And why does the system take no account of the age of the taxpayer, with his different commitments?"

Where there are losers, however, there are winners. Noel de Villiers of Hertz says he cannot see anything negative for Hertz resulting from the vehicle perks tax. "On the contrary, there may be some positives, such as special cars for special occasions, salesmen flying instead of driving and then renting a car, and so on."

He is adamant, however, that SA's top business members have been dealt a rotten card: "The country's executives are hardworking by any standard, and they should be encouraged, not penalised." De Villiers deplores the manner in which the authorities attempt to find inequities by penalising initiative.

His thoughts are echoed by Barclays Industrial Bank's Peter Springett, who describes the new rules as a "total disaster." He argues that the overall effect will be demotivating for top businessmen and achievers: "At this time in the economic cycle, many companies will simply be unable to compensate for the new taxes their employees must pay."

Bloom, Kahn, De Villiers, Springett, Fiddian-Green ... pressure is on

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JEKYLL'S CAR, HYDE'S HOUSE

The new rules governing perks tax are in some ways a Dr Jekyll and Mr Hyde situation.

Take, for example the case of Dr Jekyll, who has a private practice, and Mr Hyde, a senior civil servant. Both are married and earn R5 000 a month, thus paying the top marginal rate of 52,5% on the new tax tables.

Jekyll has a car valued at R50 000, Hyde a bond of R50 000. In the 1986-1987 tax year, Jekyll will pay extra monthly tax of R565 because of his car. Hyde will pay extra tax of R64 a month because of his bond. Although it is simplistic to use a R50 000 value for both the car and the bond, the example serves to illustrate the striking differences in treatment accorded different taxpayers.

The example is calculated on all the formulae and other rules applicable to perks, and assumes that Hyde will qualify for the seven-year tax holiday on housing subsidies. Jekyll can never be part of a housing scheme, as he is a professional and not an "employee."

David Glen and Miles Divett, of Deloitte Haskins & Sells, note: "The recipients of motor car benefits, who are predominantly in the private sector, will be required to have these benefits valued by reference to values which are close to the cost to the employer of running the vehicles.

"They have not been given seven years to cushion them from the impact of this step. The impact on their take-home cash is likely, in many cases, to be at least as severe as the impact on the public servant's housing assistance, were it not for the seven-year phasing-in period.

"This does not smack of equality of treatment. The chaos in the public sector envisaged by the Minister, were it not for the seven-year phasing-in period, is likely to arise in the private sector in relation to motor vehicles."

Next year, taking account of the formulae and allowances, Jekyll will pay extra tax of R282 a month, Hyde R25,60 a month. And Hyde has an appreciating asset; Jekyll one that depreciates. To call Hyde's concessions anything but a tax-holiday is unimaginable.

Indeed, the case of Hyde illustrates the absolute maximum a public-service taxpayer could be expected to pay on a housing bond. This is because he is given the highest bond available in the public service, pays the top marginal rate, and has a bond of 4% a year.

If Jekyll were allowed the same bond in the private sector under a housing scheme that did not qualify for the seven-year tax holiday, he would be called on to pay extra tax of R256 a month. If the same conditions applied to the average public servant with a 4% housing bond he would be called on to pay roughly an extra R100 a month. Instead, because of the phasing-in benefit, he will end up paying only R10 a month extra next year.

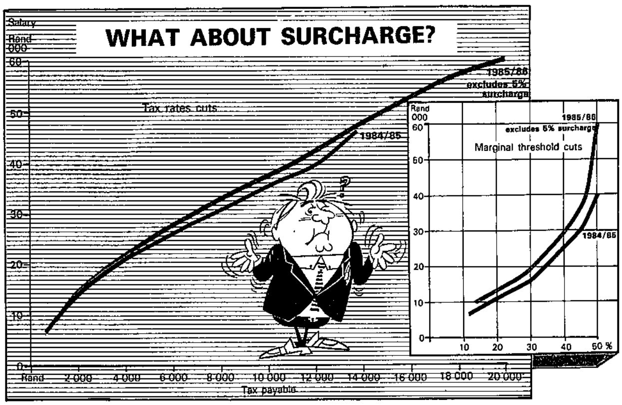
These can hardly be called tax cuts.

As cash remuneration increases to reflect the new tax regime, taxpayers will move into higher tax brackets. Fiscal drag will take on a new meaning: formerly aided only by inflation, it has a new ally in the rerated perks tax rates and formulas.

In the final result, the Minister's new attitude will mean substantially more cash for Inland Revenue's coffers, exhausted by government over-spending.

Barring housing and vehicles, much of the original fringe benefits proposals are unaffected by last week's announcements. The general principle underlying perks tax is that the legislation determines — either by using a rate, a formula or a deeming provision — the taxable value of a perk.

This is deemed to be income in the employee's hands, and is added to his salary and taxed at his marginal rate. The two biggest perks, housing and motor vehicles, were the perks most affected by last week's developments.



Housing rules

The changes to housing fringe benefits are the most far-reaching of all. Formerly the "official rate," hiked from 12% a year to 18% a year, was used to determine the value of a housing subsidy. It is now made irrelevant.

The taxable benefit is to be simply any cash that an employer hands to an employee to help towards payment of a bond. In other words, the employee may as well not be on a housing scheme. For, if the employee pays market rates, there is no benefit. If his employer reduces his burden by a cash payment, that payment is fully taxable as if it were a salary. So even though the housing scheme guidelines are to be issued this week, it will be pointless for any employer to set up a new housing scheme.

The new valuation of the taxable benefit differs significantly from the earlier situation. Because the official rate was previously set at 12% — well below market rates — the employee could make a substantial saving in his total tax payment by cash substitution.

Housing is also the one perks area where there is still evidence of treating different sectors inequitably. Firstly, professionals such as lawyers and doctors are still excluded from the legislation as it refers only to "employees." Secondly, only housing schemes in existence before March 28 1984 that are subsequently approved in terms of housing guidelines will qualify for the "seven-year phasing-in allowance."

Complex effects

The effect of the latter is multifold:

- Only four categories of employees are likely to qualify for the seven-year tax holiday: public and public corporation servants, and employees of financial institutions and certain large private sector companies.
- Those who qualify for the tax holiday will pay 10% of the taxable housing benefit in the next tax year, rising to 100% over seven years;
- Employees on housing schemes that are either not approved or that were started after March 28 1984 will pay 100% of the taxable housing benefit from next year;
- Certain companies that were prepared to gamble on setting up housing schemes before March 28 1984 may gain approval, effectively rewarding a gamble with a tax holiday; and
- Companies that were prepared to wait for Pretoria to clear up the perks tax issue and publish the housing guidelines will be penalised as they will not qualify for the

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CDA: reply to mayor's telex due this week

EAST LONDON — The lay-offs at the Car Distributor's Assembly plant here showed why an urgent telex message was sent to the government on Friday, the mayor, Mr Joe Yazbek, said yesterday.

Mr Yazbek sent the telex message to the Minister of Finance and the Minister of Trade and Industries warning that the new fringe benefit tax would be detrimental to CDA which was a major component of the city's economy.

He warned that 10 other companies in East London would be affected by a slow down in the car plant where 4 500 were employed.

Yesterday a spokesman for the Department of Finance said the Minister, Mr Barend du Plessis, was on leave and the telex message had been passed onto the acting minister, Mr W. Steyn.

A spokesman for his office said the message was being studied and a reply would be sent to the city council this week.

Yesterday Mr Yazbek said the necessity of the council's action had to be gauged against the lay-off of 280 workers at the plant and that he hoped that the situation would not escalate.

"East London is a specially selected decentralisation area and there should be some relief for the area in view of the rising unemployment and the vast hinterland which the area serves.

"We can ill afford unemployment and this is the thrust of our appeal. We want some concession for our motor industry here which is a vital factor in our economic well being."

The MP for East London City, Mr Peet de Pontes, said the lay-offs were sad but he was convinced CDA had no option.

"CDA was doing extremely well when compared with other motor manufacturers in the country.

"I certainly hope that conditions will improve so that CDA can re-employ those laid off workers and that the plant will continue with its scheduled expansion programme."

● A spokesman for Mercedes Benz South Africa, Mr Richard Wagner, said from Johannesburg he was pleased to report that all was well at the plant yesterday following the 90-minute work stoppage on Monday during the negotiations.

The negotiations were between the management and the National Automotive and Allied Workers Union which produced a compromise in which the 280 workers were not retrenched but were laid off for two months pending the outlook of the industry in that period.

Mr Wagner said he could not comment on any further moves in the motor industry on the fringe benefits tax. — DDR

Editorial opinion P18

(1520)

Value of Vehicle	Example of types of vehicle	Employer bears full cost of use of vehicle	Employee pays for all fuel used for private use of vehicle
R 1 — 7 000	Mini	R 230	R 190
7 001 — 8 000	Renault 5 GTL	262	221
8 001 — 9 000	Toyota Corolla 1,3 L	280	239
9 001 — 10 000	Volkswagen Golf 2/ 30L	302	259
10 001 — 11 000	Opel Kadett 1,6 GLS	322	279
11 001 — 12 000	Mazda 323 1,5 Sedan SLX	341	297
12 001 — 13 000	Honda Ballade 150	362	317
13 001 — 14 000	Ford Sierra 1600 GL	385	340
14 001 — 15 000	Mitsubishi Tredia 1,8 Turbo	410	365
15 001 — 16 000	Peugeot 505 SR	427	381
16 001 — 17 000	Toyota Cressida GLi	448	401
17 001 — 18 000	VW Passat CLX Sedan	471	422
18 001 — 19 000	Alfa Romeo Giulietta 2,0 Turbo	492	444
19 001 — 20 000	Nissan Laurel 280 SGL	513	464
20 001 — 21 000	Audi 500 2,2	535	485
21 001 — 22 000	BMW Series 323i	553	502
22 001 — 23 000	Mercedes-Benz 200	581	529
23 001 — 24 000	Lancia Coupe 2,0	594	542
24 001 — 25 000	BMW Five Series 520i	613	560
25 001 — 26 000	Renault Fuego Turbo 1,62	637	584
26 001 — 27 000	Ford Granada 3000 Ghia	668	614
27 001 — 28 000	Ford Sierra XR8 5,0	683	629
28 001 — 29 000	Alfa Romeo GTV 2500 A/C	694	638
29 001 — 30 000	Mercedes-Benz 230E	727	671
30 001 — 35 000	Opel Senator 3,0	773	716
35 001 — 40 000	BMW 5 Series 535i	866	809

Wide range of perks to fall into taxman's net

Financial Reporter

GREAT attention has recently been focused on the housing and car aspects of fringe benefit taxation, but the legislation brought in last year covered a wide range of perks.

The legislation was aimed at taxing all income, and income was viewed as anything given by an employer to an employee as remuneration in whatever form.

The legislation also put the onus on the employer to calculate the taxes to be paid by the employee and to include them in the monthly PAYE deductions.

The employer is also required to give the Receiver of Revenue a statement at the end of the year which, in the case of a company, is signed by a director of that company.

Any form of soft loan — a loan at a rate of interest less than the official rate of interest of 18% — will be hit.

This will hit many share option schemes which operate on low or nil interest loans to staff to buy shares in their companies.

What previously was a valuable perk could, under the new system, add thousands of rands to an employee's annual tax bill.

Also included in the fringe tax net are education assistance to employees and travelling expenses for an employee's spouse.

Entertainment allowance deductions are to be kept to a maximum of R2 500 a year subject to a stipulation that an employee can only claim 5% of his income in entertainment allowances.

The Receiver also intends lumping professional payments by a company on behalf of an employee into the entertainment allowance. This would include such things as payment of an employee's fees to join a golf club.

The legislation also takes in any service which the employer does for the employee as a part of his remuneration — for example paint the employee's house free of charge.

Taxable Income	Car value	Housing subsidy	Present tax	Proposed tax	Saving or Extra tax	% difference
R 5 000	no car	no subsidy	R600	R600	—	—
R 7 500	no car	no subsidy	R600	R600	—	—
R10 000	no car	no subsidy	R770	R710	−R60	−7,890
R15 000	no car	no subsidy	R2 360	R2 100	−R260	−1,190
R15 000	no car	R20 000 @ 4%	R1 870	R1 723	−R147	−7,990
R20 000	no car	no subsidy	R3 390	R3 039	−R351	−10,990
R20 000	no car	R30 000 @ 4%	R3 390	R3 171	−R219	−6,590
R30 000	no car	R40 000 @ 4%	R7 190	R6 844	−R346	−4,890
R40 000	no car	R50 000 @ 4%	R11 870	R11 441	−R429	−3,590
R40 000	R16 000	R50 000 @ 4%	R11 870	R12 678	+R808	+6,890
R50 000	R24 000	no subsidy	R16 870	R17 730	+R860	+5,190
R60 000	R30 000	R60 000 @ 4%	R21 870	R23 704	+R1 834	+8,490
R80 000	R40 000	R80 000 @ 4%	R31 870	R34 789	+R2 919	+9,290

Schwarz hits at new tax

From Page 1

The marginal tax rates for single taxpayers is higher than for married couples.

Mr Schwarz said he believed one of the first interim reports of the recently appointed commission to investigate the tax system would recommend separate taxation for married couples.

If his theory was correct, Mr Schwarz said, the consequences of separate taxation had to be examined very carefully because the burden to the taxpayers involved could be "very heavy".

If a couple earned less than R18 000 a year they were better off taxed jointly than separately, he said.

Mr Schwarz said the new 5% surcharge on tax was "worrying" because it meant the Government had abandoned its commitment not to tax any income at more than 50%. The top marginal rate plus the surcharge meant the top tax rate would be 52,5%.

... hard hit'

By CHRIS FREIMOND
Political Correspondent

THE long-awaited separate taxation for married couples may result in "substantial hardship" rather than tax relief if it is based on tax rates for single people, the Progressive Federal Party's Finance spokesman, Mr Harry Schwarz, said yesterday.

Reacting to changes in tax policy announced by the Minister of Finance, Mr Barend du Plessis, this week, Mr Schwarz said he believed the tax structures announced for single people may be "a bit of kite flying" by the authorities to see the reaction from people who interpreted the structures as those that would be applied to separately taxed married couples.

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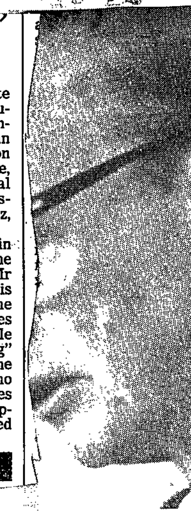

MR HARRY SCHWARZ ... new tax structures on married people are "a bit of kite flying".

HOW YOU GET SOCKED — THREE EXAMPLES

A) Taxable Income R15 000. Housing Bond R20 000 at 4% p.a.

Present tax	R1 870
Proposed tax (year one)	R1 723
Saving	R147
Proposed tax (year seven)	R2 948
Increase on 1984	R67,7%

B) Taxable Income R40 000. Housing loan R50 000 at 4%.

Present tax	R11 870
Proposed tax (year one)	R11 441
Saving	R429
Proposed tax (year seven)	R15 036
Increase on 1984	R26,7%

C) Taxable Income R60 000. Housing loan R60 000 and car of R30 000.

Present tax	R21 870
Proposed tax (year one)	R23 704
Additional tax	R1 834 or 8,4%
Proposed tax (year seven)	R30 804
Increase on 1984	R40,9%

Cape Times 8/12/84 (320)

Fringe benefits: Wide range taxable

Own Correspondent

JOHANNESBURG. — Great attention has recently been focussed on the housing and car aspects of fringe benefit taxation but the legislation brought in last year covered a wide range of perks.

Any form of soft loan — a loan at a rate of interest less than the official rate of interest of 18 percent — will be hit.

This will hit many share option schemes which operate on low or nil interest loans to staff to buy shares in their companies.

What previously was a valuable perk could, under the new system, add thousands of rands to an employee's annual tax bill.

Also included in the fringe tax net are education assistance to employees and travelling expenses for an employee's spouse.

Entertainment allowance deductions are to be kept to a maximum of R2 500 annually subject to a stipulation that an employee can only claim 5 percent of his income in entertainment allowances.

The Receiver also intends lumping professional payments by a company on behalf of an employee into the entertainment allowance. This would include such things as payment of an employee's fees to join a golf club.

Holiday accommodation provided free by an employer could be taxed as will the use or purchase of company assets by an employee at charges less than the market rate.

That will hit the sale of company cars at book value to employees.

THIS IS WHAT YOU WILL BE PAYING

Taxable Income R	R	Rates of Tax	R
0 — 10 000		12 per cent of each R1	
10 000 — 11 000	1 200 + 14	per cent of the amount over	10 000
11 000 — 12 000	1 340 + 16	per cent of the amount over	11 000
12 000 — 13 000	1 500 + 18	per cent of the amount over	12 000
13 000 — 14 000	1 680 + 20	per cent of the amount over	13 000
14 000 — 15 000	1 880 + 22	per cent of the amount over	14 000
15 000 — 16 000	2 100 + 24	per cent of the amount over	15 000
16 000 — 18 000	2 340 + 26	per cent of the amount over	16 000
18 000 — 20 000	2 860 + 28	per cent of the amount over	18 000
20 000 — 22 000	3 420 + 30	per cent of the amount over	20 000
22 000 — 24 000	4 020 + 32	per cent of the amount over	22 000
24 000 — 26 000	4 660 + 34	per cent of the amount over	24 000
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28 000 — 30 000	6 060 + 38	per cent of the amount over	28 000
30 000 — 32 000	6 820 + 40	per cent of the amount over	30 000
32 000 — 34 000	7 620 + 42	per cent of the amount over	32 000
34 000 — 36 000	8 460 + 43	per cent of the amount over	34 000
36 000 — 38 000	9 320 + 44	per cent of the amount over	36 000
38 000 — 40 000	10 200 + 45	per cent of the amount over	38 000
40 000 — 50 000	11 100 + 46	per cent of the amount over	40 000
50 000 — 60 000	15 700 + 48	per cent of the amount over	50 000
60 000 and over	20 500 + 50	per cent of the amount over	60 000

EXAMPLES OF CHANGES IN TAX POSITION

PERSONS who are not granted fringe benefits will as a result of the proposed scale pay less tax.

Example: The figures are calculated on the assumption that the taxpayer is a married man who does not supply any children.

Taxable Income	Present Tax	Proposed Tax	Reduction in tax	
R	R	R	R	%
R10 000	R 770	R 710	R 60	7,8
R12 000	R 1 150	R 1 023	R127	11.0
R16 000	R 2 150	R 1 905	R245	11,4
R20 000	R 3 390	R 3 039	R351	10,4
R30 000	R 7 190	R 6 609	R581	8,1
R40 000	R11 870	R11 103	R767	6,5
R50 000	R16 870	R15 933	R937	5,6
R60 000	R21 870	R20 973	R897	4,1
R70 000	R26 870	R26 223	R647	2,4
R80 000	R31 870	R31 473	R397	1,2

Value of Vehicle	Example of types of vehicle	Employer bears full cost of use of vehicle	Employee pays for all fuel used for private use of vehicle
R		R	R
1 — 7 000	Mini	230	190
7 001 — 8 000	Renault 5 GTL	262	221
8 001 — 9 000	Toyota Corolla 1,3 L	280	239
9 001 — 10 000	Volkswagen Golf 2 30L	302	259
10 001 — 11 000	Opel Kadett 1,6 GLS	322	279
11 001 — 12 000	Mazda 323 1,5 Sedan SLX	341	297
12 001 — 13 000	Honda Ballade 150	362	317
13 001 — 14 000	Ford Sierra 1600 GL	385	340
14 001 — 15 000	Mitsubishi Tredia 1,8 Turbo	410	365
15 001 — 16 000	Peugeot 505 SR	427	381
16 001 — 17 000	Toyota Cressida GLi	448	401
17 001 — 18 000	VW Passat CLX Sedan	471	422
18 001 — 19 000	Alfa Romeo Giulietta 2,0 Turbo	492	444
19 001 — 20 000	Nissan Laurel 280 SGL	513	464
20 001 — 21 000	Audi 500 2,2	535	485
21 001 — 22 000	BMW Series 323i	553	502
22 001 — 23 000	Mercedes-Benz 200	581	529
23 001 — 24 000	Lancia Coupe 2,0	594	542
24 001 — 25 000	BMW Five Series 520i	613	560
25 001 — 26 000	Renault Fuego Turbo 1,62	637	584
26 001 — 27 000	Ford Granada 3000 Ghia	668	614
27 001 — 28 000	Ford Sierra XR8 5,0	683	629
28 001 — 29 000	Alfa Romeo GTV 2500 A/C	694	638
29 001 — 30 000	Mercedes-Benz 230E	727	671
30 001 — 35 000	Opel Senator 3,0	773	716
35 001 — 40 000	BMW 5 Series 535i	866	809

Star 7/12/84 (320)

Move on fringe benefits is aimed at making the taxation system fairer

The changes to fringe benefits taxation and pay-as-you-earn scales announced yesterday are steps by the Government to implement its desire to make South Africa's taxation system more equitable.

The authorities have been criticised severely in recent years for allowing taxpayers to be penalised by fiscal drag or bracket creep — the process which causes inflation-increased salaries to be pushed into the higher tax margins.

In that process salaries have not risen in real terms, but the taxes levied on them have soared, leaving wage earners with less disposable income.

In terms of yesterday's announcement, PAYE Scales are to be adjusted from March 1 to

By David Braun, Political Correspondent

increase from R40 000 to R60 000, the level at which the maximum marginal rate (50 percent) will apply.

Other taxation levels will be adjusted accordingly.

At the same time, the Government has decided to amend proposed taxation on fringe benefits. The main reason for taxing benefits is to make the system more equitable by ensuring that people pay on all income — kind as well as cash.

It is not intended as a revenue-generating exercise. In fact, the R720 million the Government will earn from the new fringe benefit regulations will be used to pay for most of the relief given in the PAYE scales.

Finance Minister Mr Barend du Plessis said yesterday that had always been a principle of the country's taxation system that income other than cash should be taxed.

The problem was that till now the authorities had found it difficult to quantify and standardise fringe benefits given in lieu of cash.

He likened his position as Finance Minister to that of a managing director of a company selling fridges. In the process of selling his products, he found that every person buying one was in a position to allow himself some form of a discount, and could just send the company the balance of the price he felt was fitting.

In the same way, people had been able to reduce their taxable income because they had been able to get themselves fringe benefits.

"Just like the managing director cannot allow his customers to award themselves the discounts of their choice," said Mr du Plessis, "we cannot allow the country's finances to be run any longer without a standardised procedure for the taxation of fringe benefits."

He said the Government realised that there would be people who would be unhappy with the new tax proposals, but there would be many who would be pleased.

Late-in-the-day tax changes criticised

Employers and economists have welcomed yesterday's tax reforms, but have criticised the Government for changing proposals on fringe-benefit taxation so late in the day.

All agreed it was essential to tax fringe benefits. But the last-minute changes were not popular.

Assocom president Mr Michael Weir said most companies had already drawn up New Year salary packages in terms of fringe benefit tax proposals announced earlier this year.

By Jasper Mortimer

The latest proposals will create considerable problems, he added.

The private sector has been mucked around, said Mr Arthur Hammond-Tooke, director of economic affairs and taxation for the Federated Chamber of Industries.

The changed proposals, he added, would inevitably result in a new round of negotiations for salary increases.

The Afrikaanse Handelsinstituut supported the tax on fringe benefits as long as no distinctions were made, stated its president Mr Leon Bartel.

The "no distinctions" is seen as a demand that the fringe benefits of public servants be equally taxed.

The new taxes were a strong attack on fringe benefits and not a damp squib as had been feared, said Standard Bank group economist Mr Andre Hamersma.

"Salaries were taxed, fringe benefits were not. This has now been corrected."

Standard Bank and Assocom were pleased by Finance Minister Mr Barend du Plessis's decision to raise the line at which married persons became eligible for maximum taxation from R40 000 to R60 000.

But Assocom, noting the 2,5 percent increase in the top marginal rate, said South Africa's taxation lacked long-term planning and regretted that ad hoc steps were being taken while the Margo Commission was considering an overhaul of the whole system.

The people who will pay less tax in future

People who do not have fringe benefits or are not in the high income brackets will pay less tax.

The Ministry of Finance gave examples for married taxpayers who do not support children:

- On a taxable R10 000 a year, tax would be reduced by R60 or 7,8 percent to R710.
- Those on R12 000 would pay R1 023, or 11 percent less.
- Those on R16 000 would save 11,4 percent by paying R245 less at R1 905.
- Taxpayers on R20 000 a year would pay 10,4 percent less.
- Those on R30 000 pay 8,1 percent less.

Other tax cuts: R40 000 — 6,5 pc; R50 000 — 5,6 pc; R60 000 — 4,1 pc; R70 000 — 2,4 pc; R80 000 — 1,2 pc.

People on low income with fringe benefits may pay less tax, at least in the first few years when tax on fringe benefits is being phased in.

The ministry has pointed out that in the first year of fringe benefits being taxed, use of a company car will be taxed at only 50 percent of its full value while the benefit of a housing loan will be taxed at only 10 percent.

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What you will be paying.

Taxable Income	Present Tax	Proposed Tax	Reduction in tax	
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R60 000	R21 870	R20 973	R897	4,1
R70 000	R26 870	R26 223	R647	2,4
R80 000	R31 870	R31 473	R397	1,2

How the tax position changes.

As fringe benefits taxes are phased in, taxpayers with perks will be increasingly taxed.

In the coming year, however, a person on a taxable income of R15 000 who receives a housing loan of R20 000 at four percent interest, will be taxed on the housing benefit but will pay 7,9 percent less tax than he did under the old system.

People on higher income in both private and public sectors with fringe benefits are likely to find total tax increasing.

An example indicates that a person on R40 000, who has a housing loan of R50 000 at four percent interest plus free use of a R16 000 car will pay 6,8 percent more tax.

A taxpayer on R50 000, with free use of a R24 000 car but no housing loan, will find his tax rising by 5,1 percent.

A taxpayer on R80 000, with a housing loan of R80 000 at four percent and free use of a R40 000 car, will pay 9,2 percent more tax.

From March 1 1985:

- The scale of values for private use of an employer's car will be increased to reflect the present actual cost of ownership.

To phase in this benefit, only 50 percent of the taxable value will be taxed during the 1985/86 year of assessment.

- The official rate of interest which will be applied in determining the value of an interest-free or low-interest loan will be increased from 12 to 18 percent.

This means you pay tax on the difference between the interest rate of your loan and 18 percent.

If you receive a cash subsidy to help you buy a house you will be taxed on the total received.

- The scale of values for private use of an employer's car will be increased to reflect the present actual cost of ownership.

This provision is to be phased in over two years.

Tax deal is a perk for lowest-paid

CAPE TIMES 7/12/86 320

By GORDON KLING

LOWER-INCOME workers who do not receive car or housing perks stand to gain most from the new tax deal announced yesterday by the Minister of Finance, Mr Barend du Plessis, but it will hammer the ailing motor industry and offers little for the public service and top income earners.

Rather take the money   Subsidies fully taxable

A heavier burden than originally anticipated in the fringe benefits tax proposals due to come into effect on March 1 next year will be imposed on those enjoying subsidized housing loan schemes where the "official" rate of interest on which such loans are based will be raised from 12 to 18 percent, and the scale of values at which the private use of business cars is to bear tax will be doubled in some cases to reflect the present actual cost of the vehicles, phased in at the rate of 50 percent a year during the next two tax years.

Mr Du Plessis said about R720-million would be released for redistribution by the measures.

The savage reduction in the tax perk on cars is expected to hit luxury vehicles by prompting executives to opt for higher pay instead. Detailed figures were not available yesterday, but one example given was an addition to monthly taxable income of R800 a month for a R40 000 car, against about R400 in the previous scales and R60 a month generally accepted by the Receiver in recent years according to tax experts.

Some relief will be obtained through a shift in the PAYE tax tables to accommodate fiscal drag, with an increase in the threshold at which the maximum marginal tax rate bites from R40 000 to R60 000, but the introduction of a five percent surcharge on incomes of R10 000 and over on taxpayers 65 and under will basically wipe this out for many.

Budget changes

Organized commerce, industry and tax authorities welcomed the higher threshold but were not overly impressed with the late announcement of the package, which would mean changes to budgets, and fears were evident for the future of the ailing motor industry.

"It is certainly nothing to gloat over," said tax specialist and publisher Mr Michael Stein, who pointed out that inflation since 1981 when the maximum tax rate threshold was increased to R40 000 meant that the new level should be closer to R80 000.

Type of car

His partner, Mr Costa Divaris, said the net effect was that middle to higher-income taxpayers would be worse off, while the poor, thanks to the surcharge cut-off on incomes below R10 000, would probably be slightly better off.

Examples cited by the government showed people earning about R12 000 gaining about R300 a year. The situation of higher-income earners will depend heavily on the type of car they drive.

Barclays' general manager in the Western Cape, Mr Bob Wood, believed most firms would have to increase salaries to keep staff adversly affected by the fringe benefits clampdown. The car industry, he believed, could be "stone dead".

First phase

Public servants and employees of banks, insurance companies and other institutions which were members of approved loan-subsidy schemes before March 28 this year will be faced with the first phase of the removal of their perks. This means they will face tax at the rate which applies to their income for the year on 10 percent of the difference between the interest they are paying on a home loan, usually about 4 percent, and the free market rate of about 20 percent. The remainder of the tax benefit will be eliminated in stages during the following six years. Previously the employee would have had the tax phased in on the difference between 4 percent and 12 percent and would have gained the benefit of the remaining 8 percent tax-free.

Mr Du Plessis announced that the concession whereby a portion of certain housing subsidies would not be taxed if the rate of interest on the loans exceeded the official rate, interest would be withdrawn and the cash subsidies would consequently be fully taxable. The move comes as yet another blow to public servants who were initially eased into the fringe benefits loss with a proposed official interest rate of 8 percent.

Still possible

Employees benefiting from low-interest or free loans as opposed to subsidies will similarly have to pay tax on ten percent of the difference between their loan rate and the official rate of 18 percent instead of 12 percent previously and 8 percent when the perks proposals were in the making.

The change in the official rate of interest will wreck hopes for many home-loan schemes which were not operating with official approval before March 28, but experts believe it will still be possible for firms to offer housing benefits.

RDM 7/12/84 (320)

Mining projects may be shelved

By BRENDAN RYAN
Deputy Financial Editor

POTENTIAL expansions involving billions of rand by the gold mining industry could be threatened if the Government strictly enforces tax changes on capital expenditure.

The new tax system could seriously affect the future of existing mines such as ERPM and also affect potential new developments under consideration by the mining industry.

Mr George Nisbet, president of the Chamber of Mines, said yesterday: "I am not sure precisely what the Government intends by this announcement.

"It is my understanding that any merger of gold mines has always been subject to approval by both the Minister of Mineral and Energy Affairs and the Minister of Finance.

"Mergers have been approved in the past because they have been shown to be to the benefit of both the Government and the mining companies.

"This announcement could mean the Government intends cracking down on such mergers because of fears of lower tax revenue in the short-term.

"If the Government is too hard on the mining industry, the minerals will stay in the ground and nobody will benefit.

"A lot, therefore, will depend on how the Government enforces the new legislation but I am worried it is taking a short-term attitude to the mining industry which just cannot be done.

"The mining industry cannot be treated as though it were a normal business. It can take six years to set up a new mine before one begins to get returns on the huge investment involved.

"If the Government is now going to make our lives harder, we in turn will have to look for higher rates of return to make an investment worth the risk involved.

"The adverse effects could be serious, particularly for low-grade or deep-level mine developments," Mr Nisbet said.

The proposed change to legislation means a profitable gold mine will not, without the approval of the Ministers of Finance and Mineral and Energy Affairs, be able to take over another developing, or unprofitable, mine and offset capital expenditure on that mine against its own profits.

With gold mines paying tax at rates around 70% the system has meant the Government pays for up to 70% of a new development in

The Government has so far gone along with this because of long-term benefits to the economy and taxes earned when new operations become profitable.

However, the Government may now feel the mining industry is having too much of a good thing.

The head of the mining tax division of Inland Revenue, Mr M A du Toit, said yesterday: "In addition to the recently announced potential merger of Anglo American's Free State gold mines, there are another five mergers of gold mines in the pipeline for approval."

Mr Du Toit declined to name the

TURN TO BACK PAGE

Tax rules could curb mining developments

FROM PAGE 1

companies involved. He said that Inland Revenue was losing millions of rand through mergers allowed so far.

"The new measures do not affect a mine which intends expanding its operations into new areas contiguous with its present boundaries.

"It will then apply for an extension of its lease area making the new area part of the existing mine.

"The measures will affect a mine wishing to open up a new area which is not contiguous with its present boundaries. If a mining lease is granted to exploit such an area, we consider it to be a new mine.

"Therefore capital expenditure on that new mining lease can only be offset against the profits earned from that lease," he said.

This would hit precisely the method by which Gencor brought the Beisa and Beatrix mines into production.

Both mines were funded independently to the initial production stage and then tucked under the wings of bigger, profitable sister mines which could claim the accrued capital expenditures against their profits.

This gave immediate tax savings and allowed Gencor a faster return on investment in the new mines.

There are a large number of projects which could be hit by strict enforcement of the new rule.

There have been market rumours for some time about a possible takeover of ERPM by profitable big sister Harmony, so that the cost of the vital R157m expansion at ERPM can be offset against Harmony's profits. Without this project ERPM will die.

On the subject of new developments, the questions must be asked how Gencor's development of the potential Poplar mine near Evander could be affected as well as JCI's new mine near Beatrix.

Strict enforcement could also mean Gold Fields of South Africa must ensure a contiguous boundary between Kloof and the potential new gold mine near Fochville, if it hopes to offset capex against the earnings of highly profitable, and therefore highly taxed, Kloof.

There are also serious implications for the development of the gold fields south of the Sand River.

All the major mining houses have been prospecting this area for years and it is believed several potential new mines could eventually be set up.

However, these areas are way south of the existing Free State gold fields which rules out contiguous boundaries with existing profitable operations.

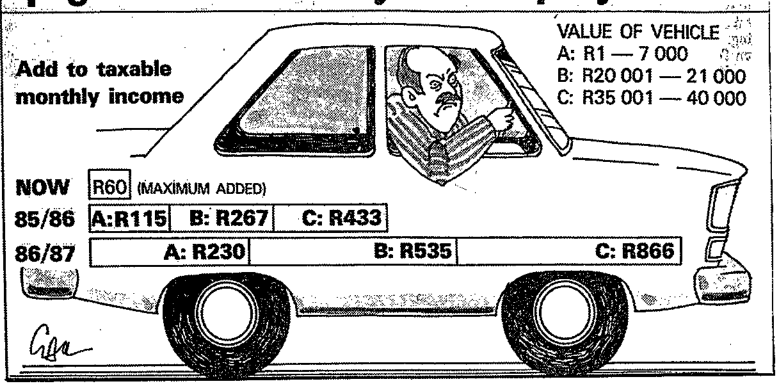
A tough approach by the Government to schemes to attach these new mines to existing producers elsewhere could take away their attractiveness.

If the grade of the ore is not high enough these projects could easily stay on the shelf whereas a more lenient tax approach could lead to their development.

PRICE 21c + 3c tax
PRICES ELSEWHERE ON BACK PAGE

RDM 7/12/84 (320)

Up goes the tax on your company car . . .



Tax cuts as fringes are hammered

By HOWARD PREECE

A MASSIVE crackdown on fringe benefits — vastly more severe than anything previously proposed — will be imposed from March 1 next year.

But the entire R720-million tax haul expected from it for 1985/86 will be effectively handed back to the public by major cuts in personal income tax.

These decisions were announced in Pretoria yesterday by Mr Barend du Plessis, the Minister of Finance.

The big losers, in theory, will be people with company cars and/or subsidised housing bonds, although those with taxable incomes of less than R20 000 will not be taxed on any home loan benefits.

Overall this is obviously discouraging news for both the motor industry and the property market.

However, while the authorities are still going to allow a seven-year phasing in of the taxable benefit on bonds, the full impact on cars will be felt within two years.

THIS IS WHAT YOU WILL BE PAYING

Taxable Income R	R	Rates of Tax	R
0 — 10 000		12 per cent of each R1	
10 000 — 11 000	1 200 + 14	per cent of the amount over	10 000
11 000 — 12 000	1 340 + 16	per cent of the amount over	11 000
12 000 — 13 000	1 500 + 18	per cent of the amount over	12 000
13 000 — 14 000	1 680 + 20	per cent of the amount over	13 000
14 000 — 15 000	1 880 + 22	per cent of the amount over	14 000
15 000 — 16 000	2 100 + 24	per cent of the amount over	15 000
16 000 — 18 000	2 340 + 26	per cent of the amount over	16 000
18 000 — 20 000	2 860 + 28	per cent of the amount over	18 000
20 000 — 22 000	3 420 + 30	per cent of the amount over	20 000
22 000 — 24 000	4 020 + 32	per cent of the amount over	22 000
24 000 — 26 000	4 660 + 34	per cent of the amount over	24 000
26 000 — 28 000	5 340 + 36	per cent of the amount over	26 000
28 000 — 30 000	6 060 + 38	per cent of the amount over	28 000
30 000 — 32 000	6 820 + 40	per cent of the amount over	30 000
32 000 — 34 000	7 620 + 42	per cent of the amount over	32 000
34 000 — 36 000	8 460 + 43	per cent of the amount over	34 000
36 000 — 38 000	9 320 + 44	per cent of the amount over	36 000
38 000 — 40 000	10 200 + 45	per cent of the amount over	38 000
40 000 — 50 000	11 100 + 46	per cent of the amount over	40 000
50 000 — 60 000	15 700 + 48	per cent of the amount over	50 000
60 000 and over	20 500 + 50	per cent of the amount over	60 000

But income tax payers without either of those perks stand to gain, and gain handsomely for those in the upper income groups.

The level at which the maximum marginal tax rate applies is to be raised from R40 000 to R60 000.

The ripple effects will mean, according to Mr Du Plessis, "a measure of tax relief to virtually all taxpayers".

However, a 5% income tax surcharge is to be introduced from March 1 because otherwise Inland Revenue would lose far more from the tax cuts than it expects to receive from the clamp on fringe benefits.

Looking at the total effects of the new deal, tax officials say that, for example, someone with a taxable income of R30 000 and no perks will pay R581 less in tax next year.

The gain will be R937 on a R50 000 income.

Against that an executive earning R60 000 with a R60 000 housing bond at 4% and a free R30 000 company car will pay a net R1 834 more in tax in 1985-86.

The ultimate aim of the policy is to get rid of fringe benefits by making them all fully taxable.

This clearly means that the State will try to come down hard on all attempts to find new tax-avoiding schemes.

The revised proposals for taxing fringe benefits are a particularly severe blow to those with company cars.

The taxable value of a car will be about three times the amount outlined earlier this year.

A R40 000 luxury vehicle, for instance, will be regarded as worth nearly R1 000 a month to the user against a maximum R60 at present.

The immediate effect of the new plan for taxing the benefit of subsidised bonds is not quite so drastic.

The authorities will treat the difference between actual interest paid on such a bond — 5%, say — and 18% as taxable income.

In 1985-86, though, people with subsidised bonds will be taxed only on 10% of the benefit, rising over seven years to 100%.

MAN OF THE YEAR

You, the taxpayer

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In 1978, little more than 40 000 taxpayers earned above R20 000. This year, the corresponding figure is likely to be well above 500 000, an increase that largely reflects the effects of chronic double-digit inflation. It also means that hundreds of thousands of middle-class South Africans have been pushed up into ever-higher tax brackets, paying more of their earnings in tax.

In 1970, individuals contributed 29% of the total tax cake (income tax plus sales duty), rising to 32% in 1975. Last year, personal tax and gst comprised 46% of total taxes, and the percentage is likely to be even higher this year.

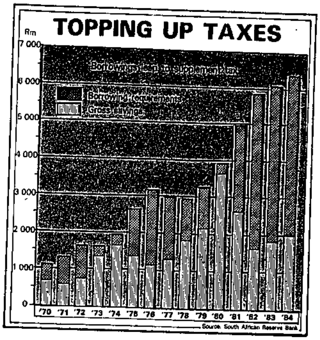
Indeed, in 1984, taxpayers will be surrendering more of their income than ever before to the State. But the heart of the taxpayers' lament can be simply stated as a perception: the taxpayer feels he is paying too much tax.

Increasing burden

And there is a growing feeling that he is not getting his money's worth in return. He is financing a spendthrift Exchequer, and there seems little, if anything, he can do to ease the burden.

Despite its biggest personal tax trophy ever, Pretoria needs record loans to finance its spending: its borrowing requirement has increased from R285m in 1980 to 1984's estimated R6 billion.

South Africans have never paid more in tax than this year. Yet, as a kind of fiscal death of the middle class sets in, the question is increasingly being asked: where are the benefits? People are beginning to say that progressive taxation is a ruse to fund a profligate government and its growing bureaucracy.



As a recent Mercabank *Focus on Key Economic Issues*, "The Tax Burden," notes: "... the burden is shifted onto households along two routes, namely, taxes and borrowing. Household incomes are reduced either directly through the incidence of income tax or indirectly through increases in the cost of living due to rising consumer prices and interest rates on household debts.

"In both cases, the real increase in government expenditures usually leads to a corresponding decrease in real incomes of households."

Most of the extra taxes raised have gone to fund Pretoria's ideological social engineering. Massive cost centres are influx control and its concomitant, resettlement; the policing of the Group Areas Act; homeland development, and the insatiable appetite of decentralisation.

There has been exponential growth in the defence and education budgets, but this can be viewed as unavoidable and something with which the average taxpayer would not quibble. But, by and large, there can be no doubt that today's average SA taxpayer feels done down.

Michael Stein, co-editor of *Silke on SA Income Tax*, says: "The taxpayer is not entirely blameless, as he compliantly coughs up more and more tax without asking questions. Unlike many small groups, he lacks a lobby. The amount of tax paid by individuals this year and its destinations should be enough to start a tax revolt. The taxpayer needs a lobby, and he needs answers. Somebody is needed to start this lobby, if not in Parliament, outside it."

New brain drain

Referring to Finance Minister Barend du Plessis' perks tax announcements 10 days ago, Stein asks: "How much longer will the taxpayer tolerate legislation by press release, planning one thing today which is virtually wiped out, or could be wiped out, tomorrow?"

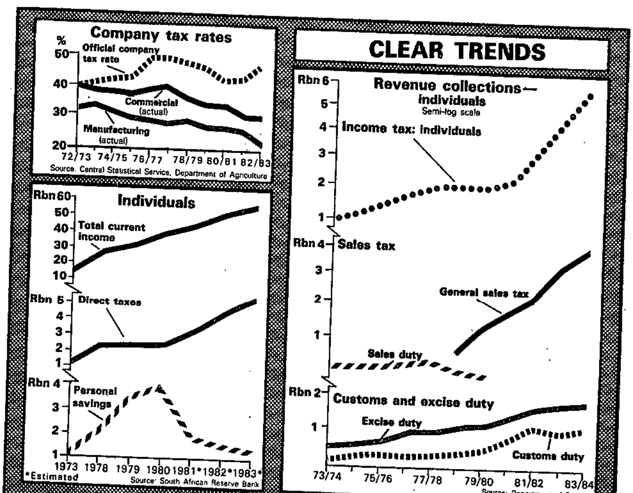
Increasing taxes, added to SA's social and political problems, have led many taxpayers to think more seriously about the future than ever before. It is now more difficult than ever to give credence to Oliver Wendel Holmes's words: "Taxes are what we pay for a civilised society."

Society aside for a moment, what is civilised about the tax system? The newly announced changes in fringe benefits tax will add so to the personal tax burden that many top businessmen, such as SA Breweries' Meyer Kahn and Rennies' Charles Fiddian-Green, have predicted that SA will soon witness a brain-drain.

Talented professionals and executives will be driven away, not by the uncertain political climate — with which they have learned to live — but by punitive levels of taxation. In countries where there is more political stability than SA, the tax burden is lower, a carrot not easy to ignore.

What is Pretoria doing about the taxpayer's perceptions?

A little here, a little there. Thresholds for



december 21 1984

Financial Mail

INTEREST RATES

Sitting on a prime bomb

It was predictable that the prime overdraft rate would have to rise again — as we suggested it would, just over three weeks ago. We remarked at the time that the decline in the rate represented the opportunity cost of the National Party winning the Primrose by-election. Cynical? It hardly seems so now. The about-turn was one of many we have seen this year in the economy, and yet another indication that Pretoria has failed to grasp what is probably the most essential key to prosperity — that of consistency in the application of monetary and fiscal policy. Time and again, intervention in the markets has taken place, policies have been introduced, and tax measures have been proposed and implemented on a seemingly *ad hoc* basis.

Pretoria softened interest rates during 1983. Yet, this year it clouted the economy with a sudden one-off increase in the rates by 3%. Of course, there is nothing wrong with changes in interest rates *per se* — that is very much a function of a free-market economy. But when rates are *administered*, changes reflect the judgment not of the market, but of individuals who, no matter how gifted they may be, can never possess or process the myriad pieces of information flowing through the market.

Then, earlier in the year, after the business community had started to adjust to the 1984 budgetary implementations — after the authorities had announced they did not propose any further increase in gst — government surprised the market with an increase in that tax from 7% to 10%. Our view is that indirect taxes, which tax consumption, are preferable to direct taxes, which tax output. But surprises from government are not good for economic health.

More recently, the perks tax has been nothing but a fiasco in terms of bad timing, lack of analytical information and arbitrary, unexpected changes in the guidelines. Indeed, the process of its development and final outcome have been more damaging to confidence than the measures themselves. The announcement itself was a major example of mis-timing fiscal change.

To add to our problems, gold is plummeting once again towards another record low, the lowest in two-and-a-half years; the rand has halved in value in less than two years; calls for disinvestment are beginning to fall on fertile ground; and there is talk of a brain drain of disillusioned executives and entrepreneurs.

When prime dropped to 23,5% last month, the *FM* (November 23) said: "As yet, there is no evidence of a reduction in money supply growth. The money market shortage still stands at around R1,5 billion, which, in terms of the situation when prime was at its previous low, is extremely high and must be seen as a strong factor in the question of whether interest rates will, or will not, be pushed up yet again."

It is not so much the plight of the rand, the high levels of imports — though the balance is now improving — or the woes of gold that lie at the bottom of the country's problems. What is more to blame is inconsistency in economic policy on the part of government.

It should be government's primary task to provide a favourable medium in which business can function, generating the jobs, income and wealth essential if we are to evolve peacefully.

But, lamentably, policymakers are showing all the signs of assuming the stop-go policies practised in the UK during the Sixties, probably the most debilitating period in that country's history. Instead, Pretoria should realise that a healthy, free business community is nourished by low taxes on the one hand and consistent government policy on the other.

Confidence, always a delicate flower, is wilting today in SA. If it is to be revived, government must commit itself, and be seen to commit itself, to vigorous growth through a confident, thrusting private sector.

As Finance Minister Barend du Plessis said at the recent *FM* Investment Conference, it is SA's business community that sets it apart from the rest of Africa.

THE AIRWAVES

The magic solution

Yet again, the free market proves itself. Radio 702 continues to increase its profit margin and listenership, and neither shows any sign of peaking. In contrast, its immediate market competitor, the SABC's Radio 5, continues a steady slide in the ratings. 702's success, after only four years, is due entirely to its simple readiness to identify a market, and its ability to devise a package that will satisfy the consumers. Aside from any creative stagnation, Radio 5's failure represents a wider SABC tendency to wilfully ignore what people want.

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the top marginal rates have been increased, effectively cutting taxes. But with the new 5% surcharge, top income earners will pay a marginal rate of 52,5%, instead of 50%. Then there have been some illusory spending cutbacks this year, and public-sector salaries have apparently been frozen for the year ahead.

Incentive to dodge

The battle for more taxes is now a tactical guerrilla war between the taxpayer and Inland Revenue. For, as taxes are increased, so the incentive to dodge tax grows. And because of the tax system's intricacies, it is not difficult for taxpayers to reduce their taxes, quite legally, although evasion is growing as well. Official reaction to this state of affairs has been consistently to increase all kinds of taxes.

Pretoria has continually raised taxes against the best advice: evidence that tax cuts do more good than harm is easy to find. It was recently illustrated vividly in Johannesburg by George Gilder, former economic adviser to President Reagan of the US.

Speaking at the annual *FM* Investment Conference, he cited a World Bank study which found that countries with low tax burdens in the Seventies grew six times faster than countries with high tax burdens. And, the low-tax countries raised their government revenues some three times faster. In other words, governments in low-tax countries have more to spend than governments in high-tax countries.

Gilder points out that the US share of world output has risen from one-quarter to one-third in the past nine years. New US business starts have rocketed; venture capital outlays have exploded; world leadership in creation and application of new technologies has been regained.

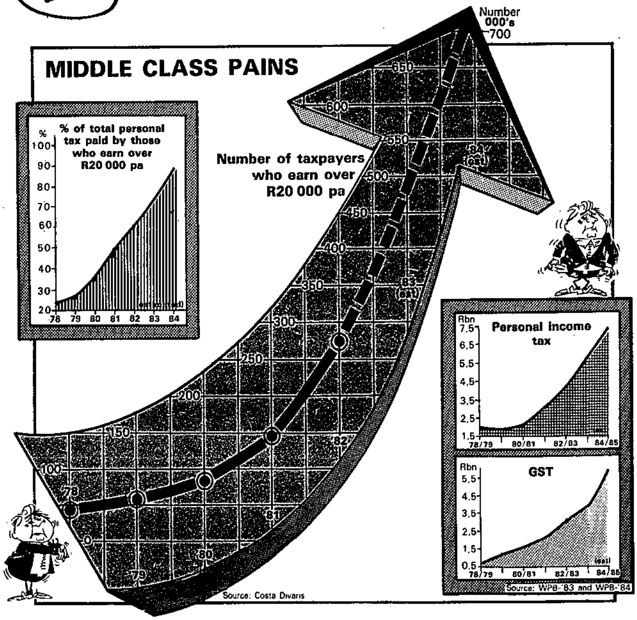
Tax cuts had much to do with all this. They began at state level in California and Massachusetts in 1978, followed by a 40% federal cut in capital gains tax, steep reductions in property tax, and comprehensive tax cuts in 1981.

Meantime, Europe steadily enriched its welfare bureaucracies, raised its tax rates and transfer payments, sent its immigrants home, subsidised its heavy capital, and launched industrial policies for high technology.

High taxes, low growth

Result: since the onset of the Reagan administration, the US has created a net 8m new jobs; Europe has destroyed a net two million, and fell catastrophically behind in the new technologies. Even Japan began a decline in the late Seventies when it raised taxes and enlarged welfare spending, while continuing its restrictive immigration policies.

For, as taxes are cut, the market mechanism, through the invisible hand, goes to work. The less people pay in tax, the more goods and services they ~~can~~ afford. *And, the spending is of their own choice.* With more money at their disposal, taxpayers can save more, allowing business to borrow money at lower rates. What is not saved is spent on items that are bought from the market.



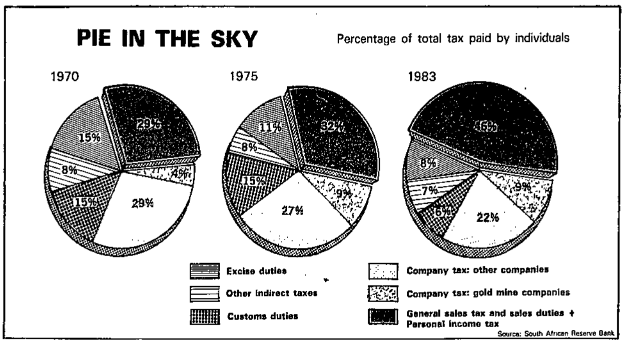
Entrepreneurs seize on the buying signs. They start new ventures, creating employment and activity. What was previously a vacuum is replaced by new taxpayers, and is followed by higher government revenues. This would seem simple to understand.

Instead, Pretoria has deemed it fit to tax the middle classes to the very end of their patience. It, and seemingly it alone, decides where and how the money should be spent. And, unlike the enterprises that would spring up if taxes were cut, and can go bust, Pretoria simply hikes taxes when it runs short of cash.

So the Man of this and many other Years, until Pretoria decides to try a policy which promotes private-sector growth, will be SA's long-suffering taxpayer. And ahead he faces the stress of a sea-change in tax policy that aims at ripping apart in several short years the fabric of a system of remuneration built up over generations.

For the new year, we offer taxpayers the wisdom of Adam Smith for their comfort, and perhaps inspiration, to demand better of our government:

"Every tax ... is to the person who pays it a badge, not of slavery, but of liberty. It denotes that he is subject to government, indeed, but that, as he has some property, he cannot himself be the property of a master."



CAPE TIMES 14/12/84

Separate taxation 'may cause hardship'

Political Staff

THE long-awaited separate taxation for married couples may result in "substantial hardship" rather than tax relief if it is based on tax rates for single people, according to the Progressive Federal Party's Finance spokesman, Mr Harry Schwarz.

Mr Schwarz believed the recent tax structures announced for single people may be "a bit of kite flying" by the authorities to see the reaction from people who interpreted the structures as those that would be applied to separately taxed married couples.

The marginal tax rates for single taxpayers is higher than for married couples.

Mr Schwarz believed one of the first interim reports of the recently appointed commission to investigate the tax system would recommend separate taxation for married couples.

Better off

If his theory was correct, Mr Schwarz said, the consequences of separate taxation had to be examined very carefully because the burden on taxpayers involved could be "very heavy".

If a couple earned less than R18 000 a year they were better off taxed jointly than separately, he said.

Mr Schwarz said the new five percent surcharge on tax was "worrying" because it meant the government had abandoned its commitment not to tax any income at more than 50 percent. The top marginal rate plus the surcharge meant the top tax rate would be 52,5 percent.

He believed the Minister of Finance, Mr Barend Du Plessis, had overestimated the amount he could gain from the new perks tax. The weak economy meant more people would take advantage of the non-taxable perks than ever before.

Mr Schwarz also believed that 1985 would be the year in which fringe benefits would be extended to "all sorts of people" who had never had them before.

Experts warn perks tax dodgers

Star 15/12/84 320

— by —
Michael Chester

Executives and company bosses seeking loopholes in fringe benefit tax to compensate for heavier tax bills have been warned by experts that they are looking for trouble.

The search for loopholes has been intensified by the recent ruling by the Minister of Finance, Mr Barend du Plessis, on stiffer tax penalties on company-subsidised houses and cars from March 1 next year.

But Mr Trevor McGlashan, of a tax consultant firm, cautioned: "Don't look for loopholes ... tax dodging on perks has become almost impossible."

He warned: "Employers trying it on — as they have been for years — face the risk of jail and big cash fines in the courts if they try to get away with this kind of thing."

Under the new rules, employers are held responsible for the tax billed against their employees — for the first time.

"There are huge shocks in store next year for employers who have so far relaxed with an attitude that the tax-free perks on offer to bait executives would never be spotted by the taxman," Mr McGlashan said.

"In future tax evasion offenders could face penalties of a R1 000 fine or two years in jail — or both. And if they do not ensure that the new taxes are stripped off monthly salaries by way of the PAYE system — widely ignored until now — they will be fined 10 percent of every rand involved."

Items the taxman will be watching for are:

- Free family holidays at company coastal or game-ranch cottages: "A popular perk so far. Now the employee will be taxable at the rate of R25 daily a person."
- Taking over the company car in your own name: "You will be taxed the difference between the purchase price and actual market value as assessed by the taxman."
- Credit cards to be charged to the company: "If you collect groceries at the local supermarket, it will now be taxable."
- Separate taxation between husband and wife: "There's been a lobby for it. But with the new marginal rate differentials between married and single persons, it will be a heavier burden than it is now with a unitary tax system."
- Free overseas air tickets for the family.

"The talons are out," says Mr McGashan, "and few employers and employees seem to realise how sharp they have become."

Perks: govt body to investigate EL plea

D. Dispatch 5/12/84 320

EAST LONDON — The city council's appeal to the government to consider the implications for the city of the new fringe benefit tax will be considered by the Margo Commission of Inquiry.

The secretary for the Ministry of Finance, Mr J. Redlinghuys, confirmed yesterday that the council's urgent telex message, sent last Friday, had been referred to the commission, which is looking into the entire South African tax structure.

Mr Redlinghuys said in a telex message to the Daily Dispatch that in view of the Margo Commission's brief, the city council's plea had been referred to it for consideration.

The secretary of the commission, Mr John Hansen, said the brief was to look into the entire tax structure and the council's plea would be taken into account.

The council has expressed its concern that the imposition of the tax on company cars could affect the Car Distributors Assembly plant as well as component manufacturers here.

"The commission will also make recommendations to the minister on specific aspects from time to time and it will be up to him to act on them," he said.

The commission, appointed by the State President, Mr P. W. Botha, last month, is scheduled to submit its report by the end of June next year.

Under the chairmanship of Mr Justice Margo, the commission comprises 20 prominent South Africans. They are, Prof Daniel Franzsen, Mr Oswald Gorven, Dr Johannes de Villiers Graaff, Dr Cornelis Human, Dr Albertus Jacobs, Prof Kathleen Jowell , Mr Michael Katz, Mrs Margaret Lessing, Prof Elias Links, Mr Michiel Loubser, Prof John Morris, Dr Stephanus Naude, Mr Sydney Press, Mr Jakobus Steyn, Mr Mohammed Suliman, Dr Nico van der Hoven, Mr Esias van Tonder and Prof Theodoor van Wyk.

The commission's brief is to recommend a cohesive tax structure at all levels of government with special regard to the special economic development of South Africa and the evolutionary constitutional dispensation and its accompanying structures.

The goals are the optimal attainment of national economic objectives, administrative efficiency and cost effectiveness, equity and neutrality, and the potential use of taxation as a policy instrument towards stablisation of economic activity in both the long and short terms.

The commission has to take into account the financial implications of the constitutional dispensation and the greater devolution of power to local government as well as the impact of taxation on regional development and economic co-operation in Southern Africa, exports and international trade and foreign investment in the country.

Representation to the commission has to be in writing. — DDR.

Local government plan outlined

Business levy tax deductible

RDM 19/12/84

320

Mail Correspondent

CAPE TOWN.

THE LEVIES TO be imposed on businesses to finance the new system of local government will be tax deductible and will not be passed on directly to the consumer, the Minister of Constitutional Development, Mr Chris Heunis, told a Press conference yesterday.

Mr Heunis also revealed that black local authorities will benefit greatly from the proposed new sources of revenue, and will have representation on the regional services council proposed for metropolitan areas.

Yesterday's Cape Town Press conference followed Monday's meeting of the action committee of the Council for the Co-ordination of Local Government at which various recommendations of the Croeser working group were accepted.

Mr Heunis announced that autonomous black authorities would be members of regional councils — bodies for "general" affairs in metropolitan areas — just as elected white, coloured and Indian local authorities would be.

In previous proposals black local authorities were excluded from representation in regional services councils.

The additional sources of revenue will comprise:

- A "regional service levy" based on total salary and wage bills of all employers, including the public sector; and
- A "regional establishment levy" based on the sale of goods subject to GST in the case of traders, and on the basis of floor space occupied by businesses, professions and industries which do not collect GST.

According to the recommendations, taxes payable to the new regional councils will qualify as "a business cost" and will therefore be deductible from taxable profits.

Existing trading licences and all embracing levies (including transport levies) on blacks will be scrapped in the areas affected by the new levies.

According to Mr Heunis, the State will make a "significant" financial contribution to the new system by way of employees' salaries and wages and by forfeiting income tax.

The money the new levies bring in will be used for infrastructure, metropolitan transport projects — including the subsidising of transport, bus and commuter services — and the training of personnel.

It will also provide an additional source of income for all local authorities within the area of a regional services council to ease the burden on property tax and house rentals in the case of black local authorities.

A Bill incorporating the proposals will be introduced to Parliament early in the next session.

New local government system to cost billions of rands

Business levies will hit man in street

STAR 19/12/84.

By Colleen Ryan,
Municipal Reporter

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320.

The Government's planned levies on businesses will help to finance the new local government system, but it will cost billions of rands to implement — and, indirectly, the money will come from the man in the street.

The most important aspects of the announcement yesterday by the Minister of Constitutional Development and Planning, Mr Chris Heunis, were:

- All employers and businesses, including the Government, will pay a service levy based on their total salaries and wages bill.
- Traders whose goods are subject to general sales tax will pay a levy based on a percentage of the tax they collect. Professions and industries which do not collect GST will pay a levy based on floor space.
- Autonomous black local authorities will be granted representation on the proposed new regional councils. This is a major breakthrough because the original plan catered only for white, coloured and Indian representation.

Personnel training

"Consumers will not pay directly, but businessmen will have to recover this money somehow," said Mr Nigel Mandy, chairman of the Central Business District Association.

He welcomed the concession to allow black local authorities representation on regional councils. He also said the two levies were "a vast improvement" on the original tax proposals.

The money will be used to pay for services such as transport, improving the infrastructure in black, coloured and Indian urban areas, and for training personnel.

The announcement by Mr Heunis followed a meeting of the action committee of the Council for the Co-ordination of Local Bodies.

Legislation is being drafted for presentation to Parliament next year to give effect to the levies.

Sapa reports that the existing commercial licence monies and general levies on black employees, including transport levies, will expire.

It has also been recommended that none of the levies be conveyed to the consumer. However, the taxes payable to regional councils will qualify as a business cost and thus will be deductible for income tax purposes.

The new levies could bring in as much as R1 300 million a year, said Mr Heunis.

The proposals were received favourably by the chairman of the Johannesburg City Council's management committee, Mr Francois Oberholzer.

He said developing black areas had had to rely on rentals as the sole source of income till now, and this was a very unreliable source.

Payroll tax

The general manager of the Durban Chamber of Commerce, Mr Ken Hobson, said the chamber was totally opposed to the new taxes.

He said the payroll tax would aggravate unemployment and the regional establishment levy would increase costs — and therefore prices.

The taxes would be costly to administer, he added.

The deputy president of the Association of Chambers of Commerce, Mr Rocky Ridgeway, said it was most important that any new taxation that took money from the consumer should ensure that the money was replaced.

While the devolution of power to the third tier of government was a good thing, care should be taken not to impose a heavy burden on companies struggling to survive the recession.

● See Page 7, World section.

Everyone will pay more for privilege of living in a town

Introduction of new levies will set local authorities plan into motion

STAR 19/12/84 320

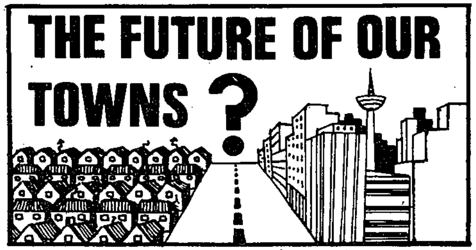
By Colleen Ryan, Municipal Reporter

The new business taxes announced yesterday by the Government will set in motion the complex and controversial new plan for local authorities which has been on the drawing board for more than two years.

The Minister of Constitutional Development and Planning, Mr Chris Heunis, announced two new levies which are expected to raise at least R1,3 billion a year.

The new consitution for local government will affect people in different ways, but there is one common factor — every resident will have to pay more for the privilege of living in a town.

In terms of the new system to be implemented gradually from 1985, each ethnic area will be given autonomy and will be expected to function as a viable entity.



The Government has said it will not force independence where it is not economically feasible, but its long-term policy of separate towns for separate races remains.

There are enormous costs involved in creating new authorities, and a special Government committee recently completed its investigation into raising more money for local authorities.

The two new taxes will help to relieve the financial burden of local authorities, but several analysts believe this will not be enough and have predicted an increase in GST next year.

The Croeser Committee which investigated new sources of revenue for local and regional government originally proposed three company taxes — an employment levy, a trading levy and an investment levy.

The Government decided to drop the investment tax because of the difficulties involved in administering this levy, said Mr Len Dekker, director of the Department of Constitutional Development and Planning.

The employment levy will be based on total salaries and wages paid by all employers, including the Government. The trading levy will be based on the turnover of all businesses that pay GST and on the floor space of professional firms not subject to GST.

Although politicians and local government experts sometimes violently disagree on the new constitution, they are all united on one point — vast sums of money will be needed to upgrade neglected black, coloured and Indian living areas.

"Everybody agrees the non-white population must have more services and somebody must pay for them," said Mr Dekker.

The second step in the new dispensation is the establishment of regional councils. Legislation in the form of the Regional Services Council Bill is likely to be finalised during the next session of Parliament.

In terms of the Bill the regional councils will be made up of coloured, Indian and white authorities and they will take over functions such as overall planning, road building, traffic matters and the supply of water and electricity.

The advantage of this system is that supplying a service on a bulk scale should lead to reduced costs. The system could lead to greater efficiency, particularly in areas such as firefighting and ambulance services.

Initially the Government planned to exclude blacks from the regional councils, but it has now agreed to give autonomous black authorities a say on the decision-making bodies.

Provincial Administrators, with the consent of central Government, will determine the make-up of regional councils. No authority will be allowed more than 50 percent of the vote and a two-thirds majority will be required for any council recommendation to be approved.

In the new system Administrators will act as the link between local authorities and the Minister of Constitutional Development and Planning, Mr Chris Heunis. They will follow his directions with regard to establishing or dissolving local authorities.

Although there is still a great deal of uncertainty regarding the regional councils, it is likely the first regional council in South Africa will be established on the Witwatersrand by the end of 1985.

One aspect of the new system which could be a cause for concern to residents is the issue of secrecy. Ratepayer groups complain bitterly about secret planning in municipal councils, but under the new system they are likely to have access to even less information.

In terms of the Regional Services Council Bill, the meetings of the councils "may be closed to the public". The Johannesburg Metropolitan Action Group — which is the biggest ratepayer group in the city — is worried about this aspect of the new system.

It has recommended to the Government that final approval of regional plans should remain with the full councils of local authorities.

CAPE TIMES 20/12/84

Levy plan opposition mounting

CONCERN mounted yesterday in opposition and business circles that the government's latest proposals for financing local authorities could cause further setbacks to South Africa's ailing economy.

Two of the Progressive Federal Party's most senior finance spokesman criticized some of the moves, and the Associated Chambers of Commerce and the Federated Chamber of Industry expressed concern that the overall tax burden would be unfairly increased.

Additional sources of revenue for local authorities were announced by the Minister of Constitutional Development and Planning, Mr Chris Heunis, in Cape Town on Tuesday.

Rationally

They included a levy on salaries and wages, a levy on GST collected and a levy on floor space occupied by professions and industries not collecting GST.

The PFP's Transvaal leader and finance spokesman in the Transvaal Provincial Council, Mr Douglas Gibson, said in a statement yesterday that the proposals indicated that the Nationalists were unable to think rationally about the economic situation in South Africa.

The party's parliamentary finance spokesman and MP for Yeoville, Mr Harry Schwarz, expressed "serious doubts" about levies based on salaries.

The proposed measures acted as a disincentive in the areas in which it was easiest to create jobs.

"The payment by the public sector of a tax on its own employees merely means the taxpayer must finance this payment, and is really a State subsidy which increases government expenditure," he said.

Mr Gibson said the payroll tax penalized employers and discouraged them from offering employment at a time when unemployment was running high and the indications were that it would increase in the next year or so.

Although employers had been told that the payroll tax would be tax-deductable, it was probable that they would pass it on to consumers, which would have the same affect as an increase in GST, Mr Gibson said.

Offset

The president of Assocom, Mr Michael Weir, said the proposed additional burdens on the private sector were "inopportune and ill-timed in the light of the current economic recession".

Mr Weir, Mr Schwarz and the FCI's president, Mr John Wilson, believed the additional tax proposals should have

To page 2

CAPE TIMES 20/12/84

From page 1

been referred to the Margo Commission on tax structures.

"Assocom is further of the view that any additional forms of taxation should be offset by corresponding reductions in other sources of public sector revenue so as to obviate an overall increase in the tax burden on the community."

Mr Wilson said the FCI acknowledged the need to find a formula to put black community councils especially on a sound financial basis.

"However, the further imposition of taxes on employers comes as another body blow to the economy," he added.

"It is regrettable that the authorities have again moved ahead of the Margo Commission presently investigating the country's tax structure and the overall burden of taxation."

Mr Heunis's announcement that blacks would be included on the proposed regional services councils was welcomed by most political spokesmen and observers yesterday. — Municipal Reporter, Own Correspondent and Sapa

Mercury 20/12/84 (320)

Wage bills in S A to rise by 1 percent

Finance Editor

WAGE bills round the country are to rise by one percent — at least R540m — as a result of the government's plans to levy new taxes for regional development.

But the rise will not come the way of workers — it is to be paid to the new regional development councils which are aimed mainly at developing black areas.

The R1,3 billion proposal, announced by Minister of Constitutional Development Mr Chris Heunis earlier this week, has been criticised by commerce and industry which says it is inflationary and comes at a bad time.

Mr Heunis said the taxes would not be passed on to consumers 'directly' but most organisations faced with this extra cost, plus extra income tax and the effects of fringe benefit tax, will have to recover it somehow.

Floor area

The two taxes — one based on wage and salary bills the other on sales subject to general sales tax or based on the floor areas of companies — will probably be paid like GST every month.

This means companies will have to find the cash every month and at slack times in the year may have to finance this at penal overdraft rates.

Mr Heunis said a one percent wage tax would raise about R600m — an average of about R90 a year for each worker — and the 'turnover' tax of one percent another R700m.

Companies would no longer pay transport levies, which in Durban are R3 per black person a month, and business licences fees would fall away — which would mean a loss of almost R4m to Durban's municipal coffers, an average of R229 per organisation in 1983.

Durban Corporation's wage bill in 1983 was R131m, which means it would pay R1,3m in the new regional levy but because it does not 'sell' anything would be levied on the floor space and could match the wage levy.

A one percent national levy based on GST will bring in at least R580m with the Minister of Finance expecting to collect R5 800m this year from GST.

Mr J R Wilson, president of the Federated Chamber of Industries, said that while the FCI recognised that a formula must be found for the financing of black community councils, it nevertheless viewed with great concern Mr Heunis' announcement 'of yet another body blow to an already hard-pressed economy.

'It is regretted that again the authorities have moved ahead of the Margo Commission into the country's tax structures. It is feared that higher payroll costs in the present poor economic climate could add to the level of unemployment.'

Assocom (the Associated Chambers of Commerce) said it was deeply concerned about the nature of the levies and would have preferred the whole question of local taxation to have been referred to the Margo Commission which was examining the tax structure.

If necessary, bridging financial measures could have been introduced, pending the outcome of the commission's investigations.

Mr Michael Weir, the president, said: 'Although Assocom fully supports the principle of devolution of power and decision-making authority to local and regional government, and recognises that funds are required to finance urgently-needed improvements to infrastructure, local services and urban transportation, the association considers the imposition of additional tax burdens on the private sector to be inopportune and ill-timed in the light of the current economic recession.'

Any additional forms of taxation should be offset by corresponding reductions in other sources of public sector revenue so as to obviate an overall increase in the tax burden on the community.

'The new taxes will inevitably lead to increased costs and higher prices as the business community cannot be expected to fully absorb the levies against already hard-pressed profit margins,' said Mr Weir.

Mr Roland Freakes, executive director of the Natal Chamber of Industries, said the levies would result in economic distortion and inflation.

He said the introduction of the levies represented the final form of three highly controversial taxes proposed by the Croeser working group.

'The one which has been dropped is the investment levy and this is about the only welcome aspect of the announcement by the minister,' he said.

Mr Freakes said the minister's statement of the taxes being deductable as business expenses and not being passed on to the consumer, was not necessarily so. 'The industry concerned will have to bear 47,5 percent of the amount, although it will derive some benefit from the elimination of transport levies,' he said.

Transport

Durban's Chamber of Commerce said through general manager, Mr Ken Hobson, that it was totally opposed to the new taxes but welcomed the scrapping of transport levies and trading licences and the fact that the levies would be considered as business expenses and be deductable from tax.

It points out that the levies will cost commerce and industry a lot to collect and administer and it would have been preferable to have raised general sales tax on a regional basis.

TAXATION - 1986

JAN - JULY

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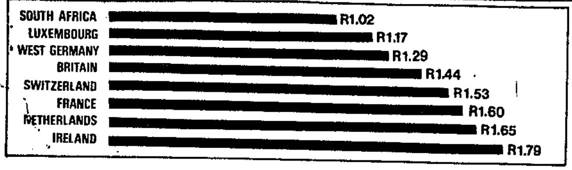

Fuel price in rands 'cheap'

4/1/86 STAR

Staff Reporter and The Star Bureau

The rand price of South African petrol still rates among the cheapest in the world despite the poor exchange rate of the rand against the dollar and major European currencies.

In South Africa the poor exchange rate is the main reason for the recent spate of petrol price increases as all bulk fuel sale transactions are conducted in US dollars. This includes petrol produced locally by Sasol.

In rand terms Ireland has the most expensive petrol in Europe at R1,79 a litre followed by Italy (R1,75), the Netherlands (R1,65), France (R1,60) and Norway (R1,57).

The cheapest petrol in rand terms in Europe is to be found in the socialist state of Yugoslavia where it costs R1,08 a litre.

The prices are for one litre of high grade (four star) petrol and are based on figures supplied by the AA.

● The Department of Mineral and Energy Affairs and the South African Transport Services (SATS) yesterday released the following joint statement to Sapa:

"The recent increase in the fuel price is linked to the following factors:

Transport cost

"(1) The increase in transport cost as determined by SATS and as announced previously on November 26 1985 by the Minister concerned.

"(2) Additional sales tax on the above increase as determined by Treasury.

"(3) An up or down adjustment at the pump with a view to the unavoidable temporary rounding off of the price and where such adjustments flow to or from an effective savings fund (slate) which belongs to the consumer.

● There was an urgent need for an inquiry into the latest fuel price increases and the country now needed a Consumer Affairs Minister, the Progressive Federal Party spokesman on consumer affairs, Mr Harry Schwarz, MP for Yeoville, said yesterday.

4/1/85 STAR

Broker predicts tax cuts, less fiscal control

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The South African economy will be stimulated by tax cuts in March and a further relaxation of Reserve Bank monetary and fiscal controls, forecasts Mr Max Borkum, a leading stockbroker on the Johannesburg Stock Exchange.

Mr Borkum told *The Star* yesterday he was optimistic and expected the present upward trend in the share market over the past six months — where share prices have spiralled to almost twice the inflation rate — to continue.

Although Mr Borkum does not see an easing in the inflationary trend, he predicts a further lowering in the interest rates and a resultant increase in the money supply. "The lower dollar and the drop in US interest rates should improve the income for the gold mines and there should be improved prospects for some industrial companies and improved profits generally on the market," he said.

The overall exchange index rose by 33 percent last year.

● The rand has started 1986 on a firm note and is testing the 40c US mark. The latest rand-dollar rate on the JSE was 39,5c US, the gold price on the London Stock Exchange was $326 and the JSE industrial overall index reached a new high of 1 069,5.

BUS DAY 15/1/86

320

Some success in tax witch-hunt, say authorities

GERALD REILLY

TAX dodgers are being tracked down in increasing numbers, according to figures supplied yesterday by the Directorate of Inland Revenue.

In an intensified tax witch-hunt, the directorate recovered about R330m from tax evaders between October 1984 and December 1985.

Although tax authorities said this figure was a tiny proportion of the total outstanding, they said the crackdown had at least been partly successful.

The department's chief director Schalk Albertyn said in Pretoria yesterday that special audit teams had recovered more than R200m, mostly in unpaid company tax, R115m in general sales tax evasions, and R4m from undistributed profits.

Assessed losses for certain companies were reduced by R127m, which meant the companies would not be able to offset this amount against profits in future tax returns.

Albertyn said about R100m had been recovered in unpaid GST during 1985.

Recoveries currently amounted to about R7m a month.

He said there had been a good response to the warning issued last year by Finance Minister Barend du Plessis that no mercy would be shown to those who failed to "confess their tax sins" by the end of September last year.

More than 3 000 taxpayers had responded.

About 25% of the cases had been dealt with and R4,4m in unpaid income tax and GST recovered, Albertyn said.

Bank rate drops another point to 12 pc

Prospects of tax cuts are rising

STAR 17/1/86.

320

By Trevor Walker, Finance Editor

Tax cuts and new export incentives are becoming increasingly likely in the Budget in March.

Hopes of tax relief are growing as the South African economy goes on the move again in response to several favourable developments:

- The rise in the gold price to more than $350 an ounce.
- The further fall in the bank rate to 12 percent, announced today.
- The continuing rise in the rand-dollar exchange rate. The rand is now worth more than 43 US cents, compared to a low of 34,6 cents last August 27.

But the man in the street may have to wait for the benefits of the upturn to filter to him.

Though the prime overdraft rate charged by banks to their huge company clients has been cut to 15,5 percent from 16,5, the ordinary working man will still be paying well over 20 percent for bank loans.

The maximum legal interest on hire-purchase and loan funds is 32 percent, and banks merely say, when asked what they charge for an overdraft by a small borrower, that it depends on his credit rating.

Because of this high cost of money to the small borrower, there is little prospect that building societies will lower their bond rates in the near future.

The managing director of the Perm, Mr Bob Tucker, said: "We are a long way from any bond rate cut. The cost of our funds has certainly not reduced sufficiently to facilitate a drop in the mortgage rate at this time."

Reserve Bank Governor Dr Gerhard de Kock has said in a statement: "It remains official policy to encourage investment and consumer spending with a view to utilising the existing surplus capacity and raising production, employment and the rate of real economic growth."

He said this was why he had decided to push interest rates even lower.

Gold traded close to $380 in Europe yesterday, but quietened later in New York, where the price settled just below $360.

This level was maintained in Hong Kong this morning.

The rand has moved up to around 43,5 US cents, and the South African stock market has been extremely active.

Dr De Kock said the surplus on the current account — the net profit the country made abroad last year — was in excess of R6 000 million, and a large surplus is expected again this year.

But economists warned today that the bullion market was very volatile, and the price could fall back just as quickly as it had risen.

w/k Argus 18/1/86

It's a record

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TOM HOOD
Financial Staff

A RECORD tax haul from South African gold mines will go a long way towards paying for rising Government spending and might even lead to tax cuts for individual taxpayers.

An analysis of 25 gold-mining companies this week showed they paid about R800-million in tax in the December quarter, an increase of R214-million or 36 percent on the R585-million they paid in the September quarter.

Earnings of gold mines rocketed because of the low rand exchange rate and the rising gold price.

Several mines could have achieved even higher profits but they were locked into forward contracts which prevented them reaping the full benefit of rising gold prices.

Profits are certain to go even higher in the first three months of this year if the gold price maintains present levels — the highest for 18 months — estimates a mining analyst.

Tax paid could exceed R3 600-million for the 12 months ending March 31, which is well above the R2 350-million paid in the 1984 tax year and would amount to a leap of more than 50 percent.

The 25 mines disclosed their results for the December quarter this week and reported soaring profits, a switch to lower grades of ore to extend the lives of the mines and higher spending on development to cash in on tax allowances.

The gold price jumped from R327,10 an ounce on Monday morning to hit R374 in Zurich on Thursday. But profit-taking after the sudden surge lowered the price to R353 at the London close last night — a week's gain of almost R26.

Evelyn Arroyo

Beauty queen adds her assets to election race

Weekend Argus
Foreign Service

NEW YORK. — A former New Jersey beauty queen is putting a little eye-popping pizazz into a local school board race.

The racy candidate, Miss Evelyn Arroyo, wanted people to sit up and take notice of her not unattractive features so that she could win a seat in school board elections.

So the shapely 21-year-old decided to bare her assets in a series of eye-catching advertisements in which she features prominently in a see-through negligee.

Her knock-'em dead approach has done just that. Her office phone hasn't stopped ringing since the first ad appeared.

"The professional politicians were ignoring me," said Miss Arroyo, who lives in a flat with her mother, two sisters and her one-year-old daughter, Nadia Eve.

"I'm a single mother, and I've never run for public office before," she says.

So she and her staff sat down to decide how best to spend the modest $500 they had collected to run her campaign. The result was the most talked-about advertisement so far published in her local newspaper.

"My looks opened the door, but my mind will have to win me the election," the daring candidate declared.

w/k Argus 18/1/86

PFP call for tax reductions

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FRANS ESTERHUYSE
Political Staff

AN Opposition finance spokesman has called for tax reductions following the rise in the gold price and other favourable economic trends.

Mr Ken Andrew, Progressive Federal Party MP for Gardens, said in an interview tax relief was urgently needed.

"The considerable increase in profits of the gold mines will provide the Government with a wonderful opportunity to bring about substantial reductions in individual taxation," he added.

"South Africans are being made to pay personal income tax at undesirably high rates. This burden is in addition to having to cope with rampant inflation and the effects of an economic recession."

Last thing

Tax relief would also help to stimulate economic growth.

"The last thing we need is for the Government once again to squander increased revenue on extravagant and unwanted ideological schemes.

"What is of paramount importance, however, is that the Government make the necessary political changes without delay," Mr Andrew said.

The Deputy Minister of Finance, Mr Kent Durr, has cautioned South Africa not to be led astray by the gold price.

Reform

Certain fundamentals of the economy still had to be given attention, especially with regard to privatisation, de-regularisation, combating inflation and sorting out priorities.

There was also the need to proceed with political reform, he said.

L/ARGUS 18/1/86

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It's a record

TOM HOOD
Financial Staff

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The taxpayer is being hit for six

BUS DAY 20/1/86 (320)

Business Day **investigations have revealed that government has promised special tax deductions to the sponsors of the rebel Australian cricket tour, even though the necessary legislation has not yet been before Parliament. Staff reporter CHERILYN IRETON looks at previous tax concessions for sponsorships, the current system and the proposed new deal . . .**

Investigation by CHERILYN IRETON

□ PAUL WINSLOW

□ JOE PAMENSKY

□ TERRY McLINTOCK

□ DENNIS MAISTER

THE REINTODUCTION of major tax concessions to sports sponsors — only two years after similar allowances were abolished — has drawn strong comment from tax experts and politicians. They say the move is further proof of how the National Party is using the tax system for political ends.

Tax consultant Costa Divaris — "angered and flabbergasted" — said government was not acting as a sober, responsible or just administration.

"The idea of the tax system is that it should have equal application for all. It should not be used for personal or political gain."

Divaris slammed government for not publicising the decision and for promising the deductions to favoured sports bodies only.

PFP spokesman Brian Goodall said he was not surprised. "This shows government's warped sense of values: while reducing allowances for training and adding GST to books, it is giving additional rebates for sport. Those priorities are certainly not aimed at improving productivity."

He warned that individuals would end up paying for the erosion of the tax base by allowances and rebates.

Goodall said the action indicated not only contempt for parliament but also made a mockery of the Margo Commission. "Why introduce tax changes when you are awaiting recommendations on the entire tax question?"

Sponsors, however, will be delighted at any new concessions, said SA Sports Sponsors Association chairman Paul Winslow. "This is going to bring untold benefits to sport. Hopefully, companies looking at promotional strategies will once again bear sponsorship in mind," he said.

SA Cricket Union vice-president Joe Pamensky would not be drawn on the political aspects of the new ruling. "However, if the rebate is to be applied as suggested, then I am thrilled.

"We voiced our extreme displeasure when the Act was amended without consultation. This appears to be the reinstatement of a concession which should never have been removed," said Pamensky.

He added that it is right and proper that SA sport should be in a position to continue to pursue a programme of international competition.

He added that cricket sponsors would avail themselves to whatever concessions were available to them in the Tax Act.

Sponsor of the four-day cricket internationals — National Panasonic — is still waiting confirmation of the tax rebates. However, MD Terry McLintock said any help to sponsors is welcome.

"The value of the sponsorship will obviously change because of the concessions, but not all sponsorships are dependent on tax deals."

To make use of the rebates, McLintock said companies would have to be operating profitably.

Yellow Pages MD Dennis Maister refused to comment.

THE OLD SYSTEM — PRIOR TO 1984

UNTIL A sudden change in legislation in January, 1984, companies sponsoring an international sporting event could expect a tax rebate of 92,4% of all sponsorship-linked costs.

The double rebate stemmed from two main deductions:

□ 100% deduction of the total sponsorship package as a normal business expense; and

□ An additional 100% deduction of all related costs as an exporter's marketing allowance.

At that time, company tax was running at 46,2%, so those who qualified for the 200% deduction would get a tax rebate of 92,4%.

However, government claimed that the loosely-worded legislation was being abused and so — without informing sports administrators — closed the loophole by changing the marketing allowance in January, 1984.

THE PRESENT SYSTEM

UNDER existing legislation, companies may still claim a 100% deduction of final sponsorship outlay as normal business expenses. Once taxed, this gives an effective 50% rebate.

However, if the sponsored event takes place outside SA — in an "export country" — the company will qualify for an additional rebate.

The extra rebate falls under an "exporter's marketing allowance" and allows a further deduction of 75% or 100% of total sponsorship expenses.

So although the double rebate was removed, companies with export links can still qualify for deductions of 175% or 200% — giving rebates of 87,5% or 100%.

THE PROPOSED SYSTEM

THE NEW system — to be introduced in this year's parliamentary session and arising from an "executive decision" taken at Cabinet level — will allow a maximum tax rebate of 90% of all expenses linked to funding, promoting and marketing an "approved" sporting event.

The rebate will also be granted for sport and educational expenses approved by the Minister of National Education and the Minister of Finance. It will comprise of two deductions, which together will not exceed 180% of total expendature.

In addition to the normal 100% deduction for business expenses, a still-to-be finalised marketing allowance of 75% or 80% will be granted. Official thinking is that the final rebate should not be more than the 92,4% granted up to January, 1984.

The tax man will also allow deductions for advertising and promotion of the sponsored event — provided this figure does not exceed the amount put up as sponsorship.

held for the debts it factored were in turn divorced in 1981.

$0,9 rise to $0,3435 for the trading week.

Few tax-relief measures expected

STAR (320) BUS DAY 20/1/86

DAVID FURLONGER
Industrial Editor

TOP industrialists are pessimistic on prospects for significant tax relief this year. They say that, although industry is in sore need of respite, they see little prospect of direct government encouragement.

In view of the rand's continuing weakness, Anglovaal Industries' MD Jan Robbertze wants Finance Minister Barend du Plessis to reduce company tax.

"The cost of capital replacement, particularly with the imported component, is huge with a $0,40c rand. You have to pay double what you paid originally. To finance that replacement, you must retain earnings — but with company tax now at 50%, that's an enormous take.

"It was 42% when the rand was 100 US cents or even 110c. Compare that, and companies are going to be in a very major squeeze."

He admits, however, that the chances of Du Plessis' Budget package containing such a concession are remote.

"What I would like him to do and what he will do are very different. Expecting a cut in the tax rate is a bit optimistic."

Barlow Rand MD Warren Clewlow says that, faced with inflation and high taxation, companies' cash flows are inadequate to provide capital for expansion and job-creation.

"The economy would benefit tremendously if high taxation could be alleviated," says Clewlow, but he warns that Du Plessis is limited in what he can offer industry, considering the other demands on his funds.

However, both Clewlow and Anglo American executive director Les Boyd believe government should look again at implementation of fringe-benefits taxation, particularly in view of its impact on the motor industry.

Fringe-benefits tax on company cars is being phased in over five years, and Boyd wants Du Plessis to delay implementing any increases this year.

"I hope he will put it on hold for another year at present levels. The tax has hit the motor industry very badly.

"A lot of jobs were lost in the motor industry last year, many of them forever. By the time the present rationalisation in the industry is complete, there will probably be fewer than 50% of the assembly workers there were in the peak years of the early 1980s," Boyd warns.

PRICE MOVES AT A GLANCE

REUTERS

KEY MARKET MOVEMENTS — JANUARY 18 to JANUARY 17

BUS DAY 320 22/1/86

Sport tax relief 'slap in face' for blacks

THE announcement of fat tax concessions to sporting bodies was a massive slap in the face for blacks and, if government did not grant similar concessions to companies that provided staff housing, a boycott of the sporting bodies would be considered, Inkatha said yesterday.

"The thought that taxpayers' money should be spent on sport, in return for dubious public relations benefit, is flabbergasting," the Inkatha finance and economic affairs committee said yesterday.

"If government grants tax concessions to sport, and not to companies providing housing for their staff, then we will recommend to the central committee, and other black organisations, to investigate the possibility of boycotting products of beneficiaries of such concessions," it added.

The committee said 90% tax concessions should be granted to companies willing to provide infrastructure in black areas.

"With the extent of the housing backlog such concessions, if enacted in the forthcoming session of Parliament, would go a long way towards creating a climate of goodwill."

No amount of money could buy normal sport in SA, the Azanian People's Organisation said in response to reports that companies sponsoring the Australian rebel cricket tour might get tax relief.

An Azapo statement said the admission by SA Cricket Union official Joe Pamensky, that government had promised tax rebates to the sponsors, showed the "true .... character of sporting links" with this country.

"Just as we warned the sponsoring companies of the abandoned Kiwi rugby tour of 1985 about the possible backlash from black consumers for their collusion with rebel tours, we equally wish to warn the sponsors of the current cricket tour that no amount of money can purchase normal sport for South Africa."

The statement was released by Azapo's projects co-ordinator, Zinthulele Cindi. — Sapa.

defend their share of the world market ... received last month to

FOCUS ON UNEMPLOYMENT.

BUSDAY 24/1/86

(320)

Job creation making headway in Gazankulu

CLAIRE PICKARD-CAMBRIDGE

GAZANKULU has been described by its officials as one of the few national states able to launch job-creation projects successfully.

An extensive two-day Press tour of a variety of these projects has provided substantial evidence to support their claim.

Most of the 350 settlements in Gazankulu reportedly selected their own self-help projects and implemented them with official assistance.

This followed the Gazankulu government's receipt of R7,5m from South Africa during 1985/86 for creating job opportunities.

Homeland states are regularly accused of absorbing large sums of SA money and providing little proof that it is well-utilised.

Some were therefore critical of Gazankulu's decision to spend R3 000 from the employment-creation fund on a Press tour.

The attitude of tour organisers was that SA taxpayers were seldom provided with evidence of how money was spent and that outside reports could lead to more funds for the projects.

Projects seen included the building of dams, classrooms and dipping tanks, health clinics, rural sanitation facilities, donga reclamation, road clearance, fencing, firebreaks, sports facilities, brick-making, community gardening, training centres and poultry-farming.

Ponds have been constructed as pilot studies for integrated projects which will involve fish harvesting, the sale of duck meat and the use of pond water and duck manure for the cultivation of vegetables.

The Shangaan/Tsonga Development Corporation is co-ordinating the new programme, which now employs 8 000 people (2,5% of Gazankulu's potentially economically active population).

Govt battles joblessness

GERALD REILLY

GREAT progress had been made under government's R600m plan to curb rising unemployment, Manpower Minister Pietie du Plessis told Pretoria businessmen yesterday.

Unemployment figures had risen from 730 693 in January last year to 125 325 at the end of November and these figures did not reflect the many people who had not registered, he said.

Du Plessis said it was not primarily government's task to provide jobs, but that of the private sector.

Before March 1, the Manpower Department had concluded 150 contracts with private organisations for the training of 171 000 unemployed.

A further 64 000 jobless would be trained by other organisations.

"It appears that as many as 250 000 workless will benefit from the training programmes," Du Plessis said.

Of the 75 000 people trained under unemployment programmes, more than 25% had found work.

Du Plessis said he was confident a large percentage of the others would also find employment within a reasonable period.

His department had approved 225 private-sector projects which would provide work for 15 000 unemployed people, the minister said.

'GST likely to be 14pc in next Budget'

Mercury 28/1/86. (320)

Finance Editor

GENERAL sales tax is likely to be lifted to 14 percent in the next Budget, the editors of Juta's Taxgram predict, indicating a tax rise of nearly 17 percent.

They say that total Government revenue should rise 20 percent from the present R28,3 billion to R34 billion.

Full details will be in the Budget expected to be announced in mid-March.

The 1986 tax collections are predicted as (with the 1985 targets in brackets): individuals R9,6 billion (R9 billion); non-mining companies R4,2 billion (same); gold-mining companies R2,9 billion (R1,9 billion); all other sources R5,9 billion (R4,9 billion); GST R11,4 billion (R8,3 billion.

Forecasts

Their predictions are based on:

- Government will not or, more probably, cannot control its spending. It certainly cannot cut it in real terms.
- It has the deep-seated desire and the capability to keep its deficit before borrowing to three percent (of gross domestic product) and the tax-paying population will support a budget based upon such a deficit.
- Local borrowing or raids mounted upon as yet untapped private sector stores of wealth will be sufficient to make up any shortfall in foreign borrowings.
- Some show will be made of "solving" the problem of the taxation of married working couples. The cost could be between R400m and R600m.
- If any further show of 'cutting' taxes will be made, other than the already announced dropping of the surcharge, which cost R500m, it will be very restricted, say of the order of R250m.
- Any shortfall will be made up through an increase in the rate of GST (now 12 percent)

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Govt 'can't control its spending'

GST could hit 14% — Divaris

BUS DAY. 28/1/86.

Business Day Reporter

GENERAL sales tax could rise to 14% in the next Budget, says tax consultant Costa Divaris.

In the latest *Juta Taxgram* he predicts that tax receipts from the 1986 Budget will, in round figures, be: individuals R9,6bn (28%), non-mining companies R4,2bn (12%), gold-mining companies R2,9bn (8%), other sources R5,9bn (17%); GST R11,4bn (34%), giving a total of R34bn.

The necessary increase in the rate of GST will probably be two percentage points to 14%.

He says: "We believe that the budgeted revenue collections for this year have been self-evident for some months already. To put it another way, the revenue side of the 1986 budget has written itself.

"We base our predictions on the following assumptions:

☐ Government wil' not, or more probably cannot, control its spending. It certainly cannot cut it in real terms;

☐ It has the deep-seated desire to keep its deficit before borrowing to 3%, and the taxpaying population will support a budget based on such a deficit;

☐ Local borrowings, or raids mounted upon as yet untapped private sector stores of wealth, will be sufficient to make up any shortfall in borrowings;

☐ Some show will be made of solving the problem of married working couples. The cost could be between R400m and R600m;

☐ If a further show of cutting taxes is be made, other than the already-announced dropping of the surcharge, which cost R500m, it will be very restricted, about R250m;

☐ Any shortfall will be made up through an increase in sales tax.

BUS DAY. 5 - 29/1/86 (320)

Tax-dodge finders paid a bonus

THE Department of Inland Revenue has confirmed that bonuses are paid to professionally-qualified staff who ferret out tax-dodgers and collect back taxes.

This is despite previous denials from the department that it was "tax farming".

Commissioner of Inland Revenue Carl Schweppenhauser told *Business Day* bonuses were given for "work done", which is measured by a variety of factors including man-hours and productivity.

Straight commissions directly related to the amount of tax collected were not paid, he said.

The news has drawn sharp criticism from tax experts.

Business Day Reporter

Inland Revenue special audit teams have recovered R330m in unpaid taxes in the 15 months since they were established in October, 1984.

By October last year, the breakdown revealed that R171m in unpaid income tax was collected, R70m in unpaid GST, R12m in tax fiddles and R2,5m in undistributed profits tax.

Institute of Chartered Accountants president Leon Bartel said: "No-one in the private sector can be against the principle of public sector employees being rewarded for performance.

"However, if the application of such bonuses leads to the disturbance of what would normally be considered to be fair practice, then that would be a cause for concern.

"The institute has been assured that discretion will be exercised only by senior officials of the department."

Tax consultant Costa Divaris was anxious about the consequences of the policy: "There is unlimited scope for abuse," he said.

Trevor McGlashan, of Deloites, Haskins and Sills, believed that the scheme could not be condemned out of hand: "Bonuses are an acceptable practice in the private sector and I would like to see the public service run more on business lines".

● See Comment, Page 6

Taxman denies 'ferret' bonuses

BUS DAY 30/1/86

320

THE Department of Inland Revenue denies that officials are paid bonuses to ferret out tax-dodgers and collect back taxes, as reported in *Business Day* yesterday, but says there is a production-incentive bonus scheme at the Johannesburg tax office, the largest tax region.

Under this scheme "all officers under a certain rank qualify for a bonus".

The scheme is designed not only to raise productivity but "assist in the recruitment of the required class of employee".

There is no room for abuse because "there is no element in the scheme which could possibly provide any officer with an incentive to attempt to assess a penny more than is due under the taxation laws administered by inland revenue.

"The scheme is not based in any way on individual achievements, but on the total physical output of work done in the office. This means the bonus is not, and never has been, related in any way to the amount of tax assessed or collected by any individual or group of individuals".

Inland Revenue spokesman Clive Kingon says the department considers tax-farming "utterly repugnant".

Business Day's report was based on a discussion with Commissioner for Inland Revenue Carl Schweppenhauser who confirmed that a bonus scheme was in operation. He at no time indicated that it was confined only to the Johannesburg region.

He said the bonuses were given to departmental units for "work done", which included productivity, hours worked and the amount of tax collected.

Taxation knocks FS gold mines

Cape Times 30/1/86

(320)

JOHANNESBURG. — The beneficial effects of the higher average rand gold price of R27 119 a kg achieved by the Free State mines, administered by Anglo American Corporation, were reduced by substantially higher taxation and State's share of profit of R391,7m (R304,6m).

This rise was partially attributable to lower capital expenditure of R114,4m (R162,9m).

Production

The shorter quarter also resulted in lower production figures for the quarter.

Area mined dropped to 972 000 m² (994 000 m²) and tonnage milled declined by 146 000 tons to 516 6000 tons.

Consequently gold production fell by 1 297 kg to 27 157 kg.

Total costs rose by R6,1m to R388,1m and unit costs were generally higher.

The average cost in rand per ton milled rose 6,4c to R77,71 a ton milled.

The higher rand gold price has resulted in Free State Geduld recording a 20,4 percent increase in pre-taxed profit to R83,6m.

Lower capital expenditure, down to R10,6m (R32,7m), led to an increase in the provision for taxation and State's share of profit to R45,1m (R21,4m), a 110 percent increase.

This resulted in a decline in profit after tax of R9,4m to R38,5m.

Gold production declined by 9,5 percent to 6 525 kg.

This was a result of a slight decrease in grade to 5,55 g/t (5,91 g/t) and a 9,7 percent decline in area mined to 249 000 m².

Tons milled at 1 176 000 were down by 3,6 percent, while unit costs rose to R86,8 a ton milled, a 4,9 percent increase.

President Brand's profit before tax at R89,2m rose by 16,2 percent. This was largely attributable to the higher rand gold price.

However, the rise in provision for taxation and State's share of profit to R21,2m (R1,8m) saw a 9,1 percent decrease in profit after taxation to R67,9m.

The previous quarter included a R8m tax-free dividend from Welkom.

Capex

Capital expenditure dropped by R6,7m.

Production results were generally lower this quarter with tons milled decreasing by 27 000 to 852 000 tons.

However, this was offset somewhat by an increase in grade to 6,32 g/t (6,21 g/t).

Area mined declined by 4 000 m².

Gold production at 5 386 kg showed a decline of 1,3 percent due largely to the shorter production quarter.

Unit costs rose by seven percent to R78,65 a ton milled.

The high rand price of gold produced a 37,1 percent increase in President Steyn's pre-tax profits to R88,4m.

However, a higher provision for taxation and State's share of profits of R48,4m contained the after-tax profit to a 17 percent increase on the previous quarter to R40m.

Capital expenditure decreased to R12,1m (R18,1m).

Production results showed a slight decline with tons milled down by 3,7 percent to 973 000 tons.

There was a slight rise in grade to 5,85 g/t (5,6 g/t) and this helped maintain gold production at 5 690 kg, an eight percent decline on the previous quarter.

Costs

Unit costs rose by R4,95 to R80,29 a ton milled.

Western Holdings profit before taxation rose a massive 38,8 percent but a higher provision for taxation and State's share of profit of R52,1m (R12,1m) resulted in a 4,1 percent decline in after-tax profit to R78,2m (R81,6m).

There was a decline in production largely due to the shorter production quarter and this saw a 1,6 percent drop in tons milled to 2 165 000 tons.

Grade declined to 4,41 g/t (4,56 g/t) and these factors contributed to the 4,8 percent drop in gold production to 9 556 kg.

Unit costs were contained at R65,09 a ton milled (R63,70 a ton milled), a two percent increase.

Capital expenditure dropped to R41,2m (R54,9m).

Slimes

Joint Metallurgical Schemes' profit decreased slightly. This was partially caused by the shorter production quarter.

Profit at R20,9m was down by two percent on the previous quarter.

Slimes treated were down 6,4 percent to 1 153 000 tons resulting in a lower gold production of 785 kg (835 kg).

Uranium oxide production was reduced by 10,7 percent to 140 710 kg. However, acid production rose to 88 726 tons (88 227 tons). — Sapa

Mrs Niki Basson has returned as public relations office to the Heerengracht Hotel in Cape Town after a 12-month stay in the United States.

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Haynes.

Rand steady at $0,4365

JOHANNESBURG. — The rand closed steady at $0,4360/70 after a quiet and uneventful trading day, slightly up from a sharply lower $0,4343/53 close here on Tuesday, mainly due to a weaker dollar and a steady gold price, dealers said.

It opened trading at $0,4350/60 in fairly nervous conditions in reaction to its steep decline on Tuesday amid strong dollar demand, but failed to recover further in steady two-way trading.

The financial rand closed slightly lower at $0,3275/3325 against $0.3300/50 close on Tuesday.

Against other major currencies, the rand closed at:

US: 04360/70
UK: 3,2060/0400
Germany: 1,0400/20
Switzerland: 0,8790/8810
Netherlands: 1,1750/80
France: 3,1905/55
Japan: 84,40/60.

— Reuter

Iscor's steel exports up 50%

Cape Times 30/1/86

Own Correspondent

PRETORIA. — Domestic sales of steel slumped last year but there was some hope of a recovery in the second half of 1986, Iscors' senior general manager, marketing, Mr Nols Olivier, said yesterday.

However, export steel sales increased by more than 50 percent and the corporations allround perfromance last year was "excellent".

Domestic sales dropped by 414 871 tons to 2 929 729 tons compared with 1984.

This was the obvious consequence of an economy still caught up in recession, and the resulting slack demand.

However, the gentle stimulatory policies now being followed gave some hope of a recovery in domestic demand.

If there was one, Mr Olivier stressed, it would not be before the second half of 1986.

Export steel sale rose sharply by 936 229 tons to 2 426 722 tons.

There were indications that the dollar price was hardening, and for certain products, prices had already increased by from five to ten dollars a ton.

"Production volumes are being maintained and we believe the outlook for the whole of 1986 is promising.

"Mr Olivier said all three plants were working to capacity with full employemnt.

No lay offs had been necessary in 1985.

Frasers boosts turnover

JOHANNESBURG. — Fraser turnover reached a record level in the first three months of its financial year, being some 27 percent up on the same period the previous year.

The Smart Centre Credit Clothing division performed particularly well in the first three months with a turnover increase of 166 percent, with the aid of the newly acquired Top Centre clothing chain.

The chairman, Mr Donald Campbell, predicts that turnover for this year is likely to top 1985.

Frasers furniture division has made a remarkable recovery since hire-purchase restrictions were lifted last year. — Sapa

...ATIONAL BANK LIMITED

...p results and dividend announcement

...for the year ended December 31, 1985 which are set out below

	1985	1984
	3 267 916	2 710 636
	(2 929 350)	(2 507 776)
	338 566	202 860
	(157 318)	(87 106)
	181 248	115 754
	(94 643)	(38 876)
	86 605	76 878
	17 052	9 905
	103 657	86 783
	(13 041)	–
	–	(15 349)
	90 616	71 434
	(60 925)	(55 124)
	29 691	16 310
	72 531	58 025
	61 363	57 227
	R 913,0m	638,1m
	R18 704,3m	16 669,4m
	R16 908,4m	15 276,6m
	R15 068,1m	13 706,1m
...es in issue		
...s	168,9c	151,6c

Reject these councils, says economist

'Punitive' new taxes slammed

3/1/86 (320) Mercury

Political Reporter

CONSUMERS as well as black, coloured and Indian workers are likely to bear the brunt of new taxes proposed by the Government to finance the regional services councils.

Wits University economist David Solomon has condemned the proposed new payroll and turnover taxes as unfair and inefficient and has called on cities to reject the taxes and the councils 'in their own interests'.

Writing in a special Indicator S A publication on the RSCs, Mr Solomon said the taxes would discourage urban development.

Referring to the taxes as 'punitive', he said they represented a change in emphasis from rural incentives to urban disincentives in the Government's attempts to implement its decentralisation policies.

Mr Solomon said the proportion of turnover tax paid by different businesses would vary according to the relationship between turnover and profit.

'The motor industry, which has possibly the lowest profit-to-turnover ratio of all South African industry, will pay as much as four times as great a proportion of tax as it earns in profits,' he said.

'A tax rate as low as 2 percent could entirely wipe out motor industry profits.'

The turnover tax would also discourage efficient production.

'Firms which achieve cost reductions through economies of scale and pass them on to consumers through lower markups, such as supermarkets, will be heavily penalised.

'Less efficient firms, with high mark-up and low turnover, will be taxed more lightly.'

And although collected by the employer, the burden of the payroll tax would in the final analysis fall entirely on the worker.

'In fact, the amount paid by the worker may be even larger than the proportion deducted from his wage, as the producer is able to pass some of the tax on to the consumer.'

The taxes were unfair because the amount paid was unrelated to the benefit received or to the ability to pay.

● See Editorial Opinion

Consumers reject new tax system

STAR 3/2/86

320

The South African National Consumer Union is backing Mrs Margaret Lessing in her efforts to prevent a recommendation for a change from GST to value added tax (VAT).

She said the Margo Commission, on which she serves, is at "final discussion stage" on the issue and she asked a union meeting at the weekend whether she should "stick out for GST".

"With GST we know the price and what we are paying in tax," she said. "It is simple and the consumer understands it.

"GST is a convenient form of tax. The Department of Inland Revenue would like it to remain but people are querying and grumbling about it because GST is high."

Mrs Lessing said with VAT the consumer paid without knowing exactly what was tax and what was not.

Levies loom to boost State funds

CHRIS CAIRNCROSS

GOVERNMENT is intent on boosting its revenues by levying a user-charge on all services provided by the public sector.

Toll roads are the first step in this direction and government intends to spread the application as wide as possible — including, for example, services provided by the Board of Trade and Industries (BTI).

Government spokesmen have been floating this concept for some time — with an extremely negative reaction from commerce and industry.

Government's determination to press ahead with this form of revenue-gathering was reaffirmed yesterday by Deputy Minister of Finance and Trade, Kent Durr.

Delivering the keynote address at the Frankel Kruger investment conference in Johannesburg, Durr proposed that the public debt — now reaching ever-increasing levels — could be reduced by imposing a user-charge to fund the various economic services provided by the state.

He suggested this concept was reconcilable with the pressing need for a less inequitable distribution of income and services between population groups.

Durr added that finances of the local authorities were being rationalised towards this end.

Durr reaffirmed government's determination to press ahead with the privatisation of the public sector.

But he warned that the "pronounced" tendency for concentrations to occur within the economy could impede progress in this area.

Durr stressed that competition policy would, therefore, be a major element in evaluating areas for potential privatisation and future ownership.

He believed the processes of privatisation and user-cost charging would go far to free the Treasury from some demands, thus releasing funds to be diverted into vital socio-economic fields.

● See Page 15

Fuel to be levied from May 1

BUS DAY 6/2/85

Govt unveils new-look third party

320

CHRIS CAIRNCROSS and LESLEY LAMBERT

THE current system of third party insurance will be replaced by a levy on fuel with effect from May 1, Transport Minister Hendrik Schoeman announced yesterday.

The move, which follows months of debate between government officials and the insurance industry, was welcomed by some, including Opposition spokesman on Transport Affairs and MP for Port Elizabeth Central, John Malcomess — provided it did not lead to a further increase in the petrol price.

Although it was not yet clear whether the levy would be added to or absorbed in the current petrol price, Schoeman gave an assurance that it would not be used by government as a means for raising additional revenue.

According to oil industry sources, the strengthening of the exchange rate of the rand, accompanied by the declining dollar price of oil, provided good reasons for reducing the petrol price.

Legislation was urgently being drafted to give effect to the fuel levy, Schoeman said in a statement.

Commenting on the announcement, Malcomess said he had no objection to the move, provided it was not accompanied by an increase in the price of fuel.

He said he would "object strongly" if there was an increase as the price of petrol was based on a rand/dollar ex-

● To Page 2

UK water firms to be privatised

THE UK government has unveiled plans to sell off England's and Wales' water companies, in the biggest and most controversial step so far in its drive to put State-owned industries in private ownership.

The first of the 10 water authorities could go on the stock market by 1988, in a project which could earn government more than £6bn.

The plan, even bigger than the proposed £5bn sale of the national gas industry, was outlined in a White Paper...

Third party overhaul

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BUS DAY 6/2/85

● From Page 1

change rate of $0,4200 and currently the rand stood at about $0,4500.

Malcomess said he felt the new system was "far more equitable", as those who used the roads more frequently would pay more. However, he expressed the hope that the fund would be properly audited by the private sector.

He said the claim procedure would have to be judged by the results, but he hoped that the system would not result in excessive delays.

The change to a fuel levy was first recommended in a minority report of the Grosskopf Commission of Inquiry into the Motor Vehicle Assurance (MVA) Fund. It meant that from May, when third party tokens would normally be renewed, drivers would no longer pay third party insurance premiums. This cover would be automatically replaced by the levy.

As in the past, insurance companies, acting as agents, would continue to administer claims arising from motor vehicle accidents.

According to Santam MD and chairman of the South African Insurance Association's PR panel Oosie Oosthuizen, the insurance companies would be paid a nominal fee for each claim handled. They would issue the tokens free of charge.

The number of companies handling the claims was expected to be reduced by government. The insurers would not disapprove of such a move as remuneration would be miminal and insurers did not expect to profit from it, Oosthuizen said.

The industry was relieved that government had agreed to leave administration in their hands, rather than transfer it to the central MVA Fund, he said.

BUS DAY 6/2/86 (322)

Tax summonses increase

THE screws are tightening on SA's tens of thousands of defaulting taxpayers. More than 200 summonses a week are being served on Johannesburg taxpayers alone.

Commissioner for Inland Revenue director Schalk Albertyn said yesterday that, up to end-January, 14% — about 220 000 — of salary earners, and 30% of businesses and farmers (about 180 000) had failed to render returns.

Book body launches anti-tax campaign

STAR 6/2/86 320

By Susan Pleming

The Book Trade Association (BTA) has launched an aggressive campaign for the scrapping of book taxation.

BTA representative Miss Gill Ballard said a petition calling for the abolition of 12 percent general sales tax and the 10 percent import surcharge on books had already been distributed to bookshops, universities, colleges, schools, libraries, book clubs and companies.

Posters would soon be distributed and the BTA was considering placing advertisements in several major newspapers calling for the scrapping of book taxation.

On September 20 last year the Government announced that, on top of 12 percent GST, imported books would be subject to a 10 percent import surcharge.

UNAFFORDABLEA

Miss Ballard said the BTA last year asked the Government to exempt books from taxation, but this had been rejected. Several further applications had been made to the Minister of Finance, Mr Barend du Plessis.

"All we have received from the Government is that the matter has been brought to the attention of Mr du Plessis," said Miss Ballard.

She said book taxation has meant many people could not afford to buy books.

"The British managed to persuade their Government to scrap the taxation of books and we hope that our campaign will be as successful," she said.

PWV pays bulk of income tax

10/2/86 BUS DAY (320)

GERALD REILLY

GOVERNMENT is getting the bulk of its income tax revenue from the PWV.

According to a survey by the Bureau for Market Research of the University of South Africa, in 1980 42,5% of all assessments were issued to whites in the PWV.

It was also found that between 1976 and 1982 whites' taxable incomes in the area were 10% to 11% higher than the average for the country.

At the other extreme the corresponding figure for the Eastern Cape was 14% below average for the same period.

It was found that 10% of all coloured taxpayers lived in the PWV and their taxable income was 21% higher than the national average.

Asians in the Northern Transvaal had a taxable *per capita* income more than double the average while they represented less than a 0,5% of the total number of Asian taxpayers in the country.

Between 1970 and 1982 the assessments of whites, coloureds and Asians together showed the highest growth in Natal (53% above average) followed by Eastern Transvaal.

The lowest growth rate in the number of assessments issued, only 42% of the average, was in the Free State. Among whites, the growth rate of assessments issued was double the average in the Eastern Transvaal.

The survey says 65% of the taxable income of coloureds was earned in Western, Southern, North-Western Cape and the Karoo, but growth in taxable income was 3% below average between 1976 and 1982.

It was found too that in most districts in the Cape Province between 1976 and 1982 the taxable income of whites was lower than the average for the country.

The corresponding figure for Pretoria-Wonderboom was 1% higher than the national average and rose sharply in 1981 and 1982. In Johannesburg-Randburg the figure was 19% higher than the average for SA, while Brakpan was 4% lower than the average.

'GST too high' — Du Plessis

STAR 1/2/83 320

Political Staff

PARLIAMENT — Minister of Finance Mr **Barend du Plessis** admitted in the House of Delegates yesterday the present tax system was too complex and unfair in some cases.

Speaking in the Indian chamber during the debate on the Part Appropriation Bill, Mr du Plessis asked: "But how does one redistribute it?" after criticism over the Government's taxation measures.

Mr du Plessis said the results of an investigation into the question were expected in June this year. Replying to criticism over GST, he said he accepted that 12 percent was too high. But the exclusion of certain foodstuffs from GST would not solve the problem, he said.

Mr Mamoo Rajab (Solidarity, Springfield) accused Mr du Plessis of failing to use his clout to persuade his Cabinet colleagues that the segregation of services was a burden on the economy.

Govt considering lifting book taxes

ARGUS 11/2/86 320

Political Staff

THE Government is considering dropping taxes on books, which have become astronomically expensive, the Minister of Finance, Mr Barend du Plessis, announced today.

Replying to an inquiry, Mr du Plessis said he had received a number of representations to lift the taxes on books and this was being considered.

The book industry is facing serious problems because of the fall in the value of the rand. Educationists have warned that the cost of books could have serious repercussions in education, particularly among blacks.

whom and (c) what was his response thereto;

(4) whether he will make a statement on the matter?

The MINISTER OF PUBLIC WORKS:

(1) Yes. After it became clear that Kings House would evidently no longer be utilised as an official residence for the State President, it was decided to use some of the furniture and fittings in other prestige State dwellings. It is necessary from time to time to move furniture from one prestige State dwelling to another and the steps taken in regard to Kings House are therefore not unusual. For example, furniture has in the past been transferred from Westbrooke, the residence of the State President in Cape Town, and also from the Residensie in Bloemfontein, to Kings House. The furniture and fittings removed from Kings House last year, were placed in Newlands House and Westbrooke.

(2) Yes. Since it became known that Kings House would evidently no longer be utilised as official residence for the State President, letters and representations were received from bodies and individuals requesting that the dwelling be used for fund raising, as an art centre, as a museum and as an old age home. I am also aware that the South African National Society wrote to the Administrator of Natal regarding the matter.

At that stage I was still awaiting the recommendation of the committee under chairmanship of the Administrator of Natal regarding the future use of the dwelling and it was therefore not possible to consider the requests and representations.

(3) No.

(4) I have already issued a press statement regarding Kings House but I nevertheless plan to deal with the matter during the debate on the vote of Public Works and Land Affairs when I will furnish further particulars.

Queenstown: Commandos

HANSARD 11/2/86

*26. Mr D J N MALCOMESS asked the Minister of Defence:

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(1) Whether any farmers in the Queenstown area were called up to render service in the Commandos in terms of section 44(3)(c) of the Defence Act, Act No 44 of 1957, during September or November 1985; if so,

(2) whether such services required them to be away from their farms overnight; if so, (a) how many farmers were called up to render such service, (b) in respect of how many nights were they required to be away from their farms and (c) on what dates did they render this service?

†The DEPUTY MINISTER OF DEFENCE:

(1) Yes.

(2) Yes.

(a) 287 members.

(b) Of the 287 members, 227 were away from their farms for 3 or 4 nights that were not consecutive.

(c) 26 September 1985 . 76 members
2 October 1985 . . . . . 25 members
7 October 1985 . . . . . 39 members
26 October 1985 . . . . 18 members
16 November 1985 . . 69 members

Maj R SIVE: Mr Speaker, arising from the hon the Deputy Minister's reply I should like to ask him whether he can inform us where these farmers were deployed and whether he is aware of the fact that in the majority of cases their wives and children were left on the farms with no protection whatsoever because no such protection was provided for them?

†The DEPUTY MINISTER: Mr Speaker, the hon member asks me to inform him where these people were used. There are, however, 287 people involved and therefore he will understand that it is impossible to give him an answer to that question now. If he therefore wishes to lay the question upon the Table, I will try to reply to that.

Maj R SIVE: Mr Speaker, arising further from the hon the Deputy Minister's reply I repeat the second part of the question: A large number of those farmers' wives and children are left on the farms with no protection. What arrangements will be made with regard to that in the future?

†Mr T LANGLEY: Mr Speaker, further arising from the hon the Deputy Minister's reply I would like to know whether persons doing such service are at all times paid?

†The DEPUTY MINISTER: Mr Speaker, to my knowledge that is the case.

At 15h04, Questions on General Affairs interrupted in accordance with Joint Rule No. 59.

Public Service: tax free remuneration

HANSARD 11/2/86 255

*27. Mr D J N MALCOMESS asked the Minister of Finance:

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Whether any persons employed in the Public Service receive any portion of their remuneration tax-free; if so, (a) what category of public servants, (b) what percentage of their remuneration is tax-free and (c) why?

The MINISTER OF FINANCE:

Yes.

(a) (i) Housing subsidies received by all categories of public servants.

(ii) The rental value of residential accommodation when supplied to public servants whose annual remuneration does not exceed R20 000.

(iii) Retirement gratuities in respect of accumulated vacation leave.

(iv) Lump sum payments made on retirement by a pension fund established by law.

(v) Remuneration paid to staff recruited and employed in a foreign country, if they are not ordinarily resident in the Republic, their services are rendered outside the Republic and they are chargeable with and bear income tax imposed in the country of residence.

(b) (i) 90 per cent at present, reducing to nil over a period of 7 years.

(ii) 100 per cent.

(iii) R30 000 exempt, any excess being taxable.

(iv) 100 per cent.

(v) 100 per cent.

(c) (i) and (ii) See the provisions of the Seventh Schedule to the Income Tax Act, No 58 of 1962, which apply equally to employees in the private sector.

(iii) See section 10(i)(x) of the said Act, which applies generally to retirement gratuities paid in the public and private sectors.

(iv) There is no charge to tax in respect of lump sum benefits paid by a pension fund established by law as such a fund is not capable of manipulation so as to provide unduly excessive benefits.

(v) See section 10(i)(p) of the said Act, which is designed to prevent double taxation.

Khuis lands

*28. Mr J H HOON asked the Minister of Defence:†

(1) Whether the South African Defence Force provided meals and refresh-

Book tax move welcomed

STAR

12/2/86.

(320)

By Susan Pleming

Booksellers and publishers have welcomed the Government's announcement that it will consider dropping taxes on books.

The Minister of Finance, Mr Barend du Plessis, said yesterday he had received representations to lift the taxes. This was now being considered.

The managing director of Literary Services, Mr Chris Wolf, said booksellers and readers would see the move to scrap book taxation as admirable.

"It will be welcomed from the youngest black schoolchild to the top academic," he said.

The sliding rand, the 10 percent import surcharge and 12 percent general sales tax on books has resulted in a dramatic increase in prices. Since 1982 the price of books has risen by about 120 percent.

Mr Wolf said the lifting of book taxation would drop the price of books by about 20 percent.

A representative from the Book Trade Association (BTA), Miss Gill Ballard, said the BTA recently launched an aggressive campaign for the scrapping of book taxation.

"The announcement that the scrapping of book taxation is being considered is wonderful news, but until it has actually been removed we will continue to fight," she said.

Exclusive Books' managing director, Mr Jeremy Gordin, said: "It is a pity that book taxation has not been scrapped before students return to university. Students have been affected badly by high book prices."

GST 'set for drastic revision'

STAR 12/2/86 (320)

General Sales Tax was undergoing drastic revision, the Minister of Finance, Mr Barend du Plessis told the House of Representatives yesterday.

GST did not serve its purpose, he said in reply to a request from the Leader of the Opposition, Mr Dennis de la Cruz (DWP), that GST on food be removed.

"GST is supposed to be a broad-based revenue instrument," Mr Du Plessis said."But because people are always asking for exceptions, the base has been decreased." — Sapa.

Call to abolish GST, duty on books

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DISPATCH 12/2/86

Dispatch Reporter

EAST LONDON — Booksellers here yesterday were all in favour of abolishing book tax and said it was mainly students who felt the crunch when having to buy prescribed textbooks.

The 12 per cent general sales tax combined with the depreciating rand and 10 per cent import duty added up to an incredible tax on knowledge, leaving those individuals who most needed it, least able to afford it, the booksellers said.

The owner of two bookstores in East London, Mr Jack Schlachter, said, though, that the hardening of the rand over the past few weeks could only spell good and that the price of imported books should soon drop again.

In the meantime, students were those most affected by the book tax.

Mr Schlachter gave the example of a first year student nurse who would have to pay as much as R250 for her first year textbooks.

"A student nurse is not earning all that much anyway, but what the medical profession is now doing is prescribing South African publications as far as it is possible, increasing the book's availability and decreasing the cost — but this is not always possible," he said.

A first year Rhodes University BComm student studying full time would pay as much as R300 on textbooks, Mr Schlachter added.

"I recently had two customers inquiring about textbooks on electronics and marketing. For a small paperback dealing with electronics, the price was R295, and for the marketing book, R103," he said.

"If book tax were abolished it would be fantastic for all concerned. I find myself continually apologising to customers for the prices they have to pay, and I'm the one who ends up feeling guilty," Mr Schlachter added.

Another aspect that the book tax has brought to the fore is that of infringement of copyright. Students are having to photocopy portions of books important to their studies because the price of textbooks is often too high.

 12/2/86. BUS DAY 320

Taxes on petrol come under fire for fuelling inflation

PETER WALLINGTON

GOVERNMENT taxes on petrol, which reap it nearly R3bn a year, have come under fire for fuelling inflation and depressing the motor industry.

The SA National Consumer Union has urged the Margo Tax Commission to investigate ways to reduce the high taxes on petrol because of the "ripple effect on prices of virtually every commodity and service".

The Progressive Federal Party has now come out in support of the Consumer Union's statement.

The statement will add impetus to the Automobile Association's campaign for a review of the taxes and levies that motorists pay to government each time they fill their tanks.

The AA has in the past recommended a number of steps, including:

- ☐ Abolishing or reducing the Equalisation Fund Levy of 1,3c/l;
- ☐ Reducing the National Road Fund Levy from 5c to 2c/l;
- ☐ Pegging customs and excise at 3c/l;
- ☐ Reducing general sales tax on petrol from 12% to 8%;
- ☐ Abolishing GST on pipeline charges;
- ☐ Reducing the wholesalers' margin by 2c/l.

Union chairman Betty Hirzel said in a letter to the tax commission that petrol price increases were often used by certain sections of commerce and industry as an excuse to put up prices beyond the actual impact of a rise in the price of petrol.

She said the union wanted the commission to investigate an alternate form of taxation which would not be so inflationary.

PFP energy and economics spokesman Brian Goodall said yesterday that when the petrol price was increased by 6c/l last year it ultimately boosted inflation by at least 2%.

"Transport costs have a great effect on the economy. Each time they go up, prices on almost everything else are also raised. If the price were to be reduced by 6c/l, we could expect a reduction in the inflation rate, which would certainly boost the economy."

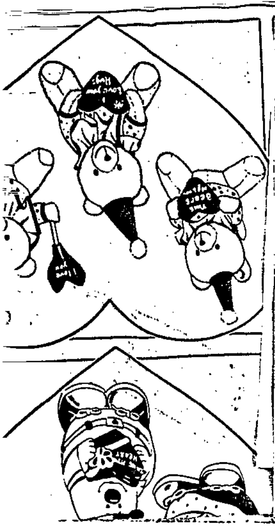
Goodall said government got nearly R3bn from taxes on petrol sold each year, and this was R1bn more than government expected to get from the gold mines in the 1985/6 tax year.

AA director-general Peter Elliot said a reduced petrol price would breathe new life into the ailing motor industry, which has just experienced its worst year ever.

Losses in the vehicle and component-manufacturing industries were more than R1,6bn last year, he said.

Both the AA and the PFP have repeatedly called for a review of the system of charging tax on tax (charging GST and customs and excise) and a sharp reduction in the pipeline charges that inland motorists pay.

Petrol industry sources said changes were likely to result from last month's petrol price structure symposium in Cape Town.



Farrell supports levy on petrol

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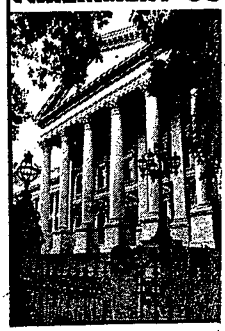
STAR 13/2/86

PARLIAMENT — A levy on petrol was the most just and effective way of taxing vehicles according to their degree of road usage, Mr P J Farrell (NP, Bethlehem) said during his maiden speech yesterday.

Present methods of vehicle taxation discriminated against people who made less use of the roads, he said.

Mr Farrell also paid tribute to his predecessor, the late Minister of Health and Welfare Dr Nak van der Merwe. — Sapa.

PARLIAMENT '86



Pik threat to

VAT could give GST the boot, experts say

W/t Argus 15/2/86

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By DEREK TOMMEY
Financial Editor

THE general sales tax in its present form could be on the way out.

It seems that there are moves afoot to either broaden the tax base and lower the rate, or what is more likely, to replace it with a lower-rated value-added tax (VAT) such as is found in Britain and other Common Market countries.

The Minister of Finance, Mr Barend du Plessis, said in Parliament this week that GST was "right now" subject to drastic revision.

He said the tax did not serve its purpose.

It was supposed to be a broad-based revenue instrument. But because people were always asking for exemptions the base had been decreased.

Margo Commission

"The only way we have been able to respond to this has been to increase the tax rate on the remainder," he said.

The Margo Commission was investigating the whole GST system.

GST has been increasingly resented by the public and by business. The doubling in the tax rate in the past two years from 6 percent to 12 percent has imposed a heavy burden on the man in the street.

Aggravating his resentment is the feeling that many small traders may not be passing the tax on to the authorities.

Businessmen selling big ticket items such as domstic items and cars complain that the tax curbs sales. For some time the deprssed motor trade has been urging for a reduction in GST on cars.

Hard work

In view of the criticism of GST, and the Government's obvious dissatisfaction with it, there is a growing feeling that the Government could replace it with VAT.

Mr Colin McCarthy, director of the Cape Chamber of Industries, said today he believed it inevitable that South Africa would move to VAT.

Commerce and industry might not like making the move to VAT as it would involve a lot of hard work.

But it was the most sophisticated and least-cascading of the indirect taxes. It would enable the tax base to be broadened which should result in a lwoer rate.

Logical move

Mr McCarthy said it was a logical move and it must come.

However, Mr Alan Lighton, director of ther Cape Town Chamber of Commerce, holds a contrary view. He does not believe that a move to VAT is necessary.

"Changing to VAT would cost the country a packet it could not afford. A better approach would be to make the present system more effective.

"By broadening the GST tax base and tightening up on the policing of the collection process, the State can gain far more than be changing the system.

He said that switching to VAT would not stop the payment of the tax being evaded. All VAT would do was to ensure that a portion of the tax was paid prior to the point of sales.

Cumbersome

The fiscus would collect some of the tax which it did not collect at the moment. But against this had to be offset the losses to the country in terms of the additional administrative and and financial burden that a value added system would entail.

Mr Lighton said the GST system was simple to operate and generally efficient. To exchange it for a complicated and cumbersome VAT system made no sense at all.

"VAT may be suited to sophisticated economies that are highly computerised, but it does not lend itself to easy application in South Africa."

Alternative tax system 'would boost economy'

CMT Tht 17/2/86 320

By AUDREY D'ANGELO

INTRODUCING a flat rate of income tax of nine percent and a transaction tax of less than one percent, and abolishing virtually every other tax and duty, would raise as much revenue as the present system and would stimulate the economy, says tax economist Mr Nic Nel.

He has submitted his proposals to the Margo Commission and gained the support of leading academics.

His suggestions for urgent and radical tax reform will be discussed at a series of meetings throughout the country next month.

Panel

The Director General of the Department of Finance, Dr Chris Stals, the acting director of the Stellenbosch Bureau for Economic Research, Dr Ockie Stuart, Professor Elty Links of the University of the Western Cape, and Professor David Rees, Professor John Simpson, and Professor Brian Kantor of the University of Cape Town, are expected to be among speakers at a panel discussion in the Baxter Theatre, Cape Town, next month.

The meeting is advertised as being held under the auspices of the South African Federated Chamber of Industries, the Associated Chambers of Commerce, the Institute of Personnel Management (SA) and the National Productivity Institute.

In a telephone interview Mr Nel said that his difficulty was to find economists prepared to speak against the proposals at any of the panel discussions.

Discourage

He said the present system of progressive taxation in South Africa was aimed at redistribution of wealth rather than encouraging the economy to grow.

Its effect was to discourage the rich from investing money in profit-making business which would provide jobs, and the present high rate of taxation was a major cause of the present "brain drain."

The high rate of company tax discouraged multi-nationals from investing in this country.

Mr Nel said that under the system he proposed everyone, whatever their earnings, would pay nine percent income tax with no rebates.

Denying that this would penalise the poor to benefit the rich, he said that it would make more jobs at a fair rate of pay available by giving everyone the incentive to make more money.

This would mean that more people would start new businesses providing more jobs and more competition for labour, rather than buying shares or investing in annuities.

The effect of making more jobs available would push up wages and salaries.

Mr Nel said that even with a flat rate of tax as low as nine percent, the total amount collected by the Department of Revenue would be more because there would be no rebates.

Cheques

The streamlined tax system would reduce the number of people the Department of Revenue had to employ, make tax consultants unnecessary and end the situation in which a husband and wife's earnings were added together to move them up into a higher tax bracket.

Under the system he suggested, the transaction tax would be collected by the banks and building societies every time a cheque was cashed.

The government would "pay" them for doing so by allowing them to keep the money for a month, during which time they would earn interest on it

Bank charges

"The tax would be less than the bank charges we already pay. Paying it would be far less painful and expensive than paying the present 12 percent General Sales Tax."

People with low incomes who received their wages in cash and used it for shopping and all other expenses would be able to avoid the transaction tax.

But the tax would be so low — 0,6 percent would be all that was necessary — that it would not be worth while for salaried people to give up the convenience and safety of cheque transactions.

Amazed

Mr Nel said that he and professional colleagues had originally thought the transaction tax would have to be at least two percent.

"But we discovered to our amazement that, according to statistics from the Central Bureau in Pretoria, debits totalling R166,5 billion a month were passing through the banking system.

"And that was only the five major banks. It did not include the building societies and savings banks."

Loan rep of the cu

By JOHN TILSTON

SOUTH AFRICA could face repayment of foreign loans worth as much as 75 percent of its record current account surplus this year if it accepts the new-look Leutwiler repayment plan at Thursday's bankers meeting.

Mediator Dr Fritz Leutwiler has suggested that South Africa repays five percent of its R13,4 billion debt covered by the standstill in four quarterly instalments starting in April.

That means that $525m (R1,1 billion) will have to

Review of exemption system

Bus Day 20/2/86 320

GST plan 'would waste millions'

Own Correspondent

MILLIONS of rands will be wasted if a cumbersome procedure to regulate claims for exemption from general sales tax is introduced, Cape Town Chamber of Commerce director Alan Lighton says.

The chamber has asked Assocom to insist on the scrapping of plans to introduce the procedure.

Lighton said yesterday he believed other employer organisations had also objected.

The procedure is to be discussed at a meeting in Johannesburg between the Department of Revenue and representatives of Assocom, the Federated Chamber of Industries and the Afrikaanse Handelsinstituut.

An article in the latest Cape Town Chamber of Commerce *Bulletin* says that the proposed new procedure would be costly, time-wasting and present serious practical difficulties.

"What is more," the article continues, "it would not put a stop to malpractices that exist under the present system."

Under the present system, any purchaser claiming exemption from paying GST must satisfy the seller he is entitled to it by producing a valid registration certificate or a photocopy of it.

His registration number must be quoted on every subsequent invoice.

Under the proposed new system, a separate signed declaration with full particulars of the purchaser, his certificate and type of business, would have to be made with each purchase.

The chamber says this would present "enormous administrative problems for vendors, who will be required to check, file and follow up outstanding declaration forms.

"One wholesale member advises that 98% of its 3,5-million transactions a year are exempt from GST and filing the forms will present a problem," says the chamber.

It would also be difficult to process orders placed by telephone.

"Some wholesale members have indicated that more than 80% of their GST-exempt sales result from telephonic orders."

☐ World disinflation should act as a damper on domestic price increases.

Geldenhuys believes the handling of the situation in the first half of 1986 will be crucial to the inflation outlook for 1987. Vital factors will be the exchange rate, handling of fiscal affairs, monetary policy stance, and the levels of increase in wages, salaries and food prices. ■

TAX HUNTERS 320 FINHIAL

Chancing abuse

21/2/86

The small but hot storm which broke out when the *FM* reported that Inland Revenue is using bounty payment tactics to reward inspectors continues. The practice is reputed to be widespread, but officials insist it is confined to the Johannesburg area. Details are unknown, but tax inspection units are allegedly paid performance bonuses based *partially* on the amount of tax collected.

In broad terms, nobody can object to a remuneration policy based on performance; such practices are widespread in the private sector. Observers question, however, whether it does not open the road for potential abuse in favour of Inland Revenue.

Tax inspectors' powers are as broad as the big blue sea. They exercise wide discretion.

Once a taxpayer is under suspicion, the inspectors may oblige *any* person to produce records they see as relevant. *Any* person can be examined under oath regarding a taxpayer's income — including professionals who provided advice.

On authorisation from commissioner Carl Schweppenhäuser inspectors may enter premises and march off with books, money, accounts, records and other documents. They may ask a taxpayer for details of his assets and liabilities on a particular date; income derived during a particular period; expenditure details; and other information to help paint the taxpayer's profile.

If details are missing, the taxpayer's income may be *estimated*; failing proof to the contrary, he must cough up. Judgment can be taken against him; his estate sequestrated; or an "agent" appointed to collect monies from the taxpayer, sourced from salary, commissions, pensions, and so on, and hand them over to Inland Revenue. An employer is the most likely agent, or a bank where the taxpayer has cash invested.

To what extent these powers are used is unknown; the point is that the procedures are fully laid down in law.

But the law provides extensive remedies for taxpayers who have not been naughty. In many cases a taxpayer can object to an Inland Revenue assessment, which is then reviewed by a senior official. If the objection is disallowed it can usually be taken to the Income Tax Special Court, and then on appeal to the Provincial and Appellate Division of the Supreme Court.

But chances of abuse do exist. Taking a small amount on review, appeal et al, may not justify objection in money terms. (It does not help that tax consulting fees are not tax-deductible). *Each* amount which the inspector says is to be taxed has to go through the legal process on its own merits; when each is added up, the total may be considerable.

Revenue's Schweppenhäuser ... looking for non-disclosure

The general advice from tax consultants is to disclose all relevant matters: the attitude "they will never find out about this" is self-defeating.

A recent case heard by the Transvaal Provincial Division, *CIR vs Suikerkorporasie*, illustrated that full disclosure of material facts is the best line. The company did not disclose an accrual it thought to be of a capital nature — and hence not taxable. But details were fully available in its financial statements: the court held that no reasonable man could say there had been non-disclosure.

Another important case which may assist taxpayers was recently handed down by the Appellate Division in *CIR vs Da Costa*. The court resolved a long-standing controversy by ruling that a Special Court can substitute its on penalty, if any, even where the commissioner has acted bona fide. ■

TAXATION

Pipping the post

When the tax year ends on February 28, it will be too late for a taxpayer to take any action to reduce tax liability for events during the year. But with a week to go before deadline, taxpayers — particularly those concerned with the record tax burden — can take some remedial steps.

For one thing, taxpayers should note that a personal visit to an income tax assessor is not a visit to a cash-hungry dragon. These officials are also taxpayers and lend a ready ear to any case with merit. Usually an assessor can give an answer to a situation in minutes. If the taxpayer is still not satisfied, it can be referred to a more senior official.

Such a visit can often yield a greater return, since it carries the weight of authority, than returns completed by one of the many tax boutiques that have sprung up in recent years. And if a taxpayer spends a few hours studying one of the many basic books and booklets on tax he will be prepared to ask questions showing that he is interested in how to save cash.

The potential value of a visit to an Inland Revenue official cannot be overestimated. As many consultants note, the department's doors are open to all taxpayers.

Revenue will readily give an answer to the tax consequences of *concluded* transactions. Officials will not as a rule advise on hypothetical situations, not yet transacted. But generally Inland Revenue's attitude, especially to non-corporate taxpayers, is benevolent: it is sensitive to taxpayers' perception of it; officials are humans, which tax return forms are not; and the general Inland Revenue policy is to follow the *contra fiscum* rule — any hazy tax law is interpreted against the fiscus.

And hazy tax areas abound. Many taxpayers who invest in shares know how they will be taxed on dividend receipts but have no inkling how profits on share sales will be treated. This is one of the most vexed issues in tax law: profits are either taxed at a taxpayer's marginal rate, if he is classified as a "sharedealer," if the gain is deemed to be capital, it is zero taxed.

More taxpayers are probably sharedealers rather than long-term investors. But just as sharedealers can be taxed on profits, they can claim losses against taxable income to reduce the overall tax burden. But they need not actually sell shares to claim a tax deduction.

Arthur Young's David Clegg says that an individual who "trades" in any commodity is entitled to bring it to account at year-end at the lower of cost or then-realisable market value. "The market value of quoted shares is easy to ascertain. If they are showing a loss at February 28, that loss is effectively deductible for tax purposes."

Clegg notes that if an individual deals in shares through a company, it cannot write down below cost the value of shares it holds at year-end. However there is nothing stopping it selling those shares on the last day of the tax year and repurchasing them on the first day of the next year.

By adopting this method a loss would be realised, reducing the year's tax liability. The cost — brokerage and stamp duty — may be outweighed by the tax saving.

Clegg points to another method of saving tax, effectively by deferral, by making use of what has been dubbed the timing of income recognition. Individuals who carry on business in their own names invariably have significant expenses due periodically — for

ARGUS 21/2/86

(320

Higher earners gain most from tax change

Financial Staff

HIGH earners will have a little more take-home pay next month when the seven percent income tax surcharge — the tax on income tax — is abolished.

PAYE tables issued this week show that from March the monthly income tax paid by a R5 000-a-month man with a wife and two children will drop by R106, while a single person in this income group will save R123 a month.

At the other end of the scale a married man with two children and an income of R1 200 a month will save R2,60 in tax and a single man with the same income R6,30 a month.

BENEFIT

The surcharge was imposed on all normal income tax payments over R750 and amounted to a penalty on the more wealthy.

As a result they benefit most from its abolition.

The following shows the monthly tax to be paid by married men with two children from March 1 in different income categories and the tax saving which results from the ending of the surcharge:

R1 200 a month: R99,90 (R2,62)
R1 600: R200,43 (R9,56)
R2 000: R319.63 (R18,00)
R2 500: R497,53 (R30,46)
R3 000: R704,12 (R44,91)
R3 500: R928,07 (R60,59)
R4 000: R1158,07 (R76,69)
R5 000: R1634,03 (R110,01)

Inland Revenue still looking for last year's fiddlers

Eleven tons of bad news for taxpayers

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STAR 22/2/86.

By Michael Chester

Eleven tons of bad news is on the way to two million South African taxpayers.

The Department of Inland Revenue yesterday confirmed that it has launched the annual barrage of tax return forms that demand that taxpayers spell out precisely where every rand and cent came from over the last 12 months.

"No," says Mr Schalk Albertyn, chief director of operations, "we have not started sending out the buff forms any earlier than usual.

"Every year, they always *seem* to be dropping through the letter box that much earlier — especially if someone has been earning a bit extra on the side, which all has to be assessed.

"The problem is that there are no fewer than 11 tons of buff forms that have to go out. The Post Office would be inundated if we trucked it all across in one go to be sorted and delivered.

Deadline

"So we stagger the load — starting in February and finishing by March 14 so that all people have at least 60 days to scratch their heads over the forms before they have to meet the May 15 deadline to post the returns back to us."

Meantime, the tax boffins are still combing through the tail-end of 1984/85 records to find the skelms who attempted a fiddle or two.

In the big tax blitz started last year, the Department of Inland Revenue had clobbered tax dodgers for R255 million by the last count — and Mr Albertyn forecasts the total will reach R500 million.

And that is before the blitz is renewed to deal with the inevitable next wave of fiddles after May 15.

Tax relief 'justified'

320

STAR 22/2/86

Financial Staff

Tax relief for individuals, who are bearing a heavy tax burden, would be a necessary and justified step that could do much to improve consumer confidence and add momentum to a revival in the economy.

In Samlam's latest *Economic Survey*, the chief economist, Mr Johan Louw, says further steps by the authorities are needed to bolster the recovery in general economic activity without encouraging excessive spending.

"In view of the expected shortage of foreign capital, serious efforts should be made to encourage personal savings. We think there is an urgent need for individuals' savings to receive better treatment in our tax structure," he says.

The desirability of stimulating the economy and creating more jobs, and also of expanding the social infrastructure, leads Mr Louw to predict a substantial rise in capital expenditure by the government.

He therefore expects a considerably larger budget deficit before borrowing. He says a shortfall of about R4,5 billion could enable the Minister of Finance to make further tax concessions of some R500 million — possibly in the form of lower personal income tax.

He also envisages a better deal for married people and an adjustment in the tax system to encourage personal savings.

10 pc tax cut planned

Dispatch Reporter

UMTATA — The Transkei Government has proposed a 10 per cent reduction on the rate of general tax based on income with effect from March 1 this year.

The acting Minister of Finance, Mr R. S. Madikizela, who is also Minister of Commerce, Industry and Tourism, said in the National Assembly yesterday the government had considered it essential to grant some relief to taxpayers, in spite of the tight financial position.

Mr Madikizela was piloting the Additional Appropriation Bill, which seeks to appropriate R160,7 million, through the second reading stage.

The bill was supported by the leader of the opposition, Mr Caledon Mda and was passed unanimously after the third reading.

Mr Madikizela said the proposed appropriation, which could not be postponed without prejudice to the public interest, was a significant event in the history of Transkei as it marked the point of which the country's budget reached "the billion mark."

T'kei MP tells of plot to kill

From ROOSEVELT FANI

UMTATA — There had been a plot to kill the Auditor-General of Transkei, Mr Jiyana Maqubela, the National Assembly was told yesterday.

The Member of Parliament for Cofimvaba, Chief Bangilizwe Siyabalala, called on the government to protect the life of the auditor-general, who, he said, should be armed.

Chief Siyabalala was speaking during debate on the Exchequer and Audit Amendment Bill introduced by the acting Minister of Finance, Mr Ramsey Madikizela, who is also Minister of Commerce, Industry and Tourism. The bill aims at giving the auditor-general wide powers when auditing the books and accounts of state corporations.

The bill was passed unanimously after members of the ruling Transkei National Independence Party, as well as the Leader of the Opposition, Mr Sizakele Mda, had attacked the government for employing "thieves" in its civil service who were "leading Transkei to bankruptcy".

Chief Siyabalala called on the government to elevate the position of the auditor-general above that of state departmental secretaries.

He said it was not state corporations which were embezzling state funds, but people inside the government were doing so. In the Department of Commerce R1 million had been stolen by officials.

"The people or person who did this robbed the country and its poor people. This must stop," Chief Siyabalala said.

Some government officials had as many as three properties which they had obtained from the Department of Local Government and Land Tenure. Such properties should be confiscated.

Chief Siyabalala also alleged that some MPs were not paying taxes while poor peasants were heavily taxed.

He said the government had employed gangsters and criminals whose aim was to steal and embezzle state funds.

In his speech during the debate, Mr Mda said he wholeheartedly supported the bill.

He said he had been a member of the state committee on public accounts and it had become evident that state funds were being embezzled by irresponsible people.

It had always been the wish of the committee for public accounts that the auditor-general should be the state's watchdog for its public funds.

"But all the time he has been a toothless dog. I am happy that now he will be a bulldog and monitor state funds from a position of superiority," Mr Mda said.

Bill to curb squandering?

Dispatch Reporter

UMTATA — When members of the Auditor-General's department pounced on culprits, they encountered a conspiracy of silence, cover-ups and destruction of source documents, the Acting Minister of Finance, Mr R. S. Madikizela, said in the Transkei National Assembly.

Mr Madikizela disclosed this during the second reading of the Exchequer and Audit Amendment Bill, which was unanimously passed during its third stage after members of the ruling party and opposition attacked government officials and state corporations for squandering government funds.

Mr Madikizela told the House the probity of some people holding high office in the country left much to be desired.

He said 10 years had elapsed since Transkei attained independence, and incompetence and wilful disregard of standing regulations and procedures could not be ignored on the grounds that Transkei had insufficiently trained manpower.

"This is another facet of self-indulgent thinking, mixed up with more than a little rationalisation and self-excusing and under no circumstances should it be countenanced," Mr Madikizela added.

Mr Madikizela said the bill introduces penal provisions for failure to comply with a lawful request made by the Auditor-General or a person authorised by him and delaying, hindering or obstructing the Auditor-General or his staff or making a false statement during interrogation and on conviction makes the person liable to a fine not exceeding R1 000 or imprisonment for a period not exceeding one year, or both.

● A managing director in one of Transkei's state corporations was earning R74 000 a year more than the State President of Transkei, the Deputy Minister of Education and MP for Umtata, Mr Mike Mazwana, told the House during the debate on the bill.

21/2/86 Bus Day 320

GST dodgers get a warning

A WARNING has been issued to vehicle buyers who live in SA but register their purchases in neighbouring territories to evade GST.

Minister of Transport Affairs Hendrik Schoeman said in Cape Town yesterday that any person who did so was committing a punishable offence, as well as cheating the state of tax that could be as much as R12 000 for a single transaction.

"I don't think that members of the taxpaying public feel happy about it," he said. "Taxpayers must be protected."

The Department of Transport said the government had taken note of the illegal practice of various persons in SA registering vehicles they had acquired outside the Republic in order to evade GST.

The misrepresentation of the address could be regarded as fraud and was in contravention of at least two traffic laws.

People who evaded GST and were caught could be assessed for increased payments.

Vehicles registered outside SA and then re-registered in it were subject to excise duty which did not differ much from GST. — Sapa.

28/2/86 STAR

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Write to Box 61682 M

Drop tax on food and medicines

I see the Government is considering dropping GST from books because this, added to the high price of this commodity, could have a detrimental effect on education.

Most commendable, but at the rate we are going there soon won't be anyone left to teach.

Many babies will not be able to survive because of the crippling effect of GST on baby foods, and, likewise, some of the older people will be dying from lack of medication for the same reasons.

Only old-age pensioners may get some relief because they can get free treatment at the nearest State hospital.

With the unfavourable exchange rate, prices of drugs and other essential substances from overseas have soared alarmingly, posing a serious health hazard to those who can no longer afford the cost of items, not to mention the GST added to them.

It is bad enough being on a medical aid scheme where the first member generally pays the first 20 percent, plus tax, on prescriptions. But imagine how it must be or those who either cannot afford, or, for some reason, are unable to join a medical scheme, but whose salaries happen to be slightly in excess of approximately R300 per month allowed by a provincial hospital before becoming a paying patient.

This means, if your earnings are less than this figure, you qualify as a free patient. If more, you are classified as a private patient and pay R20 (or R30 after hours) to see a doctor in casualty.

After this there is your prescription to be paid for at a retail chemist outside of hospital (plus tax).

If you consider a person in this position may well have to visit a hospital several times (since private treatment is even more expensive), the financial worry could either decide him to keep away from doctors in the hope that the complaint will go away. Or, failing this, he may struggle along valiantly until at death's door to finally put in an appearance when it could be too late.

It is about time the Government abandoned this lucrative form of income from all food and medical supplies and considered the poor over-burdened populace for a change.

If it is so hard-up I suggest, as an alternative it allow a national sweepstake which could benefit all.

The usual flimsy excuses against this idea are not good enough in these bad times, and some arrangements can always be made to pass off the surplus revenue to pacify those moralising members of certain churches who object so strongly.

M lherbe

Malvern East

4. Securities standing at less than 100c at the start of the competition at
5. Entries should be made on the form printed ...

Economists advise income tax cuts

BUSDAY 28/2/86 320

Economics Reporter

ANY future tax cuts should be concentrated on income tax, especially on the higher marginal rates, according to leading economists.

Economic adviser to the Reserve Bank and former professor of Business Economics at the University of the Witwatersrand, Roger Gidlow, said high tax rates are a major cause of emigration.

Gidlow described the present rates as a penalty for saving and said, as it was now almost impossible to raise foreign capital, domestic savers had to be encouraged.

Louis Geldenhuys, economist at stockbrokers George Huysamer, also said there should be cuts in direct taxes, but believed that the broader economy should be taken into account.

Nedbank economist Ian McFarlane said a GST cut would be beneficial, because it would benefit lower income groups and cut the rate of inflation, but he would prefer to see cuts in income tax because it was important to encourage consumer spending and investment.

However, all the economists agreed there was little room for tax cuts in the next Budget.

Maric Glaser, a partner at Deloittes, said that it would be a mistake to cut income tax simply in order to encourage spending and try to recoup the revenue through sales.

□ SA's net migration gain for 1985 is likely to be the lowest for more than a decade.

Latest Central Statistical Service figures also show an increasing number of South Africans are emigrating — many of them skilled or professional workers.

In the first 11 months of last year 10 265 South Africans left to settle abroad, compared with 7 443 for the same period in 1984. The number of immigrants totalled 16 421, against 26 895 in the January-November period in 1984 — a net gain of 6 156.

In 1984 the gain was 19 452.

Let taxis in, say busmen

322 28/2/86 BUSDAY

ALAN PEAT

THE bus industry has opened its doors to full competition with combi taxis, says the Southern African Bus Operators' Association (Saboa).

Executive director Gerrie Prinsloo says: "There should be compteition but, if the passenger transport industry is to be regulated, it must be regulated for all."

Saboa believes combi taxis should have regulated standards and that there should be some form of control of the growing number of these vehicles.

It is also calling for negotiation with the SA Black Taxi Association.

Buthelezi accepts settlement from *Rand Daily Mail*

IN NOVEMBER 1983 the *Rand Daily Mail* (now defunct) reported on certain comments made about the alleged involvement of the Inkatha organisation in disturbances at the University of Zululand in which six lives were lost.

KwaZulu Chief Minister Mangosuthu Buthelezi claimed that one of the reports was defamatory to him as head of Inkatha.

Buthelezi has now accepted, in settlement of his claim, a payment made in court on behalf of the editor, owner and distributor of the *Rand Daily Mail*.

Taxes strangling man in the street

W/C ARGUS 1/3/86 320

By DEREK TOMMEY
Financial Editor

ORDINARY South Africans have been increasingly heavily taxed in the past four years, official figures show.

According to the Department of Inland Revenue's latest statistical bulletin, the amount of income tax paid by individuals increased three-and-a-half fold from R2,4 billion to R7,3 billion in the four years ended 1985.

In the same four-year period general sales tax paid by South Africans also increased three-and-a-half fold — from R1,7 billion to R5,9 billion.

Altogether the Government took R13,1 billion out of the pockets of South Africans by way of sales tax and income tax on individuals. This was more than four times the R3,1 billion it collected in 1981.

As the economy showed little growth between 1981 and 1985, and the increase in inflation was well below the growth in tax revenues, it is clear from these figures that the steep increase in taxation must have resulted in a sharp decline in individual living standards and in private savings. Many South Africans must have become poorer.

The figures show that the ordinary individual is having to increasingly bear the cost of running the country.

As a result of huge investment and other concessions, tax payments by the corporate sector have shown nowhere near the same growth.

In fact, in spite of the higher domestic gold price, taxes paid by the gold mining industry dropped substantially — from R2,8 billion in 1981 to R1,6 billion in 1985.

In the same period taxes paid by companies grew 58 percent — which was well below the inflation rate — from R2,4 billion to R3,8 billion.

As a result, the contribution of the corporate sector towards the cost of running South Africa fell from 41,2 percent in 1981 to 24,7 percent in 1985.

An analysis of the earnings and income tax figures published in the bulletin show that in 1984 54,8 percent of the country's 1,6 million white, Asian and coloured income tax payers had a taxable income of less than R15 000 a year.

In 1984 1 393,0 million whites, 114 968 Asians and 146 798 coloured people paid income tax. A further 52 593 whites, 3 793 Asians and 6 200 coloured people had a tax loss.

Blacks did not fall under the Department of Inland Revenue in 1984 as they had their own Black Taxation Act. Taxes paid under this Act amounted to R345 million in 1984.

The bulletin shows that 1 454 843, or 90,3 percent of all income taxpayers had a taxable income of R30 000 or less, which means that there were just over 150 000 taxpayers earning more than R30 000 a year.

According to the bulletin there were 622 people (620 white and 2 Asian) with a taxable income of R250 000 a year or more.

A total of 373 people (370 white and three Asians) had incomes of between R200 000 and R250 000 and 846 (836 whites, nine Asians and one coloured) earned between R150 000 and R200 000.

Altogether there were 4 698 people with incomes of more than R100 000.

Most of the white income tax payers (259 629) were in the R10 000 to R15 000 income bracket. Most of the coloured people (64 537) were in the R5 000 to R10 000 bracket, as were most of the Asian taxpayers (44 194).

The bulletin's figures show that the top 28 percent earners pay 75 percent of the income tax bill with 10 percent of taxpayers or roughly 160 000 paying some R2,0 billion or 45 percent of the income tax collected.

A breakdown of the earnings and tax collections in different regions shows the great wealth to be found in the Transvaal. Total personal income on Johannesburg in 1984 was calculated at R3,8 billion, against R2,0 billion for Durban and Cape Town.

However, it is interesting to note that while the average taxable income in Johannesburg was R18 395, against R13 178 in Cape Town, the average taxable income in Ceres was R19 326 and R23 593 in Grabouw — which says a lot for the fruit farmers.

● A table showing total and average earnings and the number of income tax payers in various Western Cape towns and selected towns in other provinces appears on Page 2.

BUS DAY 3/3/86.

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Bureaucracy and big business are destroying SA

□ DIVARIS ... "no options"

Tax expert COSTA DIVARIS talking to Hellouise Truswell

IN THE present climate, it is a moot point if the tax system can be improved to benefit SA society. Given the downward spiral of SA's economy and government's urgent need for increased revenues to finance socio-political modernisation programmes, it is apparent the forthcoming Budget can change nothing.

It can only reflect the outcome of the decisions we've taken in the past and the decisions we're currently taking. So says 41-year-old tax specialist Costa Divaris.

Can he suggest a blueprint of bold initiatives for urgent reforms? From the taxpayers' point of view, the present system is grossly inefficient. And it takes a terrible toll. Tax payments by individuals increased 40% in the past 15 years. They now total close on 25% of GDP; 10 years ago the figure was a relatively modest 18%.

How can the present system be restructured to relieve the tax burden? I ask Divaris. Confident and knowledgeable, he is known to have a very strong handwriting of his own, backed up with an impressive CV on matters of tax.

He is the author of "The Ned-Equity Tax Guide to Company-owned Policies" and co-author of "Silke on South African Income Tax," "Old Mutual Income Tax Guide" and "In Touch with the Sixth Schedule".

He is also editor-in-chief of "Businessman's Law" and co-editor of "Juta's Tax Service". He co-edits and co-founded "Juta's GST, Tax Planning and Taxgram". He runs BSP Seminars on tax and is a partner in Silke Divaris Stein and Divaris Stein Publishers.

He doesn't spout forth conventional wisdoms in his seventh floor African Life eyrie. Instead, sitting behind a round, glass-topped table which displays a splendid reclining bronze nude sculpted by Naomi Press, he parries my questions about reform imperatives.

With a grivitas born of passion for the issue under discussion, he claims: "South Africans are thoroughly bored with people coming out with prescriptions of what we should be doing.

"We're getting to the situation where you get three South Africans together and what emerges is four reform proposals, whether it's for tax or politics. They're closely linked.

"What we need to realise is there are no options. That we have painted ourselves into a corner on both the tax front and politically. We have no room to manoeuvre."

His voice rises as he underscores the core issue. "We have to consider what is politically possible. Not wonderful schemes. Not proposals. Not things that will change the face of society. And what is politically possible? I'm afraid, Mr and Mrs SA, that if you look carefully enough, very, very little is politically possible — both in tax and ordinary politics."

Glib assurances on the tax system he does not dish out. Rather, he sees the tax problem as one more dimension in an overall troubled scenario. Enmeshed in a cycle of escalating violence, South Africans appear to be in the middle of a muddle-through mood with little clear direction as to where they should be going.

Tax and politics are part of the same problem, Divaris emphasises. "Because we run our tax system the same way we run the country — for the purpose of control and for preserving Afrikaner and National Party hegemony. We run it without any underlying philosophy. And we run it without faith.

"SA's biggest problem today is that it has no faith. We have no faith in ourselves, no faith in our people, no faith in what we can do and achieve."

Divaris does not forsee any problem for government in balancing the forthcoming Budget. "For the moment it is sitting pretty. Its fiscal base is secure. It knows, even though it can't control its spending, that it has enough wealth left in the country to raid that wealth and make the Budget balance."

The crunch comes later, says Divaris: "The question I'm asking is how are they going to balance the 1990 Budget when they are going to be looking for R60bn to R87bn?

"For some reason, politicians and businessmen have very short horizons. They're using up the easy sources of wealth. They are destroying that wealth because they have created a wonderful system for destroying wealth."

The system, he explains, is the bureaucracy. "It is going on like a doomed train rushing at 100-miles-an-hour down the track that leads to the bridge that's been blown up. They're enjoying that ride. As long as there's rail in front of them, they're stoking the fires. We can only hope we won't be around when they reach the bridge that isn't there."

The bureaucracy, he points out, grows bigger at the rate of 20% every year. "Most of our money gets thrown away on salaries of bureaucrats. The talk is that more than R1bn rand a month is spent on salaries."

What is called for is a change in philosophical outlook, he notes. Until then, you can't change institutions. "Until that and our morality changes we are going to carry on as we are at the moment. I think it is leading to the path of destruction."

He believes the massive bureaucracy on the one hand and big business on the other are destroying the country. "Big business blatantly manipulates the tax system for its own benefit. You just have to look at the collections coming from big companies and the mines, for example. Their contribution on a proportionate basis is miniscule because they have used the system."

Instead, he believes, big business needs to examine its own behaviour.

"What it's doing at the moment is demeaning. Where was it all this time? Now it's jumping up and down when it sees the cost of the system from which it's been benefitting all these years. Now it's running around like a chicken with its head off.

"Let's hope the cost increases to such a point that big business sits down and thinks more deeply about what it can do to make the long-term changes needed."

As he says, he can't tell big business what to do. But he suggests they analyse their long-term interests. "Not just the next reporting date. You know, one of our major faults in this country is our greed for unearned wealth."

Big business, he notes, might decide it would pay them in the long-term to stop asking for favours from government. "They might just perceive that the favours are destroying the economy — the individual favours that have short-term benefits but none in the long-term."

Tax concessions; import protection from overseas competition; monopoly powers granted by government; standards imposed to keep competition out; regulated prices; cartels maintained by government.

"All sorts of things that have a short-term effect to make the balance sheet look great. We are a country that is run on paper. The bureaucracy judges everything by what is said on paper. And business seems to judge everything by what is said on balance sheets."

One of the problems in SA, warns Divaris, is "we practice a statist philosophy. Government is consistently chosen in favour of the individual. We have the most incredible amount of government intervention, with dire results.

"For example, we have seen the utter destruction of the motor car industry, which is an outcome of our philosophical outlook. Does that stop us from carrying on?"

At the moment the blight is spreading to commercial vehicles. And we're doing this again with the computer industry, with textile machinery. We are doing it with the paper industry. We know these systems fail to produce moral or efficient results. Why do we do it? I believe there are two reasons.

"First and foremost is that we're under the power of a massive bureaucracy, and secondly we are under the power of big business. Between the two of them they are destroying us."

He points the finger at tax authorities. "Despite their professing to be unconcerned with economic realities, they believe they have the right and the duty to secure certain economic results through the tax system.

"For example, they'll destroy particular products for industry through the tax system without any compunction whatever. And they'll favour others. The most immoral propositions can be put to them by Parliament and they'll enforce them."

The policies which are framed, he says, are not necessarily made by any governing body as such. "They're made by vested interests that are seeping their influence into the system and controlling it at a thousand different points."

The same thing happens in tax, he believes. "Years ago, officials in the tax department began saying we must cut out tax concessions, tax expenditures, disguised ways of benefiting vested interests. Since then we have had more tax expenditures, not less."

What role can the Margo Commission on Tax Reform play in improving the tax structure? "It can make as many proposals as it likes. If they are not politically feasible in the context of our philosophy and our moral precepts, they will have no effect whatsoever."

He believes that radical changes that would have a positive effect would be defeated by vested interests. "We have had this before. We have had radical proposals where an immediate change is made. What happens is the old system carries on working as it has always worked. In the end, the radical change has been whittled away."

As an example he quotes the introduction of GST. "We then made a significant decrease in income tax, because we had found a new source of revenue. The theory was that the tax burden would be distributed more equitably. It would be more efficient. People would be more productive because there were less taxes.

"That was the story line. It concealed the true facts that a new source of wealth had been created. A new source of revenue means that the man in the street is going to be robbed. That's exactly what happened, because after that income tax and sales tax both went up. So what is the use of making proposals that will be defeated and destroyed by institutional constraints ..."

Prescriptions and reform programmes, he says, are simply going to be smashed in the system. "The same thing applies to tax. I see, with all due respect, the current commission of enquiry is being almost irrelevant. It is delaying tactics.

"Because it has no power it can not achieve fundamental change. It has in fact enabled gross abdication of responsibility of the authorities. In the last few years the authorities have simply abdicated from their responsibility of running a sound, reasonable, efficient and — above all — moral tax system because the commission is going to look at it all. It has been a device for not doing anything about the tax system."

THE SHARP END/Peter Wilhelm

Happy, happy

SO THEN ... it seems that we're the fourth happiest people in the world. This applies to white South Africans; blacks are the 14th happiest, more so than the people of France and Spain, but less so than Chileans. All this according to the World Happiness Index, compiled by a London-based market research outfit.

The Index lists the top 20 happy nations. In descending order of well-

the economy and politics. But British gremlins have only to say: "Umm ...

The Japanese are worse off than the French because they have to get up early in the morning to invent new microchips to go with their fiche (an

How taxpayers foot the bill to train student doctors

320

STAR 4/3/86

By Bruce Cameron, Political Staff

CAPE TOWN — Taxpayers have to contribute about R6 000 a year to the cost of the training of every individual doctor.

And the cost at the University of Pretoria of producing a doctor is higher than at any other university in the country.

The State contributes R6 444 a student a year at Pretoria against R5 556 at Stellenbosch. At Natal the cost is R6 150.

The white own affairs Minister of Education and Culture, Mr Piet Clase, said in reply to questioms asked in Parliament the Universities of Pretoria and the Free State were the only ones which did not have medical students of other race groups.

Individuals carry heavy burden

Govt's tax-take increases four-fold

320

4/2/86 STAR

By Derek Tommey

CAPE TOWN — Ordinary South Africans have been increasingly heavily taxed in the past four years, official figures show.

According to the Department of Inland Revenue's latest statistical bulletin, the amount of income tax paid by individuals increased three-and-a-half fold from R2,4 billion to R7,3 billion in the four years ended 1985.

In the same four-year period General Sales Tax paid by South Africans also increased three-and-a-half fold — from R1,7 billion to R5,9 billion.

Altogether the Government took R13,1 billion out of the pockets of South Africans by way of sales tax and income tax on individuals. This was more than four times the R3,1 billion it collected in 1981.

As the economy showed little growth between 1981 and 1985, and the increase in inflation was well below the growth in tax revenues, it is clear from these figures that the steep increase in taxation must have resulted in a sharp decline in individual living standards and in private savings. Many South Africans must have become poorer.

The figures show that the ordinary individual is having to bear an increasing share of the cost of running the country.

As a result of huge investment and other concessions, tax payments by the corporate sector have shown nowhere near the same growth.

In fact, in spite of the higher domestic gold price, taxes paid by the gold mining industry dropped substantially — from R2,8 billion in 1981 to R1,6 billion in 1985.

In the same period taxes paid by companies grew 58 percent which was well below the inflation rate — from R2,4 billion to R3,8 billion.

As a result, the contribution of the corporate sector towards the cost of running South Africa fell from 41,2 percent in 1981 to 24,7 percent in 1985.

The bulletin shows that 1 454 843, or 90,3 percent of all income tax payers had a taxable income of R30 000 or less, which means that there were just over 150 000 taxpayers earning more than R30 000 a year.

According to the bulletin there were 622 people (620 white and two Asian) with a taxable income of R250 000 a year or more.

- Most white income tax payers (259 629) are in the R10 000 to R15 000 income bracket. Most coloured people (64 537) were in the R5 000 to R10 000 bracket, as were most of the Asian taxpayers (44 194).
- The bulletin's figures show that the top 28 percent earners pay 75 percent of the income tax bill with 10 percent of taxpayers or roughly 160 000 paying some R2,0 billion or 45 percent of the income tax collected.
- A breakdown of the earnings and tax collections in different regions shows the great wealth to be found in the Transvaal. Total personal income on Johannesburg in 1984 was calculated at R3,8 billion, against R2,0 billion for Durban and Cape Town.

unilaterally, and transcripts are not normally released.

If the other person later breaks the confidentiality of discussions unilaterally, or puts words into my mouth, or discloses misleading accounts of the discussions, I can, if I deem it necessary in the interest of the truth, offer to make the transcript of the discussions available to the person with whom I was in conversation, and with his consent release it for general information.

For example, after the confidentiality of the discussion of 25 November 1985 and the contents thereof had been broken, and a unilateral account of the discussions had been disclosed to the media, my representative offered to supply Dr Slabbert with a copy of the transcript, and inquired whether he would have any objection to its release. He had no objection.

Ministers:

HANS. Q. COL 267

Lebowa: commission of inquiry

4/3/86

*1. Dr W J Snyman asked the Minister of Education and Development Aid:†

(1) Whether a commission of inquiry into the activities of the Lebowa Development Corporation has been appointed; if so, when;

(2) whether this commission has completed its investigation; if so,

(3) whether the commission has reported to the Cabinet; if so,

(4) whether he intends laying this report upon the Table in Parliament; if not, why not; if so, when;

(5) whether he will make a statement on the matter?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1) Yes. 9 April 1985.

(2) Yes.

(3) Yes.

(4) Yes. In the course of this session.

(5) No.

Surcharge/general sales tax

4/3/86. 3220

2. Mr A SAVAGE asked the Minister of Finance: HANS. Q. COL 4/3/86.

(1) Whether he has received any requests or representations for the abolition of the (a) 10 per cent surcharge and (b) general sales tax payable on imported books and periodicals; if so, (i) from which bodies and (ii) when;

(2) whether he intends abolishing the (a) surcharge and (b) general sales tax on such books and periodicals; if not, why not; if so, when?

†The DEPUTY MINISTER OF FINANCE:

(1) (a) and (b) Yes, during 1985 from various organisations such as:

S.A. Institute for Librarianship and Information Science
The Astronomical Society of South Africa
Academic Sub-committee Overseas Publishers Representative Association
South African Publishers Association.

(2) (a) and (b) Requests for the abolishing of the surcharge and sales tax on books are still receiving attention along with requests in respect of other goods.

Mr A SAVAGE: Mr Speaker, arising out of the hon the Deputy Minister's reply, is he aware that the Post Office's charge for collecting the surcharge can amount to an additional 2% levy, and does he believe that this is justifiable?

The DEPUTY MINISTER: Yes, Mr Speaker.

Indians: requests to immigrate

*3. Mr H D K VAN DER MERWE asked the Minister of Home Affairs:†

Whether he has received any requests from political parties to allow Indians to immigrate to South Africa; if so, (a) from which political parties and (b) from which countries?

The MINISTER OF HOME AFFAIRS:

No.

(a) and (b) Fall away.

Names on uniforms

HANS. Q. COL 269 4/3/86

*4. Mrs H SUZMAN asked the Minister of Law and Order:

(1) Whether, with reference to his reply to Question No 14 on 13 April 1984, all members of the South African Police involved in (a) patrolling townships and (b) riot control are required to display their names on their uniforms at all times; if not, why not; if so,

(2) whether any members of the South African Police failed to display their names in this amnner in 1985; if so, (a) how many, (b) why and (c) what action was taken as a result;

(3) whether he will make a statement on the matter?

†The MINISTER OF LAW AND ORDER:

(1) (a) Yes.

(b) Yes.

(2) Yes.

(a) About 20 percent.

(b) They do not possess name plates and name strips, on account of the factories' inability to satisfy the demand.

(c) In co-operation with the factories it is attempted to provide name plates and name strips as speedily as possible.

(3) No.

Policemen killed/injured

HANS. Q COL 270 4/3/86.

*5. Mrs H SUZMAN asked the Minister of Law and Order:

How many policemen, excluding policemen killed or injured in vehicle accidents or outside the Republic, were (a) killed and (b) seriously injured in the execution of their duties in 1985?

The MINISTER OF LAW AND ORDER:

(a) 29 members.

(b) 82 members.

Blocks of flats

HANS. Q COL 270

*6. Mr W V RAW asked the Minister of Law and Order:

4/3/86

Whether consideration has been given to the erection of blocks of flats for married Black policemen in townships; if so, with what result; if not, why not?

†The MINISTER OF LAW AND ORDER:

Yes, provision has already been made in the 1985/1990 five years building programme of the Department of Public Works and Land Affairs for the erection of blocks of flats and groups of houses for married Black policemen at ten (10) different centres.

Mr W V RAW: Mr Speaker, arising out of the reply given by the hon the Minister, what steps if any, are being taken in the meantime to protect the homes of Black policemen in the townships?

†The MINISTER: Mr Speaker, various steps are being taken. One of them is that members are permitted to take weapons is-

Finding fault with Barend's tax system

STAR 3/20 4/3/86

READERS' VIEWS

It is a crime and Finance Minister Barend du Plessis is the perpetrator. Your readers should know that:

● The "benefits tax" as applied to low-interest loans to buy homes breaks away from the principle of "taxation relative to the ability to pay".

● The percentage of personal income tax is much higher than the percentage of enterprise (eg company) income tax.

● Profit as a tax base is inequitable, illogical and the root cause of benefits in lieu of money as payment for services.

● The Minister of Finance is either incompetent or unconcerned about these inequities — particularly in the case of housing loans.

Benefits tax

The objective of benefits tax is to establish equity in personal income tax by taxing total effective income. The objective is good, but the means causes a gross inequity among recipients of low-interest loans.

Among other factors, inflationary trends (currently 17 to 18 percent per annum) and increasing population have caused the price of fixed property to rise although functional use has remained the same.

Two similar houses bought in 1985 and 1975 would have cost R80 000 and R22 000 respectively. Assume that two employees, Joe and Soap, each receiving identical salaries were respectively granted loans at five percent per annum interest to buy the above houses. After paying interest and redemption, Joe will have a lower consumable income than Soap because he borrowed more capital than Soap.

In spite of this fact the "income" in terms of Minister Barend du Plessis's benefits tax is higher for Joe than for Soap.

Comparison of the 1985/86 tax year

	Joe	Soap
1. Assumed consumable income net of pension, normal tax and GST	R18 000	R18 000
2. Loan at 5% pa interest	80 000	22 000
3. Annual interest and redemption	6 360	1 740
4. Average unredeemed in 85/86	79 350	13 300
5. Taxable "benefit"	3 630	250
6. Benefits tax at 30%	1 090	75
7. Total annual payment for house (3 + 6)	7 450	1 815
8. Consumable income remaining	10 550	16 185
9. Benefits tax as % of consumable income remaining	10,3%	0,5%

High personal tax

Personal income is taxed at a much higher percentage than enterprise income. An opportune analysis of the financial statements of five public companies published in *Finance Week*, November 14 to 20 1985 showed that the average tax levied on their incomes was a mere 2,05 percent.

Personal income tax, on the other hand, varies between 10 percent and 40 percent and is particularly harsh in the case of the ordinary working-class employee who has received a low-interest loan to buy a house.

The latter is illustrated in the following hypothetical income statement.

Joe Soap's income and expenditure for one month

	Income	Expenditure
Salary	R1 250	
Inflexible expenditure:		
Interest and redemption (60 000 @ 5% pa)		R400
Pension		75
Normal PAYE		150
Benefits tax		25
Sub total		650
Flexible consumption:		
Purchases		528
GST		72
Sub total		600
	R1 250	R1 250
Total tax		R247

NOTE: Tax of 19,8 percent of gross income and 31,9 percent of what could have formed the discretionary or flexible consumption.

The five companies (C G Smith Foods, Reunert, Boumat, Adcock-Ingram and Afrox) have a total income of R5 565 000 000 and pay a tax of R113 922 000 or 2,05 percent plus an unknown quantity of GST which is assumed to be 12 percent of 20 percent of expenditure (no GST on interest payments, profits, materials, salaries, etc) and computes to R128 092 000.

Total tax becomes R242 014 000 or 4,35 percent of gross.

Look again:

	Income	% Tax
Companies	R5 565 000 000	4,35
Joe Soap	15 000	19,80

Profit as a tax base

Profit as a tax base has no logic and only encourages expenditure that otherwise would not be made. Every economic unit has an income and outflow of money which must balance. "Profit" is a measure of the excess of income over the expenditure which generates the income and the profit accrues to the owner/shareholders of the enterprise.

Profit which is retained within the enterprise still belongs to the owners and is retained to cover expansion or risk.

As is the case with personal income, it is almost impossible to define exactly which costs generate the income.

Poor, careless or selfish management decisions can lead to costs which are unnecessary.

For personal income productive persons must be maintained (psychologically and physically), developed (physically and mentally), replaced/depreciated (children raised), etc and the costs vary from person to person. Some of the consequences of profit tax instead of gross income tax are as follows:

1. Entertainment of clients (which can involve prostitution — "escorts") reduces profits and is in effect carried to the tune of 50 percent by other taxpayers.
2. Inefficient management which leads to low profits or bankruptcy must be carried by other taxpayers.
3. Large amounts of valuable and excellent human expertise are expended devising ways of reducing "profits" without reducing income.
4. In an economic down-turn, if profits are halved, so also the tax base, while tax on gross income would reduce the tax base by only 10 percent if there were normally a 20 percent profit.
5. The personal income tax burden is proportionately high, which makes benefits in lieu of money for services an attractive proposition despite the reduction of discretionary freedom in the choice of spending/consumption.

The Finance Minister is passive

The Minister of Finance is aware of these inequities and could quite easily eliminate them but due either to incompetence or a lack of concern, has not done so.

The salaried worker whose situation is sketched above cannot wait for Justice Margo's report, he needs relief now. Furthermore, there is no guarantee that Justice Margo's findings will include solutions for these inequities.

Suggestions

My suggestions regarding the foregoing are fairly straightforward.

1. Allow interest paid for any loan to be deducted from taxable income just as any interest earned is added to taxable income. In this way low interest loans would automatically leave a higher consumable and taxable income than high interest loans.
   It would also be practical and applicable across the board for any type of loan and any type of economic unit. It would not threaten the tax base because the recipient of the interest would pay tax.
2. Gross income should be used as a base for both personal and enterprise tax assessment. The absolute value and stability of the tax base would be greatly increased.
   It would be more difficult for business, industry and farming to avoid or evade tax. In consequence, the percentage of income required to meet the State Budget would be less.
3. General sales tax should be raised against the end product irrespective of who the buyer is, but it should only be raised once, preferably at the supply point (ie, the manufacturer or service organisation).
   Second-hand product sales or re-sale of products should not be taxable.

The main advantages would be an increased difficulty of tax evasion or avoidance and a greater measure of revenue from industry, farming and business.

If you are a taxpayer then you must let yourself be heard on this issue. Speak to your colleagues, fellow businessmen, sportsmen, trade union members, other members of your professional institute, friends, etc.

Taxation is necessary but let's at least remember the basic principle of "taxation in relation to ability to pay".

Marshall Young

Linden

SEE LETTERS Page 10

4/3/86 - Bus Day

(320)

If they could only tax bureaucracy . . .

THERE IS growing fear in business and parliamentary circles that the Margo Commission — the largest in SA's history — has grown into an unmanageable bureaucracy. It is not only the largest commission ever, but, relative to its size, was probably also served with the shortest time given a commission to complete its work: a mere 18 months.

When the commission was appointed, the observer was impressed by its size, quick deadline, expertise and wide mandate. By implication, the observer then expects boldness and clarity of purpose — not the creation of mountains of paper and the involvement of ever-growing numbers of people.

But this is exactly what has happened. It can now be said that the commission has fallen into the trap of involving as many people as possible — to make the investigation exhaustive — and ending up with an unwieldy organism.

The 19 appointed members of the commission are buttressed by full- and part-time advisers; subcommittees, and sub-subcommittees. To complicate the issue it has recieved 804 submissions from taxpayers, which may be anything between a half page and more than a 100 pages.

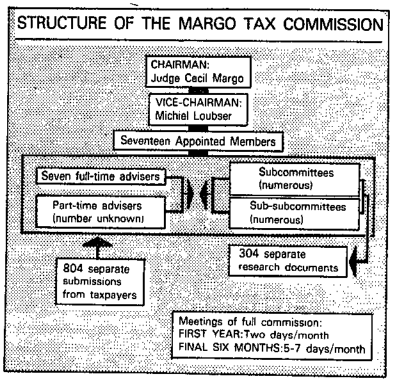
Moreover, the commission's advisers have to date compiled 304 research documents. The commission members are scattered around the country — a problem in itself. Some have called, privately, for an extension of the June deadline for completing the report. But chairman Mr Justice Cecil Margo is adamant that it will be completed on time.

The central worry for taxpayers is that the commission has become so bogged down that its final — and some would say rushed report — will be as much a patchwork-quilt design as the current tax system. It may then lack the necessary credibility and politicians will lack the confidence to implement all or part or any of it.

If the report is ignored, the taxpayer who awaited the report with great anticipation will be left to continue with an unfair, unjust and inefficient tax system. Take just one example — tax evasion. Commissioner for Inland Revenue Carl Schweppenhäuser estimates evasion will cost R6bn in this fiscal year. It the commission's report is ignored, tax evasion will continue at the same or increased magnitudes.

The Margo Commission's central problem appears to be its size. Practically evey tax expert in the country is involved, in one way or another, with the commission. With the vast scope and character of tax, it is not surprising that many other experts are involved, too.

The large number of subcommittees were created to investigate



CECIL MARGO

BARRY SERGEANT

specialised areas: tax avoidance and evasion; international tax structures; company tax allowances; regional development; economic co-operation in the subcontinent; inflation, and so on.

The names and members of the subcommittees are confidential, because they are investigating topics concerning vested interests: the mining, life insurance, banking, motor industries, among others.

Although taxpayers were free to make submissions at their own choice — at least until the end of September 1985 — the commission has solicited submissions from recognised sectors of the tax-paying fraternity: trade unions; public servants; trade and professional groups, and so on.

The result is thousands and thousands of pages of paper. By attempting to do good work too fast, has the commission become hoisted by its own petards? Was there a better way?

Soon after the Margo Commission was appointed, Assocom executive director Raymond Parsons said, privately, that the best route the commission's work could take was to start with an analysis of modern tax-bases. Examine these; choose the best one; use it as a departure point; investigate how it can be best adopted and applied in SA.

It is a very simple, serious point, since there are just three tax-bases: income (notoriously difficult to define); wealth (practically impossible to measure properly); and consumption (which everyone understands). Most Western countries — and also SA — use income as the key tax-base.

But like most Western countries, SA has mingled the other two tax-bases into the key tax-base and ended up with an incoherent tax structure. So SA has *income* taxes on businesses and individuals; *wealth* taxes (estate duty); and general sales tax (a contaminated form of *consumption* tax).

Instead of using the best tax-base as a departure point, the commission chose to tinker with SA's incoherent tax system. It decided to purify and cleanse an incoherent system, a system that can never be made pure and clean. And the best way to tinker with something that can never be made perfect is by creating layers of bureaucracy.

When the commission was appointed it was an explicit admission by State President P W Botha that the tax system had failed. Having accepted its responsibility, the Commission chose to take a failed beauty and give her a facelift.

Yet every member of the commission knows that the pure consumption tax (usually dubbed the universal expenditure tax, or UET) is the best tax known. The UET uses cash flows as a yardstick, taxing the excess cash which is not *saved*.

It thus encourages saving; is self-adjusting for inflation; is simple, equitable and economically neutral. The income tax is none of these, yet the commission is tinkering with it.

Members of the Margo Commission will tell you that the UET is pure because it is only a theory: "Try it and it, too, will soon be contaminated." If the UET is implemented and politicians have the nerve to stick to it without yielding to vested interest groups, thus building aberrations into the system, it remains pure.

There is no reason why vested interest groups should lobby for a tax such as the UET; better to fight for maintenance of an incoherent system which you know you can milk. Moreover, the Margo Commission itself is privy to various vested interest groups: its members all represent vested interest groups, and all its subcommittees solicit "information" from vested interest groups.

There are no genuine *representative* consumers/taxpayers on the commission. The chairman is a judge; there are several accountants; attorneys; a present and former deputy governor of the Reserve Bank; a couple of company directors; the chairman of the Competition Board; the secretary of the Federal Council of Teachers' Associations; a sprinkling of academics and economists; Margaret Lessing; a medic; and a City Treasurer.

Most members of the subcommittees are professionals, too: accountants particularly; lawyers; economists; academics and bureaucrats. Four months before the commission is due to report it can be seen as a pyramid, with Margo at the top and (perhaps) hundreds of experts under him.

What they are preparing for an anxious tax-paying public is anyone's guess.

But with the size of the Margo Commission bureaucracy, the chances that the final report will be mummified and placed in a dusty tomb is very high. The commission has about it the elements of a Greek tragedy: a hero who knows better but dies for what he believes in.

The tragedy is that the Margo Commission honestly believes that what it is doing is the best thing for taxpayers. If its recommendations are not accepted there will be ample choices of where to pass the buck. For as in all bureaucracies, responsibility is diluted, and what could have been boldness is reduced to a timid and tired victim.

Cut taxes to help economy — Kantor

CAPE TIMES 5/3/88

By AUDREY D'ANGELO

THE strength of the economy is dependent on consumers' willingness to spend, and it will therefore not recover fully until wages and salaries increase to cover rising costs, Professor Brian Kantor of the University of Cape Town said yesterday.

Stressing that "a revival of the economy is absolutely critical for the future of South Africa," he said the government should think in the short term and cut taxes so that consumers would have more disposable income.

"In the Budget to come, I would hope that the authorities would borrow more and cut taxes.

"One way or another, one would be looking for cuts in personal tax."

He thought it would be helpful to the economy if the government were to spend 15 percent more than last year, and borrow more to pay for this.

Professor Kantor was speaking to the Western Cape branch of the Federation of Furniture Manufacturers of South Africa at a city hotel.

He said he expected the inflation rate to fall to 12 percent by this time next year, provided the rand remained at its present level.

But he expected the inflation rate to remain at about 17 percent for the next 10 months.

He thought the economy would recover this year, but from low levels, and growth was unlikely to be more than five percent.

Professor Kantor said that although deregulation would help the growth of small businesses, it would not mean much without deregulation of the labour market.

Industrial councils inhibited competition in the labour market. He would like to see more bargaining at plant level.

He thought there should be no government interference in wage rates, conditions of work or decisions about "who does what".

Professor Kantor said the recent behaviour of trade unions, which now enjoyed greater freedom, had been one of the big success stories of South Africa.

The trade union movement had provided credible and responsible black leadership. Although these leaders were radical, economic factors had forced them to behave responsibly in the interests of their members.

"To govern South Africa effectively, radicals have to be in the government system and their behaviour has to be constrained by the economic interests of their supporters."

DISPATCH 6/3/86. (320)

Tax cuts could boost economy

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"To govern South Africa effectively, radicals have to be in the government system and their behaviour has to be constrained by the economic interests of their supporters." — DDC.

Escom, Receiver in GST dispute

6/3/86 B. Day

LINDA ENSOR

THE Receiver of Revenue has obtained court orders to attach Escom electricity account payments totalling more than R6m from Randburg and Benoni municipalities in lieu of GST which, it is alleged is outstanding.

Sales tax of R6m and R1 100 is alleged to be owed by Escom on equipment, services and contracting work at power stations throughout SA.

The orders were subsequently set aside by action of the Commissioner of Inland Revenue after discussions with Escom.

Ters Oosthuizen, GM: Strategic Services told *Business Day* yesterday there had been a long-standing dispute between Escom and local receivers of revenue in a number of magisterial districts over the interpretation of the Sales Tax Act.

This was the first time, however, that legal action had been taken to recover the "shortfall".

"Escom has been paying purchase tax in terms of its reading of the Act. The receivers of revenue took action on the basis of a different interpretation and obtained court orders in terms of the Act to attach payments of Escom electricity accounts," Oosthuizen said.

He said he had personally discussed the matter with the Commissioner. They had decided to call a "standstill" until the dispute had been resolved.

Previous negotiations with individual receivers of revenue had been conducted on a local level, without co-ordination, Oosthuizen said. However, the Commissioner had now taken control of the situation nationally.

Oosthuizen stressed that Escom had not failed to pay tax on such items as imported equipment.

TAX REFORM

3220

FIN MAIL 7/3/86

The hottest plan

The Margo Commission, due to report in three months' time, may recommend a revolutionary "business value added (VA) tax." The tax, mooted by one commissioner, has been described as having fundamental advantages over standard tax reform packages.

In essence, the business VA tax uses the cash flow of a business as its basis. The surplus of cash received over cash paid out is taxable, unless that surplus has been saved — which includes buying new or replacing old assets. If surplus cash is paid out to shareholders it is taxable in their hands — although the tax is paid by the business on behalf of the shareholder.

VA is defined as the difference between the cost of purchases and the value of sales — a simple arithmetical calculation. VA can also be measured as the total of payments to factors of production (wages, dividends, and costs of capital — such as mortgage payments and interest).

The business VA tax replaces the current vexed definition of taxable income with the economic definition of income: value added. This is the wealth the business adds to the economy. But despite its use of the VA concept, the business VA tax is very different to the "Value Added Tax" or VAT so widely used in the Western world.

By using the strict economic definition of VA, the business VA tax differs from VAT by:

- ☐ Including exports in its base — thus having a much broader base; and
- ☐ Calculating the tax payable on a VA/accounting additive, rather than an invoice method.

The business VA tax overcomes the difficulties of the standard model of tax reform by treating *all* businesses equally — whether pawnshop, partnership, close corporation, bank, mine, cash business, conglomerate or fledgling furniture manufacturer. It could also be levied on public corporations, not currently subject to tax, such as the South African Transport Services and Escom, and on central, provincial and local government as a prong of Pretoria's privatisation drive.

Subjecting parastatals and government departments to tax would broaden the tax base considerably and make a significant new contribution to the tax haul. It would have the advantage that entities not currently subject to tax would then be less inclined to interfere with the private sector.

The business VA tax does not discriminate against currently favoured sectors. It merely extends the advantages enjoyed by mines, farmers, public corporations and the different tiers of government to other business entities.

Judge Margo ... may tax parastatals too

The main advantages of the business VA tax are:

- ☐ The only "income" of concern for income tax purposes is cash paid to shareholders, bondholders and other suppliers of factor services, such as labour. These receipts are taxed as income;
- ☐ The system is much easier to administer than standard models of tax reform;
- ☐ Tax shelters are disposed of, as all sources of business "income" are treated identically;
- ☐ All expenditures by business are treated identically; and
- ☐ All economic benefits of business expenditure are treated identically.

The business VA tax would allow a lower rate than the current 50% company tax. Investment, risk spending and greater employment of labour would be fostered.

The business VA tax, says an observer, would fundamentally and favourably alter the pattern of savings and investment in SA. And because the business VA tax is simple and universally applicable it would be far more resistant to intervention by lobbies than the prevailing tax structure. ■

AA MUTUAL

ConFederating

Hardly three months into the year and already another short-term insurance company has taken the marriage vow. This time it's a biggy, with Federated Insurance and AA Mutual Insurance (AAMI) combining to form Federated-AA.

With a budgeted net premium income of R500m for the December year-end, the merger is the new number one South African short-term insurer. Warren Plummer is to remain MD of the enlarged company with Federated's Hans van der Walt stepping over to executive director status. Plummer's job will be to oversee the merger, being "an expert in the field." No doubt it will also stretch to searching for a successor for when he retires in 2-3 years.

The deal was struck between Natie Kirsh

BUSINESS TAX VS CONSUMPTION TAX

One of the most important features of the mooted business VA tax is its compatibility with the consumption tax — at least in part. Commission chairman Judge Cecil Margo has repeatedly implied that a full-blown consumption tax, also known as the universal expenditure tax (uet), is unlikely to be recommended.

But features of uet can be grafted into any tax reform package. This would appear to be the outcome if the business VA tax is recommended. The business VA tax is consistent with uet to the extent that under the business VA tax savings are not subject to taxation.

Like uet, business VA tax also uses cash flow as its yardstick or base. Both taxes, unlike the current company tax system, ignore the use of complicated and often outdated corporate tax allowances and special deductions.

In theory, uet can be applied to all taxpayers — personal and business. Personal taxpayers can pay tax on their excess of cash received over cash not saved. But the mooted VA tax is, it is understood, restricted to the business sector. Individuals would continue to pay an income tax and most of their savings would still be non tax-deductible.

Uet and the business VA tax have the major advantage of encouraging savings. The prevailing income tax system does not. And unlike income tax, by using cash flows the business VA tax is self-adjusting as regards inflation.

and Federated in an unusually complex arrangement. The first phase was to split the relevant companies under Kirsh Industries into three major components: AAMI, AA Mutual Life and AA Mutual International (the UK-based short-term company).

Explains Johannes Hamman, MD of Federated Investments: "Both sides agreed a price for each of the three. Since neither knew who would buy what at that stage, it was a very fair method of valuation."

AAMI lost R9m on underwriting for the year to April 1985, while Federated Insurance lost R2,6m to December 1984. By all accounts, Federated will report much higher losses for 1985. The new company will have a common year-end for December 1986.

Federated-AA now embarks on the difficult task of rationalisation, though Hamman stresses there won't be any lay-offs. Federated's bits and pieces are being moved to the new Diagonal Street office where staff will begin the costly and lengthy process of adding Federated's records to the sophisticated computer system run by AAMI. In time, full computerisation should give the enlarged group a competitive expense ratio.

The advantage for Kirsh is that he has been able to shed a cash-strapped short-term insurer which will benefit from the expansion in capital as a result of the merger. The shareholding of the new group is Federated Life (30%), Fedrated Investments (40%), the AA (26%) and staff (4%).

Growth rates

Says Hamman: "Some five years ago we split our life and short-term operations as we felt that growth rates, management and capital needs were diverging. Through this transaction we went one step further by pushing our short-term company more to the side, so to speak, rather than directly subject to control by the life company."

Before the merger, Federated Life owned Federated Insurance 100%. The authorities had "intimated a preference for the two to be more at arm's length."

In the next phases of the merger, apparently, more rationalisation is to take place, as it is "still not a neat structure."

Federated decided to purchase only the local short-term company, AAMI. Says Hamman: "All life companies are capital hungry animals, and we felt that we had enough on our hands with our existing life company, Federated Life."

The cash that changed hands is a closely-guarded secret and will probably remain so until Federated-AA publishes its first annual report. In referring to a recent press report suggesting Kirsh ended up with R10m in cash, however, a market source says: "He got a lot more out of it than that."

This is in addition to Kirsh now holding AAM Life and AAM International. He also still has Constantia, a little-known and oft-forgotten acquisition dating back to 1981. But according to sources, this small short-term company, "on the basis of a gentlemen's agreement, won't be expanded as a competitor over the next three years."

One area of difficulty could be the Automobile Association connection. Though Federated-AA now has access to 600 000 motorists as a marketing opportunity, so has AAM Life. It could become a little tricky if Federated Life begins to nudge its short-term brother to tout for long-term business. ■

PETROL PRICES

FIN MAIL (153) 7/3/86

Short change

(244)

The drop in petrol price by almost 10% from March 3 was welcome — though it's no surprise that juggling with the books left the consumer well short of his due. Reef 93 octane, for example, was reduced by 10c/*l* to 92c/*l*. Yet landed cost, the basis for price calculations, fell no less than 21,6% to 51,1c/*l*. That would imply a saving of just over 14c/*l*.

So who got the difference?

The national road fund received an extra 2c; the third party insurance levy was introduced, at 2c; while another new item titled "fire protection," amounting to 0,6c, crept in.

Otherwise, the consumer would be benefiting from a fuel price of 86,2c/*l*. And there's still the little matter of applying gst to all the tax and levy items. As it is, the lower pump price also reflects a saving of 1,1c/*l* on gst. Applying the tax more equitably would save another 1,7c/*l*.

No less than 20 items now make up the petrol price structure; many decided not in the market place, but behind closed doors. It's strange government has augmented existing levies by further imposts, given its desire to reduce inflation.

The government's heated scrap over Pick 'n Pay's attempts to offer discounts on petrol must also support growing scepticism (see box).

Tony Twine, consultant to Econometrix, says a 10% cut on the pump price should reduce inflation by almost 2,5 percentage points over a nine-month period. "This assumes the multiplier effect following lower running costs for transport and so on. This multiplier works when prices are on the up, but may not when prices are falling. The problem is you get 'ratchets' behind prices. I doubt, for example, if Putco would now reduce its prices, while things like bread prices are unlikely to go down."

The petrol price cut is a weak response to dramatic events over the past few months. The rand has appreciated no less than 45% since August, while the crude oil price has collapsed. Compared to a ruling rate of around \$27/barrel last year, prices for delivery this April are quoted at \$13.

The landed cost reflected in the new pump price assumes an average rand-dollar exchange rate of US47c and, it is believed, an average crude oil price of \$23,50. So if favourable trends continue, consumers can look forward to further and large cuts in the petrol price.

But, alas, there are still a few administrative snags. Just over half a cent saved from the lower landed cost seems to have gone to reduce the "under-recovery" rate. This refers to the industry "slate," a price-balancing mechanism.

In co-operation with the authorities, the oil companies use it like a bank account to absorb minor fluctuations in landed cost. During December, for example, the oil companies were owed around 6,2c for every litre sold. It is apparent from the latest pricing structure that there is still an under-recovery of some 5,6c/*l*.

FIN MAIL 7/3/86

DISCOUNT BATTLE LINES UP

(244)

Raymond Ackerman's Pick 'n Pay, the oil cartel, and government are about to collide head-on following the chain's latest attempt to bring free market forces to play in petrol retailing.

Neither the oil companies nor Ackerman seem certain whether any law is broken by Pick 'n Pay's offer of a 4c food discount at its stores for each litre of petrol bought at its pumps. But government thinks the deal is a contravention of the Petroleum Products Act.

Sources at the Department of Energy Affairs (DEA) quote amendments to the Act, intended to stop petrol discounting, effective March 1, as prohibiting any refund arrangement.

Ackerman, however, says the scheme is in line with appeals by Agriculture Minister Greyling Wentzel for commerce to pass on savings related to lower fuel prices to consumers. Ackerman adds that his legal opinion suggests the scheme does not fall under the Petroleum Products Act, but instead the Trade Coupons Act, with which it complies.

"We will charge the price laid down by government at the pumps of our 12 garages, but our coupons will help the man in the street — which government has also urged us to do."

Early reaction from at least one oil company was sympathy for Ackerman, but word from DEA is that supplies should be cut. This leaves the oil majors in a quandary. There have already been disputes between them over whether they should deliver to the chain's garages. In many cases, one company acts as agent for another. What happens, for example, at the Brackenfell hyper, where Shell pumps are supplied by BP? Should BP continue to supply until told not to by Shell?

FIN MAIL (320) 7/3/86.

FEATURE

JOINT TAXATION

It may just be good

There appears to be a growing school of thought that joint taxation is not all bad. The main argument against taxing a husband and wife's income as one is that, compared to paying tax on an unmarried basis, much cash is foregone.

So it often makes sense to "live in sin" or contract a secret divorce. Neither phenomenon is unknown; both invariably lead to cash savings.

Britain's Meade Report on tax (which recommended an expenditure tax) noted several "disputable, but also conflicting" criteria for taxation of married persons. Of these, probably the most compelling criterion for maintaining joint taxation — at least in theory — is that two persons living together and sharing household expenditure can live more cheaply.

They therefore have greater taxable capacity than two single persons living separately.

But another criterion is that the decision whether to marry should not be affected by tax considerations.

These two criteria conflict to the extent that two people may choose to live together, reducing their living expenses, without having to marry.

Another criterion is that families with the same joint resources should be taxed equally.

This goes beyond the simple concept of the joint taxation of a man and his wife, and in equity is impossible to quarrel with.

But it is almost irreconcilable with the criterion that tax arrangements should be reasonably simple for the taxpayer to understand and for tax authorities to administer.

A real problem is the widespread belief that SA's joint taxation always translates into more tax payable compared to not being married.

As the table compiled by Deloitte Haskins & Sells' Maric Glaser shows, this is incorrect.

As shown in the table, an unmarried person — say a man — with taxable income of R50 000 pays R16 955 tax at unmarried rates.

Were he to marry a woman with no taxable income, total taxable income remains R50 000, but tax payable falls to R15 210 on married rates.

So this marriage saves cash. It makes sense to the extent that since the woman does not contribute *cash* to running the household, the tax unit should pay less tax than before.

Now assume this woman finds a job worth R20 000 taxable income a year. Total taxable income of R70 000 attracts R25 010 tax payments.

If they divorce — but continue to live together — their total tax payable is just R20 480, as indicated in the column headed "R20 000."

This is a saving of R4 530, the difference between R25 010 and the R20 480.

In this way the table can be used to estimate the total tax payable by an unmarried couple for a variety of individual incomes. One simply reads the total aggregate taxable income in the left-hand column against the column for the amount earned by one partner.

So the decision whether to marry is significantly affected by tax considerations, regardless of other criteria which have been listed by Meade.

This conclusion runs into another criterion, namely, that the incentive for a family member to earn should not be blunted by tax considerations if they depend on the economic position of other members of the family.

In SA, at least regarding husband and wife, it most certainly is.

Other "disputable and often conflicting" criteria listed by Meade include:

☐ Economic and financial arrangements within the family (for example, as regards ownership of property) should never be dominated by sophisticated tax considerations:

☐ The tax system should be fair between families which rely upon earnings and families which enjoy investment income; and

☐ Choice of tax unit should not be excessively costly in loss of tax revenue.

Despite arguments such as these, other countries have not abolished joint taxation, although both America and Britain permit an election whether to be taxed jointly. In Britain, the election applies to earned income only — investment income is still aggregated with the husband's to counter avoidance schemes.

Ideally, a tax system should be fair, facilitate collection of taxes and be levied on those with the ability to pay in accordance with their means.

On this basis, the criterion that two people living together have a greater taxable capacity than two people living singly is the most compelling reason for keeping joint tax.

THE SAVINGS OF SIN OR DIVORCE

Total aggregate taxable income	Taxation at married rates*	Taxation at married rates**	Total tax payable by an unmarried couple if one partner is earning: 0	5 000	10 000	15 000	20 000	25 000	30 000	35 000	40 000	45 000	50 000
10 000	690	434	955	310	955								
15 000	1 610	1 270	2 055	1 110	1 110	2 055							
20 000	2 930	2 482	3 525	2 260	1 910	2 210	3 525						
25 000	4 510	3 978	5 055	3 730	3 010	3 010	3 730	5 355					
30 000	6 330	5 722	7 375	5 510	4 480	4 110	4 480	5 510	7 375				
35 000	8 400	7 738	9 615	7 530	6 310	5 580	5 580	6 310	7 530	9 615			
40 000	10 610	9 874	11 975	9 770	8 330	7 410	7 050	7 410	8 330	9 770	11 975		
45 000	12 910	12 110	14 455	12 130	10 570	9 430	8 880	8 880	9 430	10 570	12 130	14 455	
50 000	15 210	14 410	16 955	14 610	12 930	11 680	10 900	10 710	10 900	11 680	12 930	14 610	15 955
55 000	17 610	16 810	19 455	17 110	15 410	14 030	13 140	12 730	12 730	13 140	14 030	15 410	17 110
60 000	20 010	19 210	21 955	19 610	17 910	16 510	15 500	14 970	14 750	14 970	15 500	16 510	17 910
65 000	22 510	21 710	24 455	22 110	20 410	19 010	17 980	17 330	16 990	16 990	17 330	17 980	19 010
70 000	25 010	24 210	26 955	24 610	22 910	21 510	20 480	19 810	19 350	19 230	19 350	19 810	20 480
75 000	27 510	26 710	29 455	27 110	25 410	24 010	22 980	22 310	21 830	21 590	21 590	21 830	22 310
80 000	30 010	29 210	31 955	29 610	27 910	26 510	25 480	24 810	24 330	24 080	23 950	24 080	24 330
85 000	32 510	31 710	34 455	32 110	30 410	29 010	27 980	27 310	26 830	26 570	26 430	26 430	26 570
90 000	35 010	34 210	36 955	34 610	32 910	31 510	30 480	29 810	29 330	29 070	28 930	28 910	28 930
95 000	37 510	36 710	39 455	37 110	35 410	34 010	32 980	32 210	31 830	31 570	31 430	31 410	31 410
100 000	40 010	39 210	41 955	39 610	37 910	36 510	34 480	34 810	34 330	35 070	33 930	33 910	33 910

*Assuming wife's earnings = Nil. Taxed as married, no children and no surcharge (from 1 March 1986).
**If minimum wife's earning = R1 600.
Source: Maric Glaser, Deloitte Haskins & Sells

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'Forget about substantial tax relief'

DURBAN — Those who expect concrete tax reductions to flow from the report of the Margo Commission will be disappointed, warns tax expert Costa Divaris.

Addressing a Natal Chamber of Industries seminar in Durban, Mr Divaris said that in the final analysis the role of the Margo Commission would be merely to find additional sources of finance for the State.

He warned that the climate created by an unstoppable State spending machine and its self-interested bureaucracy meant that no meaningful tax reductions could be expected as a result of Margo's report.

He said that over the years South Africa had evolved a mature and well-tested tax system. However this had been eroded through bad measures like sales tax and the proposed regional services levies, and by Inland Revenue itself.

Wealth was being redistributed on a wide scale, for example from consumers to farmers and especially from the taxpayer to the bureaucrat. In short, by taxing every possible source of wealth, the country was trying "to run a capitalist system without capitalists".

A maze of concessions, allowances and other provisions meant the Government steered the wealth it confiscated from the public to its friends, its agents and those who found its favour — without regard to the interests of the taxpayer.

When it came to reform and the need to cut taxes the Government was helpless in the face of a "self-created nightmare".

Any solution was pointless until there was a change in attitudes. This would only come about when people had suffered enough — and he did not think that point had been reached yet.

He believed that the latest Inland Revenue tax drive ("launched with the help of its army of draft dodgers") was really a way of avoiding yet another unpopular increase in tax rates.

He said it was his guess that in the Budget the Minister of Finance would be about R2 billion short. The current climate might cause the minister to make "great play" of some concessions to personal taxpayers, who had been shouldering a great burden. However any cut would be compensated for by a "conveniently high" inflation rate.

He believed the shortfall could be made up through changes to aspects of company tax and, in the absence of other suitable means of raising revenue, in increasing GST to 14 percent.

Tax: Barend's biggest headache

B. Post 5/3/86 320

By Bob Kernohan
Business Editor

WRESTLING with the tax problem is going to be Finance Minister Barend du Plessis's biggest challenge in drawing up his March 17 Budget, according to business organisations.

"I would like to see a reduction in company tax as it is difficult at present to inject sufficient funds for expansion," says Mr Rocky Ridgway, president of the Association of Chambers of Commerce (Assocom).

"Inflation must also be brought under control as it impacts most on the disadvantaged, who are already suffering a great deal."

Port Elizabeth Afrikaanse Sakekamer chairman Mr Koos Alberts agrees that reducing tax is vital, but says: "I do not believe we are going to get any relief as compared to last year.

"In fact, we may have to pay more in taxes and levies."

Both Mr Ridgway and Mr Alberts agree that cutbacks in Government spending are essential.

But Mr Alberts asks: "Where can these cuts be made? Spending on defence, agriculture — where there are still serious effects of the drought — and within the Department of Co-operation and Development — which needs massive funds to provide black housing — are unlikely.

"The only tax relief we can realistically expect is a drop in general sales tax. Even a reduction of one per cent would go a long way to bringing down inflation."

Mr Ridgway — who spent most of the week in Cape Town leading an Assocom delegation in pre-Budget talks with Cabinet Ministers, officials and MPs of all political parties — said it was essential any increases in Government spending be less than the inflation rate.

"Such spending must also be contained within original Budget allocations, so bringing to an end the habit of the Government coming to ask for more money later in the year."

Mr Ridgway said he continued to believe that privatisation of State and semi-State organisations — like Iscor, Escom, Posts and Telecommunications and Transport Services — was essential.

Referring to his talks in Cape Town, Mr Ridgway said that while national issues had been the main focus of attention, the economic situation in the Eastern Cape had been discussed.

"Cabinet Ministers and senior officials are well aware of the problems being faced by the region."

Asked about the potential for the construction of the Mossel Bay gas project rig, Mr Ridgway said he was "pretty certain" that the Eastern Cape would be considered for priority treatment.

"The region must make sure it is not discriminated against when it is decided who is going to construct the rig platform. It's up to local business to sharpen its pencil and be as competitive as possible, although I am pretty certain we will be treated in some ways as a special case."

The Assocom delegation met the State President, Mr P W Botha, and the President's Council.

"We made a point during this meeting of stressing that undertaking political reform, whereby the black community will have a greater say in central government, will lead to a chaotic situation unless it is accompanied by economic and social reform, meaning, among other things, a drastic reduction in the high level of unemployment," said Mr Ridgway.

"Our discussions were fruitful and I found a great degree of confidence among all the people to whom I spoke that the economy is in much better shape and that there are now more economic options available."

Budget: GST and luxuries may go up

By David Braun, Political Correspondent
Cape Town

STAR 12/3/86 320

A rise in GST and higher taxes on luxuries such as alcohol and tobacco are being forecast in the crucial national Budget on Monday.

Minister of Finance Mr Barend du Plessis is expected to increase spending on social services substantially.

To redress the inequalities of the past and to defuse the political unrest, he will have to pump more money into education, housing and welfare.

But if he is to bring down the inflation rate, he must curb Government expenditure.

He is under enormous pressure to make it possible to give at least salary earners tax relief, because inflation has pushed them into ever-higher tax brackets while reducing their spending power.

There could also be announcements on tax reform — particularly as regards the position of married couples.

If he is to make ends meet, he must look for revenue. However, he cannot take too much from companies or GST because he has to boost the economy and create the right climate for growth, investment and jobs.

Foreign money now short

Mr du Plessis will also want to look at how he can encourage people to save, because South Africa finds it almost impossible these days to borrow foreign money for its development.

So he ought to present a Budget which is both stimulatory but not inflationary; relieves the burden on salary earners — particularly the retired — but allocates extra resources to social upliftment; creates a climate for economic growth and increased business activity but encourages personal savings.

Budget speeches traditionally begin with a general review of the economic condition of the country. Mr du Plessis is likely to emphasise the point he has been making for months: that the economic fundamentals, apart from inflation, are looking good for a recovery.

The drought has been broken in many areas, though the locust plague may be a new threat to the agricultural sector.

To help give the business cycle a boost, the Government has in recent months forced down interest rates.

The rand has recovered somewhat since its low last year and the surplus on the current account of the balance of payments is healthy. But most of the surplus, if not all, is likely to be swallowed by the repayment of 5 percent of the country's foreign debts — as agreed in terms of the Leutwiler proposals.

Mr du Plessis is likely to express satisfaction with the recent management of the money supply but he will have to concede the inflation rate — at 21 percent — is far too high.

The Government will try to use the Budget to give impetus to its reform programme. It is likely Mr du Plessis will allocate R5 000 million to R6 000 million to education. Last year it was R5 044 million.

The Department of Constitutional Development and Planning's allocation will be an interesting one to look out for (last year it was R5 336 million), particularly as much of the provincial administration, which soak up most of this Budget, are to make way for the largely self-financing regional services councils.

Defence (R4 274 million last year) and Law and Order (R954 million) are certain be given increments of close to the inflation rate, if not more.

It has already been announced that the surcharge on personal income tax is to be scrapped this year.

Mr Barend du Plessis . . . under pressure to give salary earners tax relief.

The MINISTER OF HOME AFFAIRS:

(1) Transkei—960; Bophuthatswana—704; Venda—230; Ciskei—1 761.

(2) No. (a) and (b) Fall away.

Sentenced prisoners: mental institutions

HANSARD 10/3/86

321. Mr A B WIDMAN asked the Minister of Justice: QCOL 435

How many sentenced prisoners were transfered to mental institutions in 1985?

The MINISTER OF JUSTICE:

Fifty three (53). This figure includes twenty five (25) prisoners who were admitted to hospital prisons for psychopaths in terms of Section 30 of the Mental Health Act, 1973 (Act No. 18 of 1973).

QCOL 435

Deportations/arrests/prosecutions

HANSARD 10/3/86

355. Mr K M ANDREW asked the Minister of Home Affairs:

(1) (a) How many citizens of (i) Ciskei, (ii) Transkei, (iii) Venda and (iv) Bophuthatswana were deported from the Republic in 1981, 1982, 1983, 1984 and 1985, respectively, and (b) in terms of what statutory provisions were they deported in each case;

(2) whether any (a) employers and/or (b) employees have been (i) arrested and/or (ii) prosecuted in terms of the Aliens Act, No 1 of 1937; if so, how many as at the latest specified date for which information is available?

The MINISTER OF HOME AFFAIRS:

(1) (a) (i) None.

(ii) 1981—98
1982—63
1983—37
1984—15
1985—41

(iii) 1981-1984 None
1985—2

(iv) 1981-1984 None
1985—1

(b) The removals mentioned under (1)(a)(ii)—(iv) were ordered in terms of section 43 of Act 59 of 1972.

(2) Such statistics are not kept by the Department of Home Affairs.

Import surcharge

HANSARD 10/3/86

371. Mr R M BURROWS asked the Minister of Finance: QCOL 436 320

(a) What total sum had been raised by the State by way of the import surcharge on (i) books and (ii) periodicals since the introduction of this surcharge as at the latest specified date for which information is available and (b) what sum is it anticipated will be raised by way of this surcharge in the 1986-87 financial year?

The MINISTER OF FINANCE:

	Period	Surcharge
(a)	(i) 1 October 1985 to 31 December 1985	R3 322 913
	(ii) 1 October 1985 to 31 December 1985	R393 335

(b) Estimates of surcharge in respect of separate goods are not made.

Own Affairs:

HANSARD 10/3/86

Teacher training colleges

QCOL 436

12. Mr K M ANDREW asked the Minister of Education and Culture:

What was the (a) actual enrolment and (b) potential capacity of each specified teacher training college for Whites falling under his Department or any of the provincial education departments in (i) 1980 and (ii) 1985?

The MINISTER OF EDUCATION AND CULTURE:

College	(a) Actual enrolment (i) 1980	(ii) 1985	(b) Potential capacity (i) 1980	(ii) 1985
Barkly House	130	122	150	150
Denneoord, Stellenbosch (1)	209	—	200	—
Graaf-Reinet (1)	295	—	400	—
Cape Town	256	261	450	450
Oudtshoorn	290	190	350	350
Paarl	528	454	550	550
Port Elizabeth	259	242	350	350
Wellington	495	355	600	600
Durban	328	365	365	500
Edgewood	680	620	1 200	1 200
Natal	246	218	350	350
Bloemfontein	674	655	750	750
Potchefstroom	1 280	1 305	1 400	1 400
Pretoria Normaal	2 395	2 036	2 200	2 200
Goudstad	1 148	1 477	1 500	1 500
Johannesburg	1 472	1 972	2 500	2 500
Pretoria College	93	469	550	550
Witwatersrand (2)	104	17	125	125

(1) Converted into Colleges for Continued Training in 1985.

(2) Closed end of 1985.

HANSARD 10/3/86

Teacher training colleges

QCOL 437

13. Mr K M ANDREW asked the Minister of Education and Culture:

Whether any (a) new and/or (b) extensions to teacher training colleges for Whites are planned to be built by his Department or any provincial education department; if not, why not; if so, (i) where, (ii) when, (iii) what is the total estimated cost, and (iv) what will be the maximum enrolment, in respect of each such college?

The MINISTER OF EDUCATION AND CULTURE:

(a) and (b) No, because there is no need for additional accommodation at this stage. Projects in progress will however, be completed.

(i) and (ii) The following projects are in different stages of construction and the expected completion dates are as follows:

Pretoria Onderwyskollege ... 1987.
Durban ... 1988.
Edgewood ... 1987.

(iii) Pretoria Onderwyskollege R85 000 000 of which R40 000 000 will be obtained by the alienation of a part of the old campus. The remaining part of the old campus will be retained for urgent other needs for which provision would have had to be made in any case.

Durban ... R9 000 000.
Edgewood ... R1 510 000.

(iv) Pretoria Onderwyskollege 2 200.
Durban ... 500.
Edgewood ... 1 200.

The Natal

Tax on overseas book could hit S A scientis

Mercury 14/3/86 (320)

Mercury Correspondent

CAPE TOWN—Sales tax and import duties on literature ordered from overseas by major research institutions in South Africa have become so onerous that fears are being expressed about serious setbacks to scientific research in this country.

Universities and other educational institutions have expressed similar fears about the effects of book-taxes on educational standards.

Dr Michael Cluver, Director of the S A Museum in Cape Town — the oldest museum in southern Africa — yesterday appealed to the authorities to drop both GST and duties on imported literature.

'We cannot afford to tax the very foundations of South Africa's scientific research effort,' he said.

'With the weak rand and these extra taxes, the present situation is so serious that not only could the reputation and standing of the museum be affected but also the quality of our scientists' work, and that of many visiting scientists could be very seriously handicapped.

'To maintain our reputation and to enable our own 30-odd scientists to remain in the forefront of world research, we have to keep on buying the latest books and papers, in spite of the fact that these grow steadily more numerous each year.

'In practice, we cannot now do this within our budget, and are even experiencing difficulties maintaining our present subscriptions.'

Dr Cluver said it would be 'nothing short of tragedy' if the standards that had existed for so long at the S A Museum, whose library had been recognised as one of the best of its kind in the world, were lowered in any way as a result of lack of an information-inflow from abroad.

● See Editorial Opinion

Weight of tax burden has reached limit — warning

3200 STAR 14/3/86

By Michael Chester

The Minister of Finance, Mr Barend du Plessis, has been warned in the countdown to the 1986 Budget that further tax increases threaten to spark both a business exodus and a tax revolt among individual income tax payers.

The warning comes from Mr Andre Spire, executive director of the Syncom think-tank, amid intense speculation about possible new tax moves to be revealed in the Budget next week.

At a national management convention in Sandton, called by P-E Corporate Services to discuss how the industrial sector should tackle future strategies, Mr Spier said: "Patience with the taxation burden in South Africa has reached its limit.

"Taxation has reached levels where any further increases will lead to a tax revolt by individuals and either destroy business or else chase it out of the country," he added.

The only solution was a radical and sweeping privatisation programme to follow international leads, he argued. This would involve handing over more and more State services — from education to health care — to the private sector.

The programme should go hand in hand with moves to strip away the regulations that hindered free enterprise.

There was a strong case to be made out that Johannesburg and other major cities should be run like business corporations, holding and selling stocks and shares and contracting out a whole series of municipal services to entrepreneurs.

'HOGWASH'

Most of the arguments used in the protection of state monopolies — such as "in the public interest" and "strategic importance" — proved on examination to be "pure hogwash".

South Africa urgently needed to undertake a fundamental rethink of the future role and function of government at all levels.

Privatisation, he said, was now captivating the imagination of governments and politicians world-wide:

- Britain had already raised more than R55 000 million by government sales of State operations to the private sector, and planned to double the total over the next three years as it denationalised such vast businesses as British Airways and British Gas.
- Japan intended to sell off Government control of its national airline, national railways and even its national telephone system by 1990.
- Brazil was investigating the privatisation of more than 100 State-owned enterprises.
- Mexico had decided to liquidate or sell no fewer than 236 State companies and agencies.

"In South Africa," he said, "the dramatic rise in Government spending will force the hand of the politicians to find alternative economic solutions — and they know it."

The Finance Minister was likely to be able to find the funds for the 1986/87 Budget, estimated at R36 billion or higher. But the options open to him now — higher taxation, borrowing and resorting to the printing presses to create more money — were unlikely to stay open in the future.

Privatisation, properly managed, was the route out of the dilemma.

Govt urged to pool brainpower for future planning

STAR 14/3/86

MANUFACTURING THE WAY AHEAD

By Michael Chester

The Government has been urged to pool the top brainpower and best resources from both the public and private sectors to handle the management of economic affairs and future planning.

The advice was given by Mr Ron Ironside, former president of the Federated Chamber of Industries, when he told the national convention that whatever the outcome of political reform, there were vastly different national requirements in the pipeline.

Failure to recognise the realities of the development needs of tomorrow would be catastrophic.

"The tasks that lie immediately ahead are daunting, and solutions, crucial to starting a long journey back to respectability in the eyes of the international community, must be found," he said.

"To a greater extent than ever before, the private sector is involved in countering the growing threat of sanctions, loss of export markets and rumblings about trade boycotts.

YARDSTICK

"In the wake of the recent international debt settlement meetings, there are signs and sounds that cannot be ignored.

"Undertakings hinted at and commitments well publicised, have to be honoured in tangible form — a very public yardstick by which the South African Government is going to be judged, and judged harshly, should it renege or prevaricate over these issues.

"International private sector movements are devoting time and effort to findings ways and means to ease South Africa's task of changing direction via reform.

"But they are completely thrown at times by some of the actions of the authorities, which defy commonsense."

Tax cuts 'could help beat inflation'

STAR 14/3/86. 320

By Gareth Costa

South Africa's 21 percent inflation rate could be reduced by cutting taxes, deregulating the economy and slowing the money supply growth, but goverment will probably do the opposite, says Professor Joel Stern, of management consultants Stern, Stewart and Co of New York.

He said that goverment's intention is to stimulate the economy, but he believes the private sector does not need stimulating, rather the tight hold on the economy should be loosened to allow a natural free market growth.

Professor Stern said in an interview with *The Star* that the SA economy is in an extremely strong position at the moment for two reasons.

Firstly, the country's exported raw materials are in inelastic demand, meaning the demand does not fluctuate, and based on the low rand/dollar exchange rate are achieving good monetary returns.

Secondly, these exports are being sold into the strong manufacturing industries in the US and Western Europe. In other words, these goods are being bought by strong and growing economies and because of the exchange rate the return for SA is escalating.

The confidence displayed by overseas bankers in SA's repayment of its foreign debt following the standstill, also reflects the probability of a potential real growth for the economy, Professor Stern said.

He added that this in turn spells good news for the rand, since currency value is based on the real potential growth of a country; if the potential is high then its currency is strong.

However, he warned that SA's "sugar days" are nearly over with regard to the handling by the US goverment of the Southern Africa situation. He says the longest he expects the present attitude to last is until the middle of 1987.

Now is the time that the US political shake-up begins for the 1988 presidential election, and Professor Stern said it will not be good for candidates to be seen supporting SA.

"The SA economy is looking better than it did four months ago, but I believe this is just the calm before the storm unless negotiations between the goverment and black leaders are entered into."

Any US pressure will result in certain sectors of the economy, such as construction, real estate and the motor industry, entering long declines and the standard of living of South Africans being eroded.

There will be an acceleration in the number of people leaving the country, especially professionals, and this exodus will only cease or begin to decline once negotiations have begun, says Prof Stern.

FIN MAIL 14/3/86 3220

REGIONAL COUNCILS

Will property pay the piper?

The property industry's relief at being excused the burden of collecting a floor levy tax to help pay for the new Regional Services Councils (RSCs) may be short-lived.

While government may have scrapped its controversial idea to tax landlords on rentable areas (*Property* March 8 1985), it is causing renewed anxiety in the industry with its proposed new turnover tax. This tax, it now appears, will also apply to property traders.

On February 7, the first proposed RSC was demarcated in the *Government Gazette*. This council will essentially cover the greater Cape Town area, excluding the city itself.

Government has thus shown that it is determined to press ahead with the RSCs, which will eventually take over many of the present functions of municipalities and provincial authorities. In the process, fears Sapoa executive director Peter Erasmus, the councils will merely become another tier of government with which the private sector will have to contend.

Officially, the RSCs' stated function is to "co-ordinate the supply of basic services." To begin with, such functions will probably be limited to the bulk supply of water, electricity and sewerage purification works.

Such a low-key start is unlikely to raise many objections since there are many reasons why contiguous municipalities should pool their resources for the common good.

But no one is being fooled. Business sees the RSCs as government's way of getting rid of its responsibility for essential services to black communities.

This may also sound reasonable on the face of it, but what concerns the private sector is costs. At least in the early stages, it sees itself as main provider for yet another tier of government, while having to deal with additional problems, which will inevitably arise from dealing with a new form of bureaucracy.

What is worrying the property industry is the turnover tax, much of which will come from property traders who deal in big numbers.

First suggestions are that the amount will be no more than 0,5% initially, which would raise R5 000 in taxes on a sale of R1m. But the industry is only too well aware of what happened with gst, which was also comparatively minor when introduced, but has subsequently tripled in eight years.

The fear is that, as political demands on the RSCs grow, so too will the industry's contribution.

Initially, political power in the RSCs will rest essentially with those who are the biggest contributors. But that situation could easily change, property developers fear, as political realities emerge.

The immediate goal, Erasmus points out, is to raise an *additional* R600m a year to establish these RSCs. And that's just for starters.

Government has given Sapoa assurances that the RSCs will not constitute an additional tier of government. But the private sector is finding that line hard to buy. Its concern is that, among other things, it could create even further delays in the township proclamation process, which is already too long.

However, Erasmus says he has been assured that in the first few years the RSCs will not be entrusted with this process. But what will happen thereafter remains to be seen.

Presumably the Cape prototype will be used to test the new system and word is that the greater Pretoria area, including Bronkhorstspruit, is next in line for RSC status.

Johannesburg and Soweto, it seems, is a bigger problem than expected. With tempers still strained in the townships, government appears to be soft-pedalling the RSC option until a more auspicious time. ■

New tables for married women on July 1

Argus 17/3/86

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TWENTY percent or a minimum of R1 800 of working wives' salaries will in future be exempt from tax, Mr du Plessis said. This would apply to the tax year that ended on February 28, 1986.

This meant that a married woman who earned R20 000 a year would be able to deduct R4 000 instead of the present R1 600.

AMENDED TABLES

The Commissioner for Inland Revenue was going to prescribe amended tables applicable to married women which would come into force from July 1, 1986, to provide for deductions more in line with the wife's poprtion of the tax payable on the joint income.

"The entry of married women into the professional and labour market is a world-wide phenomenon, and one that in South Africa, with its great shortage of skilled labour power, is of growing importance," Mr du Plessis said.

LOSS OF REVENUE

There were various schemes whereby the problems that had built up around the tax burden of married couples could be eliminated but each suffered from the disadvantage of an unacceptably high loss of revenue to the fiscus.

"The search continues for an acceptable compromise between a theoretically sound and an affordable solution." It was being thoroughly researched by the Margo Commission. — Sapa

Higher salaries should boost income tax bill

Finance Editor

ARGUS 17/3/86

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INDIVIDUAL income tax payments in 1986-87 would have risen 33,8 percent to R11,4-billion if the Minister had not announced the five percent income tax reduction.

This does not include the abolition of the seven percent surcharge on individuals' income tax, which has cost R500-million.

This increase is expected to flow from improved economic conditions and salary adjustments and the accompanying fiscal drag.

The expected increase of 16,2 percent in next revenue from general sales tax is also chiefly attributable to the expected economic improvement.

Imports are expected to gradually increase and customs collections should rise 7,4 percent to R1,3-billion, while a further R970-million is expected from the 10 percent surcharge on imports.

Tax payments from gold mines are expected to fall by 7,7 percent to R2 820-million from R3 055-million in 1985-86.

But a rise of 10,7 percent is expected in income tax payments by non-mining companies.

Altogether, revenue in 1986-87 is expected to increase by 15,8 percent to R34 430-million from R29 730-million in 1984-85.

Barend's Budget is certain to make John Citizen pay more

STAR 17/3/86 3220

By David Braun, Political Correspondent

CAPE TOWN — The man in the street is almost certainly going to be asked to pay more towards the running of the country when Minister of Finance Mr Barend du Plessis tables his Budget in Parliament this afternoon.

But the good news is that personal income tax levels, particularly for the higher-income bracket, are likely to be reduced in order to counter the ravages of inflation.

The Government will also be trying to stimulate the ecomomy. If this works, it can only benefit the public eventually in terms of economic growth and more job opportunities.

President Botha met his Cabinet in Cape Town this morning in an extraordinary session to give last-minute approval to the Budget.

Most observers expect that Mr du Plessis will not be announcing any major changes to the taxation system because the Government is still waiting for the Margo Commission to report. But the Minister is likely to increase the extent of rebates, particularly for the elderly.

He is also expected to make it more attractive for people to save, most probably by increasing the amount of interest which can be earned tax-free from R250 a year to R350 or more.

Increases in social pensions will also be announced, and for the second year running the Government is expected to announce equal increases for all the population groups. This means white pensioners will receive lower percentage increments than their coloured, Indian and black counterparts.

The Government is under enormous pressure to increase its social and security spending.

Education services, housing and welfare are likely to get above-inflationary boosts in what should amount to a total Budget of at least R36 000 million.

In order to pay for this, Mr du Plessis will be looking at precious few options. His ability to borrow abroad is almost nil, while if he takes up too much money from the domestic market, interests will be under sharp pressure to go up again.

Observers believe that the Minister will have no choice but to raise revenue from taxes, which means that he is likely to look at GST and duties on tobacco and alcohol, among others.

● **Full details of Mr du Plessis' 83-page Budget speech will be carried in later editions of *The Star* today. Tomorrow *The Star* will publish a special 20-page Budget Supplement.**

FM BUDGET '86

BDM 3.20

Delight over new-books concession

18/3/86

THELMA TUCH

GOVERNMENT'S move to abolish the 10% import surcharge on books was welcomed yesterday, but not without reservation, by booksellers, librarians and educationists.

The abolition of the import surchage means that prices of new stocks arriving in the country will be reduced by about 7%. This should come into effect within two months.

Yesterday's announcement was met with mixed feelings, ranging from delight to scepticism.

"Its very wonderful news, long needed and everybody in the trade will be very happy," said Exclusive Books MD Jeremy Gordin.

However, although prices will go down by about 7%, the cost of books will still be enormous because of the weakness of the rand and the 12% GST on the items, Gordin said.

Emphasising this point was the head librarian at the University of the Witwatersrand Professor Reuben Musicker, who said the move was "only the tip of the iceberg".

He said the "whopping" 12% GST and the 3% custom clearance and wharfage charges would continue to cripple Wits' library budget.

The medical library had cut down on their purchase of important periodicals due to the exorbitant prices.

"The frightening costs are still there and doing away with the import surchage is not going to have all that much of an impact."

In both the UK and US there was no GST on books, he said.

Collins Publishers' sales and marketing director Paul Hardingham said he was "very pleased" with the abolition of import surcharge but added that it was "insufficient", as it constituted only the first step.

"We feel that any sort of tax on books is disastrous to the development of a country such as South Africa," said Hardingham, who chairs a committee which has been campaigning for the total abolition of taxation on books.

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Reaction mostly favourable

Economics Reporter

FINANCE MINISTER Barend du Plessis has made good use of what little was up his sleeve, says Deloittes tax consultant Trevor McGlashan.

However, the changes have not been very extensive, which is hardly surprising in view of the impending Margo Commission report, he adds.

McGlashan was struck by topping up of payments for companies in the third quarter will be implemented in the next two weeks, which does not give them much time and also by the concessions on Estate Duty which will not apply until 1st April.

"Any rich person about to die would have to be put on a life support machines and then the plugs would be pulled out on April Fool's Day, otherwise his family would loose a lot of money."

McGlashan is worried by the tacit admission that inflation will carry on at present levels for several months.

Ian MacKenzie of Arthur Young says that, in some cases, the cuts in tax rates are dramatic.

"It was good to see that sales tax was not increased, but it is strange that estate duty was not abolished altogether. I expect it to be replaced soon by a capital-gains or capital-transfer tax," MacKenzie says.

Ian Wilson of Price Waterhouse says the 20% concession for married women is a meaningful step forward. He is less certain about the effect of the cut in estate duty, but imagines that it may have a ripple effect on life insurance.

Wilson says the Budget's overall intention was to give people more disposable income, and so put more cash into the economy.

Mike Potts of Pim Goldby describes the Budget as mildly stimulatory, but sees it as only a holding Budget until the Margo Commission files its report.

He describes married women's tax allowance as a step in the right direction, and one which would encourage married women to go back to their former professions.

However, the increase in PAYE deductions in July this year could mean that some women would pay more tax than before.

"Until separate taxation is introduced, divorce will remain an option to reduce tax," Potts adds.

Costa Divaris of Divaris Stein believes the tax concessions could be absorbed by a combination of fringe-benefits tax and fiscal drag. He is disappointed that estate duty was not abolished.

"I am also afraid that this is not the full Budget, and a tax increase could be sprung on us later.

"The worst news is that companies are being hit. It no longer makes sense to be incorporated, as company tax is 50% and personal tax 47,5%."

Tax cuts bring relief

320

BDAY 18/3/86.

FINANCE Minister Barend du Plessis confounded analysts yesterday by providing a mildly stimulatory Budget, while at the same time keeping the deficit before borrowing surprisingly low.

Du Plessis said the economy needed "moderate stimulation, with the accent on moderate". As Rand Merchant Bank's group economist Rudolf Gouws said: "It is a Budget that tackles the problem of stimulation through tax cuts, rather than spending increases, and avoids pressure on interest rates."

The Minister dished out R994m in tax savings this year. In a full tax year the savings will amount to R1,143bn. He kept a lid on projected government spending, projected at R37,57bn, but gave some of the biggest increases to education.

However, it was precisely the moderate increases in state spending that

John Tilston
Economics Editor

caused widespread scepticism over Du Plessis' ability to maintain the necessary discipline to meet the targets set.

But, except for a R50m cut in the bread subsidy, there was significant relief for taxpayers. A 5% discount on normal tax

BUDGET: REACTION AND ANALYSIS: Pages 5 & 6.

payable by all income groups will come into effect for this tax year. This effectively reduces the top marginal rate of tax to 47,5%. With the abolition of the 7% tax surcharge announced by President P W Botha late last year, the top marginal rate has now been effectively reduced by 6% from 53,5%.

A married man with no children earning R60 000 a year will shave R2 331 off his annual bill. The cost to the Exchequer of this concession is R494m in this financial year.

While stopping short of introducing separate tax for married couples — for reasons of affordability and not preempting the Margo Commission — he raised the tax-free threshold for married women from R1 600 a year to 20% of her earnings, with a minimum of R1 800.

As an example of the measure's effect, Du Plessis quoted a wife earning R20 000 a year as now being entitled to a deduction of R4 000. This proposal applies to the tax year just ended. He estimated this concession would cost the state R116m this year.

A family will gain significantly from the new tax scheme. A married couple with two children where the husband earns R25 000 and the wife R15 000 will see their tax drop by 16,5% from R10 171 to R8 491.

Estate duty deductions were doubled and the rates altered so that the maximum rate of 35% is reached at R800 000, instead of R400 000. But the proposals will apply only to the estates of those dying on or after April 1 this year. An

THE full speech plus tables and graphs appears in a special pull-out tabloid supplement with today's *Business Day.*

estate of R450 000 left to a spouse and two children will see its tax cut from R45 000 to R9 000.

Savings were encouraged by doubling the exempt limit on tax on interest to R500 a year. He granted no concession to contractual saving schemes.

However, contrary to expectations he did not delay the extension of fringe benefit tax, partly, no doubt, because tax collections from this source will be significant. But Du Plessis suggested the issue of tax equity was paramount.

He raised the stamp duty on the transfer of marketable securities from 10c to 15c per R10 and at the same time raised the marketable-securities tax from 1% to 1,5%. Both changes are effective from the beginning of next month.

He doubled the levy on debit entries

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Tax cuts bring relief

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● From Page 1

for such items as cheques and credit cards from 5c to 10c from July 1.

He justified both increases on the grounds that they had no noticeable influence on the nature and size of the financial transactions invloved.

Pensioners, from October 1, will get 7,5% to 15% in increases, depending on how long they have been retired. Military pensioners will get a better deal. Parity among races is to be applied. First World War veterans will no longer be subjected to a means test.

Gold and diamond mining companies, with record profits from the high rand price of gold, saw the 25% surcharge — first introduced in last year's Budget — extended for the financial year to March 31 1987. Other mining companies are to continue paying a 15% surcharge.

Non-mining company tax was left unchanged at 50%. But companies must now pay 100% of their tax liability in the first, second and third tax payments; previously 90% of the tax liability had to be paid over that period. This has no effect on total liability, but will adversly affect cash flow. Du Plessis estimated it would net the Treasury an additional R291m.

Individual provisional taxpayers whose taxable income is more than R50 000 will now be liable for a third provisional tax payment, starting in August 1987.

To protect the balance of payments and to generate much-needed cash, the 10% import surcharge has been retained, except with the important exclusion of books.

In a surprise change, the duty on fully imported cars was reduced to 100% from the 125% imposed in last year's Budget. Last year's higher rate apparently caused revenue from this source to decline sharply, with ancillary services coming to a virtual standstill.

General Sales Tax remains unchanged ahead of the Margo Commission's findings. The first opportunity of implementing any of its recommendations will be in 1987. Excise duties remain unchanged.

Total revenue is projected at R33,627bn in the 1986/87 financial year, against this year's estimated R29,73bn.

State spending is budgeted at R37,571bn, 13,9% above this financial year's level of R3,977. This is well below the inflation rate of 20,7%. It would seem essential for inflation to moderate over the course of the year for Du Plessis to have any hope of meeting this target. But as Gouws said: "Even if he moderately overshoots this target it will still be healthy."

The final deficit before borrowing is expected to reach R3,944bn, or 2,7% of Gross Domestic Product, which is not excessive and should not put much upward pressure on interest rates.

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Wide relief given

PARLIAMENT — The Minister of Finance, Mr Barend du Plessis, yesterday introduced a Budget in which relief over a wide spectrum is given to those whose need is greatest and in which provision is made on the expenditure side for those who will not share in announced tax concessions.

The biggest relief to the taxpayer comes in the form of the discontinuation of the seven per cent surcharge, a discount of five per cent to be calculated on net tax after deduction of rebates, which will be allowed to all married and unmarried people irrespective of age, and an increase in the non-taxable portion of a married woman's earnings to either R1 800 or 20 per cent of her net earnings, whichever is the greater.

On the expenditure side, generous provision is made for the upgrading of living conditions, particularly those of people in the less-developed areas and communities.

An amount of R631 million has, for example, been provided for the improvement of the infrastructure and housing of black people.

Another example is the R6 082 billion provided for education for all population groups. This is an increase of 19,3 per cent over last year. Adjustments in military and social pensions should benefit the aged.

The Minister said he could not afford to leave the unacceptably high inflation rate out of account or to ignore the country's obligations regarding the repayment of foreign debt. It was therefore important that the increase in total proposed expenditure be kept within limits, he said.

Against this background, the increase in total expenditure of 13,9 per cent above the final level for the preceding year could be considered reasonable. It was much below the current rate of inflation, he said.

The estimated deficit before borrowing — which determines the government's net borrowing requirement — is about 2,7 per cent of the gross domestic product, which is well within the three per cent guideline set in last year's Budget. The upshot of this would be, said the Minister, that the government's claim on the domestic capital market during the next 12 months would be only R893 million.

This should provide sufficient room for the rest of the public sector and for the private sector to satisfy their capital requirements on the local market at reasonable rates of interest. Mr Du Plessis said that as a further discipline, the government's total borrowing requirement had been been kept below the total intended capital spending for 1986-87. "No current expenditures will thus be financed by borrowing," he said.

Provision had also been made for continued investigations into improvements in the system of determining priorities in the public sector. This involved both capital projects and current expenditure.

These investigations would supplement the work of the Margo Commission investigating the country's tax structure and which was due to report during the course of the year. Because of the impending report, no major, far-reaching changes in the tax structure could be introduced. The status quo had to be maintained except for minor adjustments. The Minister concluded by saying that South Africa was blessed in that it had, in difficult circumstances, been able to do as much in the material sphere for its people as it had in yesterday's Budget. — Sapa

Pensions to go up by R18 a month

Dispatch Correspondent

CAPE TOWN — Pensioners of all races are to receive R18 a month more from October 1.

This means that white pensions will increase from R180 a month to R198, while those of blacks will go up from R79 to R97 per month.

Of the R170 million appropriated for improvement of social benefits, a total of R106,7 million will go to additional pensions and allowances for blacks and R26,6 million for whites.

In the case of blacks, an amount of R53,6 million will be allocated to pensioners in South Africa, while R52,6 million would be made available to the Department of Development Aid "for transfer to the governments of the self-governing national states."

Expenditure: R37 bn

CAPE TOWN — Mr Barend du Plessis has budgeted for an expenditure during the forthcoming financial year of R37,447 billion.

This represented an increase of 19 per cent on last year's figure and a 13,6 per cent increase on the revised figure of R32,977 billion, he said in his budget speech.

Apart from the 10 per cent salary increases for public servants already announced, a further R227 million is being made available to enable the continuation on a modest scale of the programme of job differentiation in the civil service.

A total of R650,6 million has been provided for housing — an increase of 25,4 per cent on last year's budget — while the total provision for black housing amounts to R311,3 million of this.

For education, still by far the largest expenditure item in the budget, the Minister has allocated R6,082 billion, an increase of 19,3 per cent on 1985/86.

"Regarding black education as such, the increase in primary and secondary education outlays is R159 million, or 27,8 per cent above the budgeted amount for 1985/86."

Reiterating the need for South Africa to be fully prepared in the military sphere in order to contain the forces threatening the country, and the heavy financial demands of this, Mr Du Plessis said defence was allocated an amount of R5,123 billion, representing 13,7 per cent of the estimated expenditure for the 1986/87 year — a ratio that was virtually the same as that for the previous financial year.

A sum of R775,8 million was provided for tthe Atomic Energy Corporation, or an increase of 47,5 per cent over 1985/86.

"If the carry-over costs of expenditures that in 1985/86 were covered by loans of about R157 million, and the redemption in 1986 of AEC loans of 52,5 million, are left out of account the increase for this service is only 7,6 per cent," the Minister said.

The government had accepted the Davin Commission of Inquiry's recommendation that the subsidy on bread be phased out and the subsidy for 1986/87 would be reduced to R150 million from R200 million last year.

On SWA/Namibia, Mr Du Plessis said the R476,5 million provided in the budget was R169,5 million, or 55 per cent, more than in 1985/86.

"This sharp increase is not the outcome of large scale extensions but represents the transfer of the responsibility for the provision of certain services from the Republic to South West Africa."

If these were left out of account, the increase was only 13,9 per cent over the 1985/86 figure of R307 million.

Amounts of R36,3 million were needed for phase two of the compensation of operating losses on railway and road transport services within the territory; R30,5 million for the takeover from the South African Police of police services; and R60 million for foreign loans which had to be redeemed by South West Africa/Namibia in 1986/87.

Tax discount for individuals: relief for marriages

CAPE TOWN — The Minister of Finance, Mr Barend du Plessis yesterday announced a five per cent discount on tax payable by all income groups and also increased the proportion of a working wife's salary which may be deducted for income tax purposes.

The Commissioner for Inland Revenue has issued a statement authorising an immediate five per cent reduction in tax deductions for all employees other than married women. The statement said: "All employers are hereby authorised to reduce by five per cent the amount of employees' tax which, in accordance with Volume 28 of the prescribed employees' tax deduction tables, is required to be deducted from any amount or remuneration which on or after March 1, 1986 is paid to any employee, except in the case of married women whose tax deductions are determined in accordance with M, N, O or P."

Where tax had already been deducted for this month, employers were authorised to make an appropriate adjustment during April. In the case of married women, new tables in line with their share of joint tax liability would be issued shortly.

Mr du Plessis said the five per cent discount on tax payable after deduction of rebates would reduce the maximum marginal tax rate by six per cent, from 53,5 per cent to 47,5 per cent.

Basic progressive tax rates introduced last year would remain unchanged, however.

"The fact that the maximum marginal rate is now less than 50 per cent illustrates the desire of the government to give the necessary incentives to entrepreneurs and high-level manpower, which play a meaningful role in economic development and job creation," Mr Du Plessis said.

The discount, on net normal tax payable after deduction of rebates, would take effect on March 1, 1986.

"This generous concession and the concession in respect of wives' earnings should afford appreciable relief to a very large body of taxpayers, including those with fringe benefits."

The concession on wives' earnings allowed for 20 per cent or a minimum of R1 800 of working wives' salaries to be exempt from tax.

This meant that a married woman who presently earned R20 000 per annum would be able to deduct R4 000 as against the present R1 600.

"'The entry of married women into the professional and labour market is a world-wide phenomenon, and one that in South Africa with its great shortage of skilled labour power is of growing importance," the Minister said.

There were various schemes whereby the problems that had built up around the tax burden of married couples could be eliminated but each suffered from the disadvantage of an unacceptably high loss of revenue to the fiscus. "The search continues for an acceptable compromise between a theoretically sound and an affordable solution," Mr Du Plessis said. It was being thoroughly researched by the Margo Commission.

The interim relief provided for the working married would apply to the tax year that ended on February 28, 1986.

Mr Du Plessis said the large sums married couples stood to pay on assessment could not be blamed on the tax structure as such, but rather on the fact that the PAYE tables for women often did not provide for adequate deductions to meet the actual tax liability. The Commissioner for Inland Revenue was going to prescribe amended tables applicable to married women which would come into force from July 1, 1986, to provide for deductions more in line with the wife's poprtion of the tax payable on the joint income.

Mr Du Plessis added that the loss of tax from the abolition of the seven per cent surcharge on income tax, announced last year, was R500 million for 1986/87 and R588 million for a full year. — Sapa

Tax cuts: what they mean

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Phasing-out of estate duty

FINAL proposals for the phasing-out of estate duty in its final form would probably be announced next year, Du Plessis said yesterday.

He proposed that all deductions in terms of Section 4A of the Estate Duty Act be doubled.

Du Plessis said the deductions allowable in the determination of the taxable value of an estate and the tax rates had, in contrast with those in respect of individual income tax, remained unchanged for several years.

"Inasmuch as the nominal value of an estate, just as the nominal income of an individual, has risen and is likewise subject to a progressive tax rate, it is desirable that relief be afforded."

Du Plessis also announced that the rates of estate duty would be changed so that the maximum rate of 35% was reached at R800 000 instead of the present R400 000.

These concessions would apply to the estates of persons dying on or after April 1, 1986.

"That this proposal involves a substantial concession is evident from the fact that for a person with an estate of R450 000 leaving a spouse and two children, the estate duty liable is reduced from R45 000 to R9 000."

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20% tax cuts for wives

TWENTY PECENT, or a minimum of R1 80of working wives' salaries, will ilfuture be exempt from tax.

This was annunced yesterday by Finance Ministe Barend du Plessis when he deliverd his Budget speech to Parliament.

This meant tht a married woman who earned R20,00 a year would be able to deduct R 000, as against the present R1 600.

"The entry of narried women into the professionaland labour market is a world-wide phenomenon, and one that in Soth Africa with its great shortage of skilled labour power is of grwing importance," the minister sail.

There were various schemes whereby the problems that had built up around the tax burden of married couples could be eliminated, but each suffered from the disadvantage of an unacceptably high loss of revenue to the fiscus.

"The search continues for an acceptable compromise between a theoretically sound and an affordable solution," Du Plessis said. It was being thoroughly researched by the Margo Commission.

"In the meantime the problem of the additional sum that married couples must find on receipt of their assessment has aroused further emotions," he said.

Government had a close understanding of the position of the working wife and the adjustments were proposed to provide interim relief.

They would apply to the tax year that ended on February 28, 1986.

He said it should be noted that the large sums married couples stood to pay on assessment could not be blamed on the tax structure as such, but rather on the fact that the PAYE tables for women often did not provide for adequate deductions to meet the actual tax liability.

The Commissioner for Inland Revenue was going to prescribe amended tables applicable to married women which would come into force from July 1, 1986, to provide for deductions more in line with the wife's proportion of the tax payable on the joint income. — Sapa.

More workers get 'fringe benefit' pay

18/3/86 BDAY

THE practice of remuneration partly through fringe benefits was occurring on a greater scale than originally suspected, said Barend du Plessis.

He said government could not meet calls for the freezing of a phasing-in period for the taxing of certain fringe benefits.

Although it was difficult to estimate the precise proceeds from this tax, the increase in employee's tax collections indicated that it would be significant.

As the tax was not primarily aimed at raising the state revenue total, but rather at a more equitable distribution of the tax burden, it would be utilised to lower the general level of personal taxation.

The increase in tax collections seemed to bear out the presumption that the practice of remuneration of workers partly through fringe benefits was occurring on a greater scale than originally thought.

"Over the past few months representations have again been made for the freezing of the phasing-in period for certain fringe benefits on the grounds that this would boost trade and industry," Du Plessis said.

Although there was understanding for such representations, "it should be borne in mind that an exceptionally long phasing-in period has been allowed, and furthermore that taxable values are not very high."

The Margo Commission was sounded out and it agreed fully with government's approach.

"Longer phasing-in periods, therefore, cannot be supported," the Minister said.

WHERE THE MONEY GOES

(1985/6 FIGURE IN BRACKETS)

	(in Rm)	
PUBLIC ORDER AND SECURITY		
Custody and administration of justice	R668 043	(R606 448)
Police	R1 129 113	(R992 878)
Defence	R5 257 031	(R4 406 862)
Other	R169	(R96)
	R7 243 187	(R6 193 180)
GENERAL GOVERNMENT SERVICES		
Foreign relations	R249 698	(R196 552)
Civil matters	R72 394	(R63 399)
Government establishments	R56 467	(R54 932)
Constitutional development	R2 912 271	(R2 324 728)
Other	R150 367	(R127 695)
	R3 443 198	(R2 767 306)
ECONOMIC SERVICES		
Labour regulation	R56 093	(R93 360)
Forestry	R27 877	(R30 791)
Energy and power	R780 663	(R529 466)
Trade promotion	R213 626	(R184 481)
Agriculture	R976 573	(R1 087 192)
Mining and minerals	R38 465	(R49 064)
Industrial services	R559 172	(R546 686)

BUSINESSMEN

BUSINESS DAY, Tuesday, March 18 1986

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20% tax cuts for wives

TWENTY PERCENT, or a minimum of R1 800 of working wives' salaries, will in future be exempt from tax.

This was announced yesterday by Finance Minister Barend du Plessis when he delivered his Budget speech to Parliament.

This meant that a married woman who earned R20 000 a year would be able to deduct R4 000, as against the present R1 600.

"The entry of married women into the professional and labour market is a world-wide phenomenon, and one that in South Africa with its great shortage of skilled labour power is of growing importance," the minister said.

There were various schemes whereby the problems that had built up around the tax burden of married couples could be eliminated, but each suffered from the disadvantage of an unacceptably high loss of revenue to the fiscus.

"The search continues for an acceptable compromise between a theoretically sound and an affordable solution," Du Plessis said. It was being thoroughly researched by the Margo Commission.

"In the meantime the problem of the additional sum that married couples must find on receipt of their assessment has aroused further emotions," he said.

Government had a close understanding of the position of the working wife and the adjustments were proposed to provide interim relief.

They would apply to the tax year that ended on February 28, 1986.

He said it should be noted that the large sums married couples stood to pay on assessment could not be blamed on the tax structure as such, but rather on the fact that the PAYE tables for women often did not provide for adequate deductions to meet the actual tax liability.

The Commissioner for Inland Revenue was going to prescribe amended tables applicable to married women which would come into force from July 1, 1986, to provide for deductions more in line with the wife's proportion of the tax payable on the joint income. — Sapa.

New Questions:

HANSARD 18/3/86

QCSL 563

Zeerust: certain erf

*1. Dr F HARTZENBERG asked the Minister of Law and Order:†

(1) Whether the South African Police recently received (a) complaints and/or (b) representations about certain persons in connection with the occupation of a portion of a certain erf in the residential area of Zeerust, particulars of which have been furnished to the South African Police for the purposes of the Minister's reply; if so, what are the particulars of the property concerned;

(2) whether these complaints and/or representations relate to an alleged contravention of the provisions of the Group Areas Act, No 36 of 1966; if so, what is the nature of the (a) complaints, (b) representations and (c) alleged contravention;

(3) whether the South African Police has taken or is going to take steps in this connection; if not, why not; if so, (a) what steps and (b) when;

(4) whether he will make a statement on the matter?

†The MINISTER OF LAW AND ORDER:

(1) (a) Yes, a house situated at erf no 53, Zeerust.

(b) No.

(2) Yes.

(a) That an Asian couple is residing in the house concerned, which is situated in a White suburb.

(b) Falls away.

(c) Contravention of section 26(1) of the Group Areas Act, 1966 (Act 36 of 1966)—illegal occupation.

(3) Yes

(a) A case docket has been opened and the matter is being investigated.

(b) 11 November 1985.

(4) No.

†Mr H D K VAN DER MERWE: Mr Chairman, arising out of the hon the Minister's reply, is he aware that the said Act is being contravened in practically the entire Transvaal? Will he not make special efforts to ensure that the provisions of this Act are applied?

†The MINISTER: Mr Chairman, I am not aware that this Act is being contravened in such a large part of the Transvaal. However, I would like to give the hon member for Rissik the assurance that all matters that are brought to the attention of the SA Police, are urgently investigated. A docket is opened and properly completed and submitted to the Attorney-General for his decision. As far as the South African Police are concerned, all such matters enjoy the necessary attention.

†Mr J H VAN DER MERWE: Mr Chairman, further arising out of the reply of the hon the Minister I would like to put the following question to him. I have proof that thousands and thousands of Indians, Coloureds and Blacks live in flats for Whites in the centre of Johannesburg.

†The CHAIRMAN OF THE HOUSE: Order! The hon member for Jeppe does not have the right to make a speech now.

†Mr J H VAN DER MERWE: Mr Chairman, I am not making a speech.

†The CHAIRMAN OF THE HOUSE: Order! If the hon member wants to put a question, he must do so.

†Mr J H VAN DER MERWE: Yes, Sir. The Group Areas Act is apparently not applied in these cases. There are even allegations that the . . .

†The CHAIRMAN OF THE HOUSE: Order! That is not a question. The hon member for Jeppe is busy making a speech. I order the hon member to take his seat.

Zeerust: certain erf

*2. Dr F HARTZENBERG asked the Minister of Constitutional Development and Planning:†

(1) Whether his Department has granted approval for an Indian family to occupy a portion of a certain erf, particulars of which have been furnished to the Minister's Department for the purposes of his reply, in the residential area of Zeerust; if so, (a) why, (b) when and (c) what are the particulars of the (i) erf and (ii) matter; if not,

(2) whether his Department intends taking steps in respect of this family; if not, why not; if so, (a) what steps and (b) when;

(3) whether his Department has consulted the town council of Zeerust in this connection; if not, why not; if so, (a) when and (b) what was the town council's reaction?

The DEPUTY MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) No.

(a), (b) and (c) fall away.

(2) No, the matter has not been reported to the Department.

(3) Falls away.

Bophuthatswana: ~~general sales tax~~

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*3. Mr L F STOFBERG asked the Minister of Finance:† QCSL 565

(1) Whether, as a result of the fact that no general sales tax is levied in Bophuthatswana, (a) losses and (b) irregularities in connection with the collection of this tax have occurred in the Republic as a result; if so, (i) what is the total estimated amount in respect of these losses in the latest specified period of 12 months for which figures are available and (ii) what irregularities have so occurred;

(2) whether he contemplates taking any steps in this connection; if not, why not; if so, what steps?

†The MINISTER OF FINANCE:

(1) In the absence of any control over the movement of goods across the borders between the Republic and Bophuthatswana, there is no doubt that (a) certain losses and (b) certain irregularities have occurred in regard to the collection of sales tax in the Republic.

(i) It is impossible to determine the total amount of such losses.

(ii) Some vendors in the Republic have all too easily been persuaded by members of the public to treat goods as having been "exported" when in fact the requirements of the definition of that word in section 1 of the Sales Tax Act, 1978, have not been met. Incidents have also occurred where persons ordinarily resident in the Republic have furnished fictitious addresses at places outside the Republic in order to claim the exemption from sales tax in respect of the sale of goods which are exported from the Republic. This has occurred mainly with regard to sales of motor vehicles concluded in the Republic.

(2) By an amendment to section 6(1)(a)(i) of the Sales Tax Act, 1978, introduced with effect from 1 September 1985 by section 3 (1)(a) of the Sales Tax Amendment Act, 1985, the exemption from sales tax relating to the sale of goods which are exported from the Republic applies only if the

purchaser furnishes the seller with a declaration on the prescribed form (Form VB52). This measure was aimed at tightening up control in regard to the application of the exemption relating to the sale of goods which are exported from the Republic. In addition, the matter of motor vehicles sold in the Republic to purchasers who allege that they are ordinarily resident in Bophuthatswana formed the subject of discussions on an inter-governmental level and certain measures have been proposed in order to put a stop to malpractices in that regard.

HANSARD 18/3/86 Gold QCOL 567

*4. Mr L F STOFBERG ~~asked the Minister of Finance~~:†

Whether his Department exercised any control over the actual gold production of gold mines in the period before exchange and export control in respect of gold; if not, (a) why not and (b) what agency exercised such control; if so, (i) what was the nature of the control and (ii) how did he determine (aa) when and (bb) at what price gold was sold?

The MINISTER OF FINANCE:

The function of buying bullion from the gold mines in South Africa was delegated by the Minister of Finance to the South African Reserve Bank as early as 1925.

This gold becomes the property of the South African Reserve Bank, and is sold on overseas markets in an orderly manner to the best advantage of South Africa in terms of the policy which has been in force for a number of years.

Any profits or losses incurred during such transactions are for account of the Treasury as provided for in section 17A of the South African Reserve Bank Act, 1944 (Act 29 of 1944) as amended.

A detailed statement of the "gold price adjustments account" is furnished to Treasury monthly in which are also set out the prices at which the gold transactions have taken place.

The South African Reserve Bank itself exercises a strict control on purchases and sales of gold, and a computer printout containing full particulars regarding each individual transaction is furnished daily both to the Governor and to the Deputy Governor in charge of gold and foreign exchange transactions. The dialy price of gold is determined by supply and demand on the different markets and there can thus be no meaningful average price for the thousands of transactions taking place over the years.

HANSARD 18/3/86 QCOL 568

Consumer price index

*5. Mr L F STOFBERG ~~asked the Minister~~ for Administration and Economic Advisory Services:†

Whether he will furnish the items making up the so-called basket used in the calculation of the consumer price index; if so, (a) what items make up the basket, (b) how was the basket adjusted over the latest specified period of 10 years for which information is available and (c) how is the course of inflation calculated on the basis of these data?

The MINISTER OF ADMINISTRATION AND ECONOMIC ADVISORY SERVICES (Reply laid upon the Table with leave of House):

Yes. The so-called basket of items (i.e. the different goods and services together with their relative importance or weights) which is used in the calculation of the consumer price index was published as a special article in the September 1978 issue of the Bulletin of Statistics and copies of this article are freely available on request. A summarised form of the basket is in fact published in each Statistical News Release on the consumer price index. These news releases are issued free of charge on a monthly basis.

(a) The basket contains those consumer goods and services purchased by an average urban household. As the consumer price index is separately calculated for the lower, the middle and higher income groups as well as for all income groups, virtually four baskets exist.

In a summarised form, the basket for all income groups compromises:

Food	24,98%
Cold drinks and alcoholic drinks	2,60%
Cigarettes, cigars and tobacco	1,69%
Clothing and footwear	8,77%
Housing and household fuel and power	19,67%
Furniture and equipment	5,98%
Household operation	4,96%
Medical care	2,08%
Transport	14,94%
Communication	0,99%
Recreation, entertainment and reading matter	4,16%
Education	0,82%
Personal care	2,95%
Other consumer goods and services	5,41%
	100,00%

I have a copy of the detailed four baskets for the disposal of the hon member.

(b) The consumer price index is calculated on basis of the Laspeyres method of index calculation, which means that the relative importance of the goods and services or the weights is kept constant for a number of years. Up to now the weights of the consumer price index have been revised approximately every ten years without interim adjustment. The weights currentiy in use are based on the 1975 survey of household expenditure which will be revised on basis of the 1985 survey. I have already approved the revision of the basket (i.e. including the weights) on a five yearly basis in future.

(c) The consumer price index measures the change in prices of consumer goods and services over time. The rate of change of an annual basis of this index is usually defined as the annual rate of inflation. It is calculated by expressing the increase in the consumer price index of a particular month since the same month of the previous years as a percentage of the value of the index for the month concerned in the previous year. In calculating the average inflation rate for a year the arithmetic mean of the indices of the twelve months is compared to that of the previous year.

Johannesburg, Wolmarans Street: building purchased

*6. Mr D J N MALCOMESS asked the Minister of Transport Affairs:

(1) Whether the South African Transport Services purchased a building in Wolmarans Street, Johannesburg; if so, (a) from whom, (b) at what price and (c) when;

(2) whether the South African Transport Services did a valuation of the building at the time of purchase; if so, what was the valuation; if not,

(3) whether a valuation of this building was done by a body other than the South African Transport Services; if so, (a) on what date, (b) by what body and (c) what was this valuation?

The MINISTER OF NATIONAL EDUCATION (for the Minister of Transport Affairs):

(1) Yes.

(a) Netherlands Properties (Pty) Limited.

(b) R11,75 million.

(c) 31 January 1986.

(2) Yes. R13 million.

(3) No.

(a), (b) and (c) Fall away.

Brokers of SA Transport Services

*7. Mr D J N MALCOMESS asked the Minister of Transport Affairs:

Whether any brokers handle insurance business on behalf of the South African Transport Services; if so, (a) what brokers and (b) who are the directors or partners of these brokers?

†The MINISTER OF NATIONAL EDUCATION (for the Minister of Transport Affairs):

Yes.

(a) SA Transport Services' insurances in respect of aircraft, ledger guarantee scheme and principle controlled insurance are arranged through a Broking Consortium consisting of Safseker (Pty) Limited, Priceforbes Federale Volkskas Limited, Hubert Hosken and Company (Pty) Limited, and Sancura Insurance Brokers Limited.

(b) I have the names of the directors concerned in my possession but do not consider it appropriate to furnish these names across the floor. I will furnish the names in a separate note to the hon member.

Coal Resources Act

*8. Mr B B GOODALL asked the Minister of Mineral and Energy Affairs:

(1) Whether he received any representations from a certain body, the name of which has been furnished to the Minister's Department for the purpose of his reply, regarding the Coal Resources Act, No 60 of 1985; if so, (a) when, (b) what was the nature of these representations and (c) what is the name of this body;

(2) whether these recommendations have been (a) submitted to and (b) considered by the State law advisers; if not, why not; if so,

(3) whether any action has been taken in connection with the said Act as a result of these representations; if not, why not; if so, what action?

The MINISTER OF MANPOWER (for the Minister of Mineral and Energy Affairs) (Reply laid upon the Table with leave of House):

(1) Yes.

(a) During February and March 1985.

(b) Notwithstanding the fact that the Coal Resources Bill 1985 was largely a consolidation of existing legislation it was not supported because the feeling was that sufficient legislation existed to exercise Government functions in respect of the coal industry. Recommendations made way that—

(i) A right of appeal to the Supreme Court should be embodied; and

(ii) the Coal Advisory Committee should consist of suppliers, distributors and consumers. After having had discussions certain other amendments were also suggested.

(c) The South African Federated Chamber of Industries.

(2) (a) and (b) Yes.

(3) A right of appeal was not specifically embodied in the Coal Resources Act, 1985 as the general legal system does not deprive a person of his right of recourse to the courts. The proposed legislation was already amended to establish a Coal Advisory Committee which was representative of the coal industry. The other amendments was

mainly of a legal-technical nature without affecting the principles of the proposed legislation. Logistical considerations as well as the preventage of possible counter-productive actions determined that the amendments should receive further consideration during a later review of the Bill. This review was intended after the Coal Advisory Committee had advised me whether or not Government control on price and distribution matters should continue.

Q Col 573

HANSARD 18/3/86 (320)

Surcharge/general sales tax

*9. Dr W J SNYMAN asked the Minister of Finance:†

What total amount was collected in (a) surcharges on imported pharmaceutical goods and (b) general sales tax on pharmaceutical goods in the latest specified financial year for which figures are available?

†The MINISTER OF FINANCE:

(a) October 1985 to December 1985—R4 687 009.

(b) Statistics which relate only to the collection of sales tax in respect of sales of pharmaceutical goods are not available. According to available statistics the total amounts of sales tax collected during the 1984/85 financial year in respect of—

(i) sales of pharmaceutical and toilet preparations by wholesalers and

(ii) sales of goods by chemists, were R26 362 589 and R110 692 533 respectively.

Q Col 573

HANSARD 18/3/86

Medicine: importation

*10. Dr W J SNYMAN asked the Minister of Finance:†

What was the total amount spent by the (a) State and (b) private sector on the importation of medicine in the latest specified financial year for which figures are available?

The MINISTER OF FINANCE:

The question cannot be replied to in the format phrased as the particulars are not available.

Particulars of the import value of medicine are, however, available and are as follows:

From 1 January 1985 to 31 December 1985.

(a) State R5 107 525

(b) Private sector R171 775 751

Q Col 574

HANSARD 18/3/86

Alexandra: persons killed/injured

*11. Mr D J DALLING asked the Minister of Law and Order:

(a) How many persons have been (i) killed and (ii) injured as a result of police action in Alexandra Township since 15 February 1986 and (b) what are the (i) names and (ii) ages of those killed?

†The MINISTER OF LAW AND ORDER:

(a) (i) 17 persons.

(ii) 115 persons.

(b) (i) and (ii). I do not deem it in the public interest to make known the personal particulars of victims of unrest, some of whom can not be identified.

Mr D J DALLING: Mr Chairman, arising out of the hon the Minister's reply, I should like to ask him to explain to this House why he holds that particular view; in other words, why does the hon the Minister consider that it is not in the interests of the public to have this information?

†The MINISTER: Mr Chairman, I am not prepared to give the hon member any expla-

D

Tax cuts for wives welcomed

13/3/86. BDAY (320)

DIANNA GAMES

REDUCTION of married women's taxation has been widely welcomed.

It was also seen as a step in the direction towards married couples being taxed as individuals.

Finance Minister Barend Du Plessis announced that 20% or a minimum of R1 800 of working wive's pay would be exempt from tax.

The concession — which will cost the State R116m a year — will apply to the tax year ending February 28, 1986.

Du Plessis said that while wives would pay more PAYE from July 1, a couple would benefit from the end of the year when their combined income was assessed.

Du Plessis said the search for an acceptable compromise between a "theoretically sound and an affordable solution" was being thoroughly researched by the Margo Commission.

Women's Bureau of SA director Margaret Lessing said all married working women would appreciate the concessions to married couples and the reduction in personal income tax pending the Margo Commission recommendations.

"After 25 years of organised lobbying, they are at last to receive much more realistic relief."

She said the increase in PAYE payments should eliminate much of the distress caused to couples battling to repay the excess not covered in their regular PAYE deductions.

Babette Kabak, of the Women's Legal Status Committee, said they hoped this would persuade more women to go to work.

"But we see this as an interim solution and we are hoping the Margo Commission will come out with really meaningful concessions that will change the whole situation," she said.

Economist Joan Knox, who welcomed the concession while still favouring separate taxation, said it had opened up a tax loophole.

Import surcharge on books is abolished

Mercury 10/3/86

THE Government has abolished the import surcharge on books and asked booksellers to pass on the full benefit to the buyer.

Announcing the cut, Mr du Plessis said the Government would lose an estimated R10 000 000 in revenue, but he believed a concession was justified in this case.

'The surcharge on imported books, coupled with the still relatively low exchange rate of the rand, does, however, create a special problem for educational institutions and libraries,' he said.

The concession would not serve as a precedent in the treatment of future requests for tax exemptions.

'The Government is in its way contributing towards the lower cost of books and it calls on importers and booksellers to pass on the reduction to the buyer in full.'

The appreciation of the rand since the introduction of the surcharge had lowered the cost of imports and since the country's debt repayments required prudence with foreign reserves, there was now even more reason to retain the surcharge, the minister said. — (Sapa)

Tax-free limit on savings up

THE tax exemption limit on income from savings is to be doubled to R500 a month, Mr du Plessis announced.

This means that at current interest rates, a taxable investment of about R4 000 at a financial institution would be exempt from tax.

'A still higher concession would be desirable but our budget flexibility in this regard is unfortunately limited,' he said.

It would be to the advantage of retired persons who depended greatly on interest as a source of income.

The loss of revenue from this concession was estimated to be R72 million for the coming year and R107 million for a full year. — (Sapa)

Suzman: hardy annual bears fruit for working wives

STAR 18/3/86 320

Political Staff

CAPE TOWN — Mrs Helen Suzman (PFP, Houghton) is glad about the new tax deal for working wives.

Commenting on the announcement by Finance Minister Barend du Plessis in the Budget yesterday, Mrs Suzman said she had raised the issue as a hardy annual.

"I am glad there has been some positive result from the many representations made to many Ministers of Finance.

"Of course this does not go the whole way to meeting the demands, which are for separate taxation.

"But there is now an important psychological basis in that women wish to be regarded as separate tax entities and resent being lumped together with the husband, who does not have to reveal his income."

'86

R1,14-b in concessions

Tax burden lightened

Cape Times 18/3/86

320

Financial Staff

THE South African tax-paying public has been handed concessions worth R1,144-b, largely eliminating the higher tax-bracket burden on salaries boosted by inflation, in a moderately stimulatory budget emphasizing education, defence, and housing expenditure.

New tax tables effective from March 1 are being amended to include a five percent rebate on individual income tax (the tables already reflect the elimination of the seven percent tax surcharge previously announced).

Married couples gain a better deal, along with a windfall. At least R1 800 of a wife's net earnings (up from R1 600 previously) or 20 percent of her earnings, whichever is the higher, will be exempt from tax, backdated to include the 1985/86 tax year.

No relief

Authorities at the Department of Finance confirmed that the tax concessions are essentially restoring what inflation's boost to individuals' tax brackets would otherwise be taking away. The changes have, however, reduced the maximum marginal tax rate for individuals from 53,5 percent to 47,5 percent.

There is no relief for business. Company tax rates are unchanged at 50 percent and the 25 percent surcharge on gold and diamond mining companies (15 percent on other mining companies) has been re-imposed.

Education forms the largest expenditure item, up 19,3 percent at R6,082-b. Black primary and secondary education outlays have been increased by R159m or 27,8 percent. Defence spending has risen 13,7 percent, about the same as last year, to R5,123-b.

Provision is made in the estimates for housing expenditure of R650,6m, up 25,4 percent and the net addition to the capital of the National Housing Fund for all population groups has been increased by R239m or 28 percent. The total provision for black housing is R311,3m.

Military and social pensions have been improved. Estate duty has been effectively slashed by higher liability thresholds, and

Mr Barend du Plessis

traditional customs and excise duty increases have been avoided. Apparently in response to widespread complaints, the 10 percent import surcharge on books has been removed.

Reaction from organized commerce and industry has been generally favourable, emphasizing the solid, conservative qualities. Reservations focused on the in-

Inside: Budget Supplement

flationary implications of the mildly expansionary package.

Unimpressed opposition political parties characterized it as lacking in imagination while failing to meet the needs of the nation.

Total expenditure of R37,571-b is up 13,9 percent on the revised level for last year. Overall revenue of R33,627-b has advanced 13,1 percent, leaving a relatively small deficit before borrowing of R3,944-b or about 2,7 percent of gross domestic product. This is well in line with guidelines set by the International Monetary Fund, but on the cautious side for economists who believe a larger deficit would provide more impetus for growth without intensifying inflationary pressures.

The government has clearly rejected this viewpoint and its demands on the domestic capital market have been confined to R893m, in the belief that new foreign loans are not likely for some time to come, and fears that heavy borrowing by the government at home would boost both inflation and interest rates.

As expected, the Minister deferred action on the tax structure and GST pending the report of the Margo Commission later in the year.

Levies to finance the new regional services council element of government's constitutional planning are not likely to appear before September, said the Minister of Finance, Mr Barend du Plessis.

Elaborated

The names of professionals and business leaders serving on a specialized task group to assist with government expenditure planning are to be announced soon.

At a press conference following the budget the Governor of the Reserve Bank, Dr Gerhard de Kock, elaborated on Mr Du Plessis's announcement of government acceptance of a new policy which will focus on the money supply to in an attempt to contain inflation.

In discussions with the Cape Times, Dr De Kock and senior government officials at the Department of Finance indicated that the budget package should see inflation in the 15 percent range for the financial year. Political developments aside, the rand is expected to hold its own around current levels, and no major increase in the gold price has been anticipated.

● Anger at cut in bread subsidy, page 2
● Education spending criticized, page 5
● Big increase in promotion of SA, page 4

● Leading article, page 10
● Cautious response from business, page 12
● Essential budget figures, page 13

● SADF expenditure estimated at R5 123m, page 4
● No RSC levy till September, page 4
● Modest slice for SAP, page 5

Cape Times 18/3/86 (320)

Working wives get better tax deal

Political Staff

MARRIED taxpayers will be better off from the end of this month as a result of a package of tax cuts and concessions to working wives announced yesterday by the Minister of Finance, Mr Barend du Plessis.

Husbands will get an immediate five percent cut in their PAYE deductions and wives will benefit from increased tax free allowances which have been made retroactive to apply to the 1985/86 tax year.

While wives will find they are paying more PAYE from July 1, the couple will benefit at the end of the year when their combined income is assessed.

Their PAYE is being increased to avoid a couple paying the taxman a large amount at the end of the tax year as has been happening.

Mr Du Plessis has also substantially lifted the ceiling on working wives' tax free earnings.

Instead of the previous limit of R1 600, the exemption will be a minimum of R1 800 or 20 percent of her salary, whichever is the greater.

This will mean that if the wife's salary is R20 000 a year, the deduction will be R4 000 compared with the present R1 600.

Couples will have immediate benefit from this concession as it will apply to the last tax year.

This concession will cost the state R116 million a year.

It will not apply to women who are assessable independently — widows, divorcees and spinsters — because, as sole breadwinners, they will receive the same benefits as men.

Mr Du Plessis said it should be noted that the large sums married couples stood to pay back on assessment could not be blamed on the present tax structure per se, but sprang from the fact that in many cases the tax deduction tables applicable to working women frequently did not provide for adequate deductions.

"This is due mainly to historical factors but also to the fact that it is impossible without making the system still more complex to prescribe tables to meet all possible premutations of the spouses' income," he said.

Amended tables applicable to women would be in force from July 1.

Examples of the cuts are:

● On a combined income of R27 000, a couple would have had to pay R8 981 tax in the 1985/86 tax year. Now, with yesterday's concession to working wives, the tax will come down R8 099 and by the inclusion of the five percent PAYE, the figure will be further reduced to R7 694 at the end of the 1986/87 tax year.

● On a combined income of R22 000, the tax would have been R3 114 but is reduced to R2 846 with the new concession and with the five percent PAYE cut will be R2 703.

● Table, page 4

B. Day 18/3/86

INCOME TAX PAYABLE: 1986 AND 1987

(320)

UNMARRIED

INCOME		1986	1986	1987	REDUCTION	REDUCTION	TOTAL TAX REDUCTION
HUSBAND	WIFE	PRESENT	PROPOSED	PROPOSED	A − B	B − C	D + E
R	R	R	R	R	R	R	R
2 000	8 000	386	354	336	32	18	50
5 000	8 000	874	834-2	792	40	42	82
8 000	12 000	2 513	2 188	2 078	325	110	435
10 000	12 000	3 114	2 734	2 597	380	137	517
12 000	10 000	3 114	2 846	2 703	268	143	411
15 000	10 000	4 101	3 754	3 566	347	188	535
20 000	12 000	6 763	6 064	5 760	699	304	1 003
25 000	12 000	8 981	8 099	7 694	882	405	1 287
30 000	12 000	11 349	10 295	9 780	1 054	515	1 569
35 000	12 000	13 810	12 588	11 959	1 222	630	1 852
40 000	15 000	17 814	16 026	15 224	1 788	802	2 590
45 000	15 000	20 382	18 426	17 504	1 956	922	2 878
50 000	15 000	23 016	20 860	19 817	2 156	1 043	3 199
55 000	15 000	25 691	23 360	22 192	2 331	1 168	3 499
60 000	20 000	31 041	27 860	26 467	3 181	1 393	4 574
80 000	20 000	41 741	37 860	35 967	3 881	1 893	5 774
8 000	8 000	1 458	1 370	1 301	88	69	157
10 000	10 000	2 513	2 292	2 177	221	115	336
15 000	15 000	5 948	5 102	4 846	846	256	1 102
20 000	10 000	5 948	5 462	5 188	486	274	760
25 000	15 000	10 385	9 138	8 681	1 247	457	1 704
30 000	30 000	20 382	16 986	16 136	3 396	850	4 246
45 000	25 000	25 691	22 360	21 242	3 331	1 118	4 449
45 000	45 000	36 391	30 360	28 842	6 031	1 518	7 549
60 000	40 000	41 741	35 860	34 067	5 881	1 793	7 674

*Net taxable earnings.

BUDGET REACTION

BDAY 19/3/84 (3320)

Tax exemption has strings

LESLEY LAMBERT

WOMEN in business ventures with their husbands, or employed by companies of which their husbands are major shareholders or directors, do not qualify for the 20% tax exemption announced in Monday's Budget.

The sting in the tail of the tax exemption for married women — whose tax bills are assessed according to joint income — is that it applies to earnings which are broadly defined by tax law as "income .... derived by a married women from a trade carried on independently from her husband".

The earnings definition also excludes:

- ☐ Income derived from savings in specific circumstances, including rentals, royalties, copyright and dividends;
- ☐ Salary from a private company or close corporation in which her husband is a partner, a major shareholder or a director. (Public companies are excluded because, according to the Department of Inland Revenue, they are less susceptible to being swayed by individual employees);

Tax expert Costa Divaris predicts agitation for the relaxation of these exclusions.

He feels the tax authorities should rather opt for a fair system at the risk of abuse rather than a system which goes to such great lengths to close loopholes that it unfairly excludes people who legitimately qualify for concession.

"Inevitably, there will be attempts at getting around the exclusions.

"One can be sure that wife-swapping will increase. What I mean is that women who are involved in business partnerships with their husbands are going to swap jobs with friends who are doing the same thing."

Divaris feels the concession discriminates against single people.

For example, he said, assume a single person earning R24 000 a year works harder than a married couple who each earn R12 000 a year. Whereas the married couple — or one partner at least — benefits from the concession, the single person does not.

The R1 800 tax-free threshold does not apply to annual income of less than this amount, says Inland Revenue's chief director (legislation) Jan Massyn.

He said a married woman earning R100 a month would be entitled to the full amount of R1 200 tax-free, as opposed to the R1 800 limit. This, he said, would stop the concession spilling over into the husband's income.

Massyn said the concession would apply automatically and the effects would be seen on the next tax assesments.

Tax for absentee farmers suggested

SPAK (320) BRN 19/3/88

Political Staff

PARLIAMENT — A special tax should be levied on absentee farmers to persuade them to give up the land to farmers who were prepared to occupy it.

This was suggested by Mr David Curry, Minister of Local Government, Housing and Agriculture in the House of Representatives.

Many white farmers lived in the cities, wasting the potential of the land, while eager coloured farmers were prevented from owning farms except by permit, he said.

Mr Curry was speaking during the debate yesterday on the motion by Mr James Swigelaar (LP, Dysselsdorp) urging the Government to scrap the permit system.

CAPITAL

This system restricted brown farmers in the same way that the Group Areas Act restricted brown people in towns and cities, Mr Swigelaar said.

The Erika Theron Commission had already recommended the scrapping of the permit system in the 1970s.

Giving more land to coloured farmers would be an investment in the country because many white farmers were leaving the land.

The coloured farmer's biggest problem was lack of capital. The Agricultural Credit Act extended state loans at five percent interest to white farmers only.

White training centres should be open to all, he said.

Last year R7 261 000 was budgeted for brown farmers and R576 959 000 for whites.

Budget 'fails to meet' needs of black pupils

CLAIRE PICKARD-CAMBRIDGE

THE Congress of SA Trade Unions (Cosatu) said yesterday Budget proposals on education made "no step towards meeting basic demands made by millions of black students".

Cosatu general secretary Jay Naidoo said only one-sixth of the total education budget would go to black education this year. Cosatu believed nothing short of an alternative education system designed by the majority would be acceptable.

He added that reduction in the bread subsidy came as a shock to poorly paid workers and would cause a dramatic increase in the price of an already expensive staple food.

He said the proposed increase in the defence budget convinced Cosatu that government was not committed to finding a peaceful solution to SA's crisis.

"The diversion of vital resources to bolstering repressive organs of the apartheid regime will not create the peace our country needs," he said.

Instead of stockpiling more arms, government should redirect resources to developing technological and human potential.

Cosatu believed job-creation plans would not solve the unemployment problem. Fundamental change was needed.

Sapoa see signs of hope

JANE STRACHAN

THE Budget should have an encouraging effect on the property market in the third quarter of the year, say property owners.

However, they fear the benefits of privatisation have not yet been sufficiently recognised.

They say it is significant that no comment has been made on real rates of return — the difference between the inflation rate and interest rates — as this has an enormous impact on the industry.

SA Property Owners' Association (Sapoa) executive director Peter Erasmus says there is no reason why large sums of money should not start flowing into state coffers by selling the majority of government buildings to the private sector, which could be done on a straightforward lease-back arrangement.

A discouraging aspect of the Budget for Sapoa is increased tax — the 0,1% establishment levy is no less than an additional transfer duty for the property industry, he says.

The organisation says while it may be argued that the rate is minimal, the total sum to be paid by the industry will be large.

Tax sting stays for some working wives

320 BDA/20/3/86.

WOMEN involved in joint business ventures with their husbands — or employed by companies of which their husbands are major shareholders or directors — do not qualify for the 20% tax exemption announced in Monday's Budget, reports LESLEY LAMBERT.

THE sting in the tail of the tax exemption for married women — whose tax bills are assessed according to joint income — is that it applies to earnings which are broadly defined by tax law as "income . . . derived by a married woman from a trade carried on independently from her husband".

The exclusion has always existed to prevent husbands transferring their income to their wife's taxable income, but now that the married woman's tax-free threshold has been raised from R1 600 to 20% of her earnings, with a minimum of R1 800, those excluded are bound to feel even more frustrated than before.

And for husbands who may have interpreted earnings as including investment and interest income — and therefore as a means of benefiting from the concession by transferring investments into their wife's name — there is no loophole.

The earnings definition goes on to exclude:

☐ Income derived from savings in specific circumstances, including rentals, royalties, copyright and dividends; and,

☐ Salary from a private company or close corporation in which husband is a partner, a major shareholder or a director. (Public companies are excluded because, according to the Department of Inland Revenue, they are less susceptible to being swayed by individual employees.)

Another disappointment for husbands in search of loopholes is that the minimum R1 800 tax-free threshold does not apply to annual income which is less than this amount, according to Inland Revenue's chief director (legislation) Jan Massyn.

If a married woman earns R100 a month, for example, she is entitled to the full amount of R1 200 tax-free, as opposed to the R1 800 limit. This is to avoid the concession spilling over into the husband's income.

Tax expert Costa Divaris predicts agitation for the relaxation of laws which exclude some women from these concessions. He feels the tax authorities should rather opt for a fair system at the risk of abuse, rather than a system which goes to such great lengths to close loop-holes that it unfairly excludes people who legitimately qualify for concession.

"Inevitably there will be attempts at getting around the exclusions. One example is women involved in business partnerships with their husbands swapping jobs with friends who are doing the same thing."

Divaris feels the concession for married women discriminates against single people.

The concession applies to the tax year ended February 28 1986.

Tax changes 'temporary'

B DAY 20/3/86 3220

Business Day Reporter

TAX changes announced in the Budget should be seen only as an interim measure, says a tax official.

Chief director C Kingon, policy administration, at the Inland Revenue Department, said at an Economic Society of SA/Assocom seminar yesterday that the entire tax structure was on hold until the Margo Commission reported its findings. He added it was only a matter of time before joint taxation was scrapped.

Dr V Solomon, director of sectoral affairs in the Department of Finance, said the Budget had ensured an economic growth rate this year of 3%-3,5% "and maybe a bit more".

21/3/86 BDN (320)

'Probe to focus on tax evasion'

Finance Editor

TAX evasion will be a key thought running through the proposals of the Margo Commission, Standard Bank economist Nico Czypionka has forecast.

Talking to 500 businessmen at an economic briefing in Durban this week, he said the commission would probably propose a change from GST to value added tax (VAT) which was more difficult to evade and easier to collect.

Company taxation would be simplified by eliminating many of the present deductions and allowances and introducing a flat rate of 35% (down from the current 50%).

The individual tax structure would be changed.

But, Czypionka warned, the proposals would be "tax neutral" — that is, the same amount of tax would be collected as before.

The commission was likely to go after the "big boys", because the special Receiver of Revenue tax squads had revealed a surprising amount of tax evasion in this area.

Discussing this week's Budget, he said while it presented itself as a sound accounting package with all the right numbers — the right ratio of Budget deficit to gross domestic product, an increase in spending well below the current inflation rate and a reduction in taxes — it "did not hang together".

And, he stressed, it did not address itself to the deep-seated problems in the economy:

- Nothing had been done to tackle inflation;
- South Africa was exporting minerals, "stripping our resources" and getting lots of rands, but translated into foreign currencies and watching world commodity prices, "are running fast just to stay in one place";
- The gold reserves of the Reserve Bank, after several "unpublished gold swaps" were at a very low level and not able to pay for three months' imports (the traditional safe level).

Cyzpionka said it would have been better if government spent more to get the economy going or if it had frozen the fringe benefits procedure to help the motor industry.

TAX REFORM 320 FM. 21/3/86

Business-only tax

The mooted business value-added (VA) tax (*FM* March 7) is not to be applied to personal taxpayers. VA's principle is to tax a business on excess cash flow which is not saved by it in any given year.

The business VA tax has been proposed by a Margo Commission member. His proposal for individual taxpayers is basically no change. The business VA tax has been hailed as innovative and a major improvement on the standard model of tax reform.

Why the concept has not been extended to the man in the street is a mystery. One of its greatest features is to encourage saving by businesses, which would be achieved mainly by new investments and replacement of worn and torn assets.

If it was extended to the personal taxpayer, he too would be encouraged to save. Again, all excess cash received that is not saved would be taxed. Its source would be irrelevant — whether salary, commissions, royalties, tips, or cash withdrawn from a savings vehicle for consumption purposes.

Judge Margo . . . wading through submissions

The philosophy underlying the business VA tax *is* applied to pensions and retirement schemes. Cash invested in pensions or RAs — albeit to a limit — may be deducted for income tax purposes. If this were broadened to other forms of saving the personal tax system would be greatly simplified. It would emphasise savings.

It would also give taxpayers much greater power to decide how much tax they will pay. The system dictates that the more the taxpayer saves, the less tax he pays: profligacy is penalised.

The business VA proposals are a move to a pure form of consumption tax. Were they extended in full to personal taxpayers, a comprehensive consumption tax could be developed. Consumption has a much broader tax base than other taxes, so rates would be lower.

And, because consumption taxes are based on cash flows, they are self-adjusting for inflation. The benefits of a tax which encourages saving are innumerable. It can only be hoped that the Margo Commission will consider the suitability of the principle to the personal taxpayer. ■

FIN MAIL 21/3/86 (320)

FILM PRODUCTION

Box-office ripoff

International film production companies are milking tens of millions of rands out of South African taxpayers. SA's generous tax treatment of film productions — intended to foster a home-grown movie industry — is being abused to such an extent that insiders (accountants, attorneys and film industry executives) fear to be named in connection with the scandal.

The main advantage of South African film productions is that 100% of the cost of the project, including the marketing costs, can be written off for tax purposes.

The main abuse arises when a film is *completely* shot outside SA, then sold on a turnkey basis to a South African syndicate. The syndicate, simply by processing the film and editing it, claims that the project is a South African production and therefore qualifies for *all* possible tax and export allowances.

So if, for example, R10m is spent on a film outside SA, and it qualifies as a South African "production," the local taxpayer coughs up practically the total costs of the production. The upshot is that industry sources perceive that the tax authorities may move to abolish many of the tax advantages available to the film industry in their entirety.

To end the abuse — as an industry executive argues — the tax authorities need make only one or two small changes to the tax law. He suggests that before a mooted film production can qualify for tax and other financial advantages, it should be shown that:

☐ At least 70% of the film budget is to be spent in SA if the film is financed primarily with South African money; and

☐ At least 80% of the budget be spent in SA if the film is financed primarily with offshore money.

This would obviate a recurrence of the current situation of a film qualifying for South African tax allowances, although most of the budget is spent outside our borders, for example, in Zimbabwe.

Having qualified for favoured financial treatment in SA, the film makers move to other tax jurisdictions where they qualify for yet further tax and financial favours.

It is generally agreed that the most complicated form of financing known to man is that for film productions. A list of financing instruments used is exhaustive, ranging from double-tax treaties and subsidies to political credit guarantee insurance, as well as post-box copyright companies registered in tax havens.

The major parties involved in a film production are the producer (and associate and executive film producers); the managing partner (the financial conduit); investors; attorneys, auditors, distributors and promoters.

Extras ... providing tax breaks

Most South African film productions are structured on a turnkey basis, so that the costs of the production can be claimed as capital expenditure. These costs are written-off over three years: 70% in the first year; 20% in the second; and 10% in the third. This is current Inland Revenue practice, but it is said that no more rulings on film productions are been given by the authorities.

In addition to the capital expenditure write-off, the export marketing allowance may be claimed on marketing and distribution costs for the *international* market. The tax deduction is worth either 75% or 100% of the expenditure incurred.

A government subsidy is given in cash on the basis of South African *gross box office rentals* earned by the production:

☐ R700 000 on the first R1m box-office rentals; and

☐ R500 000 on the following R1m box-office rentals.

To qualify for the subsidy, the film production must be regarded as a "local" production. It first applies once the film has earned over R100 000 at the box-office — and ceases after the R2m earnings level has been exceeded.

In terms of past Inland Revenue practice, the applicable tax allowances can be claimed commencing in the tax year when the film first earns revenues. This is invariably when the film — including excerpts and "trailers" — is exhibited to potential buyers.

Investors in South African film syndicates, *regardless of revenue levels*, are guaranteed positive returns. In other words, if the film is a total flop at the box office, investors are repaid the full extent of their investment. In addition, they are paid a minumum of about 20% on their investment.

Indeed, using the internal rate of return financial tool, the returns to investors on a South African film production, assuming *nil* box-office revenues, are 23%.

The main loan for large South African productions is usually raised offshore, is unsecured, and bears interest at about the US bank prime overdraft rate. The balance of the film production costs are then taken up by individual South African or foreign investors.

The principle of the syndicate investment is that a taxpayer in the top South African tax bracket (50%) can reduce his tax liability by "buying" tax losses. A 50% taxpayer with, say, R1m in taxable income is in theory liable to pay R500 000 in tax.

Tax law, as outlined above, allows the full production costs of the film to be structured into an engineered tax loss and written-off for tax purposes against taxable income. The taxpayers' R1m taxable income is set off against R1m worth of the production's "losses" — although these are only represented by R500 000 worth of physical costs.

Instead of the taxpayer paying Inland Revenue R500 000 in tax, this goes to the film production syndicate. The investor retains R500 000 of his R1m taxable income and is paid a minimum 23% on his investment, namely R115 000. Thus the investor is rewarded for not paying tax. ■

(3) whether any conditions were attached to the granting of these permits; if so, what were these conditions;

(4) whether any arrangements have been made for the National Monuments Council to retain material recovered from the wreck; if not, why not; if so, what arrangements;

(5) whether the ownership of the wreck of the *Birkenhead* has been established; if not, why not; if so, who is the legal owner of this wreck;

(6) whether any countries have claimed ownership of this wreck; if so, (a) which countries and (b) on what grounds do they claim ownership;

(7) whether his Department has any information on the number of persons who died when the *Birkenhead* was wrecked; if so, how many persons died;

(8) whether he or any person connected with his Department has received any representations to have this wreck declared a wargrave site; if so, (a) from whom and (b) what was his reponse thereto;

(9) whether he will make a statement on the matter?

The MINISTER OF NATIONAL EDUCATION (Reply laid upon the Table with Leave of House):

(1) (a) Yes.

(b) Yes.

(i) 21 June 1983.

(ii) Depth Recovery Unit (Pty) Ltd.

(2) Yes.

(a) Depth Recovery Unit (Pty) Ltd.

(b) 8 August 1983.

(3) Yes.

— The salvor must co-operate with the South African Cultural History Museum in Cape Town, as well as with the Department of Archeology at the University of Cape Town.

— Inspectors from the above institutions and the National Monuments Council must be allowed access to the wreck site and to the storage areas.

— All data and collections must be stored with the South African Cultural History Museum until recorded and studied.

— Progress reports on the salvage work must be submitted to the Council by 1 September 1984, 1 September 1985 and 1 September 1986. A final report must be submitted before 1 September 1987.

— Reprints of all papers resulting from this work must be lodged with the Council.

— The Council shall not be liable for any losses, damages or injuries to persons or properties as a result of any activities in connection with the salvage work.

— This permit does not cover the export from South Africa of any material from the wreck.

(4) Yes. In terms of this agreement with the Depth Recovery Unit (Pty) Ltd up to 50% of all the salvage material can remain the property of the Council. The *modus operandi* will be that the Council (or its delegated institution) has first choice of all salvaged objects, to be followed by the salvors' choice and so on until the material is satisfactorily shared by the two bodies.

(5) There exist a measure of uncertainty

concerning the ownership of the wreck.

(6) Yes.

(a) The United Kingdom.

(b) It alleges that is has never abandoned its rights and interests in the wreck.

The matter is under discussion between the South African and the British Governments at diplomatic level.

(7) Yes. According to the available information 445 persons perished as a result of this shipwreck.

(8) No.

(a) and (b) fall away.

(9) No, not at this stage.

New Questions:

Ciskei: tax concessions

HANSARD 25/3/86

*1. Mr L F STOFBERG asked the Minister of Finance:†

~~105~~ 320 QCOL 673

(1) Whether potential losses of income tax and/or company tax to the State have arisen as a result of the fact that companies and industries that establish themselves in Ciskei enjoy certain tax concessions; if so, (a) what is the total estimated amount in respect of these losses in the latest specified period of 12 months for which figures are available and (b) what is the nature of the losses;

(2) whether he contemplates taking any steps in this connection; if not, why not; if so, what steps?

The DEPUTY MINISTER OF FINANCE:

(1) Due to the short period of time since the commencement of the said tax concessions in Ciskei (in essence 1 March 1985), it is not possible to establish whether or not potential losses of income tax and/or company tax have taken place.

(2) The situation is being carefully monitored and should it become evident that losses may occur, the appropriate remedial steps will be formulated.

Mr A SAVAGE: Mr Speaker, arising out of the reply given by the hon the Deputy Minister, in the light of the fact that Ciskei regards this as a decentralisation incentive, and also in the light of the fact that the South African Government normally pays half the incentives, has the Ciskei Government asked the South African Government to make a financial contribution which compensates Ciskei for what it loses by giving this tax relief?

The DEPUTY MINISTER: Mr Speaker, decentralisation benefits will not in fact accrue to companies that get tax exemptions in Ciskei.

Mr A SAVAGE: Mr Speaker, further arising out of the reply given by the hon the Deputy Minister, although I appreciate what he has just said, will the Ciskei Government be financially compensated to a degree because this is regarded by the Ciskei Government as an incentive for establishing industries etc?

The DEPUTY MINISTER: Mr Speaker, if the hon member for Walmer has any further questions to ask in this regard, he should place them on the Question Paper.

HANSARD 25/3/86 QCOL 674

Export of diamonds

216 74

*2. Mr L F Stofberg asked the Minister of Mineral and Energy Affairs:†

(1) Whether his Department exercises any control over the export of diamonds; if not, which department or what agency exercises such control; if so, what is the nature of this control;

(2) whether he intends taking any steps in respect of the control so exercised by his Department; if not, why not; if

Tax payment shift will cut cash flows

26/3/86 BUSDAY 320

LESLEY LAMBERT

TAX paid by non-mining companies last year is expected to reach R5,1bn and will probably rise by a further 10,8% to R5,6bn this year, the March issue of *Taxgram* estimates.

While individuals will probably face increased tax liabilities, companies appear to have been singled out for punishment, it says.

Finance Minister Barend du Plessis has attributed their "improved" performance to the new system of corporate provisional tax payments, better tax auditing and the reduction of allowances. But *Taxgram* says the shift to 100% provisional tax payment under the three-payment system entails a loss of cash flow tantamount to an increase in corporate rates.

This change will also apply to close corporations which have, in addition, lost the supposed underlying principle of tax equality with individuals.

Last year's collections from individuals are put at R9bn. This year they are expected to reach R10,22bn.

Gold mines last year produced R3,06bn in tax and lease payments.

This year they are expected to pay R2,8bn, excluding lease payments.

of what date is this information furnished?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) (a) Seven.

(b) One.
City Council of Soweto in conjunction with the West Rand Development Board.

(2)

	(a)(i)	(ii)	(b)
Chaiwelo	1981	1986	420 flats
Jabulani	1981	1986	434 flats
Naledi Ext 2	1982	1986	777 houses
Protea North	1983	1987	2 527 houses
Naledi Ext 2 (Provision of services)	1985	1986	1 312 sites
Naledi (Emergency camp)	1986	1986	272 sites
Nancefield (Site and Service Scheme)	1986	1988	601 sites
Private Sector Naledi Ext 2	1984	1986	376 houses

(3) Yes.

	(a)(i)	(ii)
Naledi Ext 2	One	777 houses
Nancefield (Site and Service Scheme)	One	601 sites

(b) 10 March 1986.

Income Tax

HANSARD 26/3/86 3220

414. Mr P R C ROGERS asked the Minister of Finance:

QCSL 811

(1) What amount was collected in individual income tax by means of the PAYE system in the 1985 tax year;

(2) (a) in how many instances did the final assessments result in (i) repayments owing to over-taxation and (ii) additional payments owing to under-taxation and (b) what were the total amounts due in each case?

The MINISTER OF FINANCE:

(1) R5 377 704 356.

(2) (a) (i) 925 658.

(ii) 724 060

(b) (i) R217 408 182.

(ii) R1 153 377 336.

Note: Abovementioned figures exclude loan levy and relate to assessments *raised* during the period 1 March 1984 to 28 February 1985.

Incest

426. Mr P R C ROGERS asked the Minister of Justice:

How many cases of incest were tried in each province of the Republic during the latest specified period of 12 months for which figures are available?

The MINISTER OF JUSTICE:

The information is not readily available in the Department. According to the Central Statistical Services the number of persons convicted of incest in the various provinces for the period 1 July 1984 until 30 June 1985 is as follows:

Cape Province	18
Transvaal	12
Natal	3
Orange Free State	3

Appeals

HANSARD 26/3/86

QCSL 812

427. Mr P R C ROGERS asked the Minister of Justice:

(1) Whether any appeals in the Appellate Division of the Supreme Court were pending as at 31 December 1985; if so, (a) how many and (b) how many of these were (i) civil and (ii) criminal appeals;

(2) how many such appeals in each category have been lodged since 1 January 1986?

The MINISTER OF JUSTICE:

(1) Yes.

(a) 258.

(b) (i) *Civil appeals:*

Pending	129
Number lodged, but records not yet received	26
Judgement reserved	7
Total	162

(ii) *Criminal appeals:*

Pending	90
Number lodged, but records not yet received	4
Judgement reserved	2
Total	96

(2) Appeals received for the period 1 January 1986 until 28 February 1986:

Civil appeals	12
Criminal appeals	16

HANSARD 26/3/86

QCSL 813

Houses

429. Mrs H SUZMAN asked the Minister of Constitutional Development and Planning:

What was the total number of houses built for Blacks in the 1984-85 financial year in each of the nine main urban areas in the Republic?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

Pretoria	92
Witwatersrand	3 742
Bloemfontein	None
Pietermaritzburg	None
Cape Town	4 640
Durban	None
Kimberley	45
Port Elizabeth/Uitenhage	2 902
Vereeniging/Vanderbijlpark/Sasolburg	501

Workers requisitioned

HANSARD QCSL 814

446. Mr K M ANDREW asked the Minister of Constitutional Development and Planning:

26/3/86

How many workers were requisitioned from (a) Lebowa, (b) Gazankulu, (c) Qwaqwa, (d) KaNgwane, (e) KwaZulu, (f) KwaNdebele, (g) Venda, (h) Bophuthatswana, (i) Ciskei and (j) Transkei by each specified Development Board in 1985?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

Development Board: Western Cape

(a) Lebowa	0
(b) Gazankulu	0
(c) QwaQwa	28
(d) KaNgwane	0
(e) KwaZulu	25
(f) KwaNdebele	0
(g) Venda	0
(h) Bophuthatswana	300
(i) Ciskei	6 957
(j) Transkei	42 611

Development Board: Eastern Cape

(a) Lebowa	23
(b) Gazankulu	3
(c) QwaQwa	4
(d) KaNgwane	0
(e) KwaZulu	42
(f) KwaNdebele	7
(g) Venda	8
(h) Bophuthatswana	389
(i) Ciskei	5 536
(j) Transkei	4 064

Development Board: Northern Cape

(a) Lebowa	12
(b) Gazankulu	15
(c) QwaQwa	41

FIN MAIL 28/3/86

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TAXATION

Forex foibles

One side issue of SA's debt moratorium is the tax treatment of (invariably) losses incurred by a company on loans denominated in a foreign currency. The relevant accounting statements are unclear on the point and, unlike some foreign tax laws, the SA Income Tax Act does not deal comprehensively with exchange gains and losses.

Ernst & Whinney's Raoul Kaplan notes that while debtors can't do much about recouping losses on uncovered forex dealings, businesses can nevertheless ensure two things:

☐ That they claim forex losses as a tax deduction; and
☐ That they claim such losses as early as possible.

Kaplan sees a number of important factors affecting the tax treatment of forex losses — and gains:

☐ Exchange losses can be realised or unrealised;
☐ In the current market virtually all forex losses relate to SA debtors. But in a more stable market such losses could apply to SA creditors as well;
☐ Section 24B of the Income Tax Act applies only in respect of *realised* gains or losses on amounts *paid* to overseas creditors; and
☐ Where Section 24B does not apply, a line must be struck between capital and revenue transactions.

Referring only to SA debtors, Kaplan argues that Section 24B only applies to *settlement of a liability.* A forex gain or loss in the normal course of business must be taken into account in determining taxable income. But the section neither differentiates between capital and revenue items nor applies to *unrealised* losses or gains.

So as Kaplan notes, the section does not apply to a loan which has been rolled over — which has the effect of converting unrealised losses into realised losses. He says the commissioner will allow the deduction if he is satisfied that the roll-over was not arranged solely or mainly for the purpose of early deduction from income.

Unrealised losses are yet more complicated. Section 24B does not apply and the answer must be sought from general principles of tax law. Two factors rate as most likely to cause consternation:

☐ That the loss has actually been incurred; and
☐ That the loss is of a revenue and not capital nature. If it is of a capital nature it is ignored for tax purposes.

Referring particularly to the *Caltex* and *Plate Glass* cases, Kaplan argues that the essential requirement is that a liability be *incurred.* Its subsequent payment is irrelevant.

Determining whether a gain or loss is of a revenue or capital nature is one of the most vexed issues in tax law. Kaplan argues that, broadly, the test is to enquire into the true nature and purpose of the transaction. Expenditure on a capital asset will be capital expenditure; if it is no more than part of the cost incidental to income-producing operations, it is revenue.

In examining money loaned from a foreign source, Kaplan says enquiry would determine to what use the money is put. If, for example, cash is held on revenue account to buy trading stock in SA or as working capital with the intention of it being turned over at a profit, any loss incurred would — on the face of it, at least — be deductible.

If the cash is used to purchase or refinance items on capital account, for example, fixed assets, any unrealised loss is not tax-deductible.

In this context Kaplan raises the situation of exchange rate movements subsequent to the initial loan transaction. When the rand continued to weaken, the liability and thus unrealised forex loss increased — creating a greater allowable deduction.

But as the rand strengthens the loss is decreased — and may even change to a profit. Kaplan argues that while forex losses are growing, and in theory fully deductible, it can be argued that any decrease in loss or any profit would not be taxable. This anomaly arises because, as Kaplan points out, the requirement that the amount be "received or accrued" has not been fulfilled.

Ernst & Whinney's Kaplan
... analysing tax strategy

Kaplan says that, based on Judge Margo's conclusion in the *Plate Glass* case, such a "paper" recoupment of a prior unrealised loss should be reflected as income. "The matter is, however, far from clear," says Kaplan.

According to Kaplan, Inland Revenue appears to have adopted a line of only allowing tax-deductibility of unrealised losses regarding trading stock — and not other working capital items. In Kaplan's opinion this is incorrect in terms of statutory and case law.

Deduction against income of realised forex losses is relatively straightforward. But not so deduction of unrealised losses on foreign debts.

Kaplan says that when these have been incurred on revenue account taxpayers should claim the deduction, and immediately, in the year of incurral. ■

Tutu to outline his position on sanctions

2/4/86 BUSDAY

PETER WALLINGTON

THE Bishop of Johannesburg, the Rt Rev Desmond Tutu, will outline his position on economic sanctions today.

He will be doing this nearly six months after the Commonwealth issued an ultimatum that SA meet certain reform requirements within that period or face further punitive measures.

● TUTU

Tutu said last year he would start campaigning for economic sanctions if the fundamental changes demanded by the Commonwealth were not made, and if government failed to meet certain demands made by the Soweto Parents Crisis Committee.

The Commonwealth conference in Nassau in October last year called for SA to declare that apartheid would be dismantled and meaningful action be taken to fulfil this, an end to the state of emergency, the unconditional release of Nelson Mandela and other political prisoners and the unbanning of the ANC and other political organisations.

The state of emergency has been lifted, but Mandela and other prisoners remain in jail and the ANC and other organisations remain banned.

With regard to reform, President P W Botha said pass laws would be abolished by July 1 and that influx control was "outdated". He also told Parliament in January that SA had outgrown "the outdated concept of apartheid".

Government has also announced freehold rights for black townships, and accepted the concept of a common citizenship for all South Africans.

However, the Group Areas Act, the Separate Amenities Act and the Population Registration Act have remained, althouth a President's Council report on the first two is expected to be ready by May or June.

In December last year, Tutu also recommended that black pupils return to school on condition government met certain conditions by March.

The demands included free, elected Student Representative Councils (SRCs), the unbanning of the Congress of SA Students (Cosas) and the release of detained student leaders.

Earlier this week Tutu again appealed to government to respond to pupils' demands in the wake of the National Education Crisis Committee's call for students to return to school today.

The conference, which met in Durban last weekend, has sent a fresh list of demands which include free tuition and books for children of all races, the rebuilding of all damaged schools, the unbanning of Cosas and the removal of troops from townships.

A Department of Education and Training spokesman told *Business Day* earlier this week that free textbooks had been provided since 1979, free stationery since this year and prescribed books would be provided free from next year.

STAR

2/4/86

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Scientists victims of boycotts, says Tobias

Individual scientists were suffering increasingly at the hands of people who believed boycotts were an effective way of bringing Pretoria to its knees, Professsor Phillip Tobias, head of the anatomy department at the University of the Witwatersrand, said yesterday.

"There is an increasing campaign against individual scientists and there are serious, honest, intellectually integral people who believe that boycotts are a means of bringing Pretoria to its knees," he said.

"More and more cases are reaching my desk each week of individuals who have stated that they have been excluded from a laboratory in Holland, or were not allowed access to a computer programme in human genetics in America, where the print-out says at the bottom 'not available in South Africa'."

The incidents were not confined to one area or one country.

Professor Tobias called on his colleagues to fight for the freedom of science and for free access to knowledge.

Professor Phillip Tobias

When 26 scientists from South Africa were barred from attending the Southampton World Archeological Congress to be held in September this year, it was, to his knowledge, the first time that "brother scholars" had tried to exclude other scholars.

It was important that it was not a "political arm" which was responsible for the banning. It was a small group of men who had bowed to pressure, but who had also felt it was a moral issue to exclude South Africans.

The decision to ban the South Africans resulted in a major international row in scientific circles and in January this year, the International Union of Prehistoric and Protohistoric Sciences (IUPPS) withdrew its recognition from the Southampton congress.

The executive committee of IUPPS decided to hold the 11th international archeological congress in Mainz, West Germany, in the first week of September, next year.

Some organisations retracted promises of funds to the Southampton congress and more than 200 delegates withdrew.

Professor Tobias said: "It has been a triumph for the freedom of science, but I must say, although we have won the battle, we have not won the war."

The Southampton debacle was a particularly glaring example of the "denial of knowledge", which was one of the greatest problems facing scholars and scientists today.

(320) Bus Day 3/4/86

Call for academic freedom

DIANNA GAMES

THE decision last year to ban SA-based scientists from the World Archaeological Congress showed the need for academics to reassert their adherence to the principles of academic freedom.

Professor Phillip Tobias, head of the University of the Witwatersrand's Department of Anatomy, said this at the medical school yesterday.

He said that while the conference had originally claimed to be international, pressure from four local bodies in the host city — Southampton, in the UK — had caused SA to be banned from participating.

While last month's changing of the congress's venue to West Germany had been a victory for academic freedom — enabling the 26 SA delegates to attend — the war against such boycotts had not yet been won.

International pressure, and the threatened withdrawal of many delegates protesting against the ban on SA, had led to the venue being changed and to the date being put forward a year to September 1987.

Tobias said SA scientists had long faced the problem of being denied access by political bodies to international participation, but last year's banning meant that for the first time the move was made by their colleagues.

International unions, too, had accepted the universality of science and had brought pressure to bear on countries refusing visas to SA scientists.

Last year's banning, which also acted against one Namibian delegate, was issued by the International Union of Prehistoric and Protohistoric Sciences (IUPPS), of which Tobias is an office bearer.

He said the battle had been won but not the war, and reports of SA-based scientists being refused access to laboratories in Europe, and to computerised programmes from the US, were still being made.

7/4/86 BUS DAY

320

Tax bill leaves SA public reeling

Own Correspondent

SOUTH AFRICANS are paying 24 times more tax than they paid 10 years ago. This is indicated by figures released recently by the Association of Chambers of Commerce (Assocom) and published in the Maritzburg chamber's monthly newsletter last week.

BizNews quotes Assocom statistician Ed Verberg as saying that during the same period tax collections had risen from less than 14% of the Gross Domestic Product (gdp) to 21% — an increase of 50%.

Verberg said in the report that individuals contributed 56,2% of the country's total tax revenue in the 1984/85 tax year.

Income tax on companies declined from 62,2% to 43,3% of total revenue over this period — a decline of more than 30%.

For individuals generally, the amount of income tax paid was rising by a considerably larger percentage than the increase in their gross incomes, Verberg said.

A person earning R10 000 in the tax year ending in 1981, and enjoying increases of the same percentage as the Consumer Price Index (cpi) until 1984/85, would now be getting 13,4% less than the increase in the cost of living over these four years, according to the report's figures.

"This is an example of the common case of the gradual impoverishment of the lower- and middle-income classes by means of steeply progressive tax rates in times of high inflation," Verberg was quoted as saying.

what was the average interest rate per currency and (c) what amount was payable in respect of (i) repayment of capital and (ii) interest.

(2) whether the State has repaid any loans since the freezing of the repayment of foreign debt; if so, to what agencies?

The MINISTER OF FINANCE:

(1) (a) 1982/83—R1 466 165 488,05;
1983/84—R 731 527 260,26;
1984/85—R 602 728 163 ,22.

(b) (i) Number of loans per currency—

1982/83
2—German Mark
6—U.S.A. Dollars
2—British Sterling
3—Swiss Franc
2—Special Drawing Rights

1983/84
2—German Mark
1—British Sterling
2—Swiss Franc
4—U.S.A. Dollars
1—European Currency Units

1984/85
2—German Mark
3—Swiss Franc
2—British Sterling
2—U.S.A. Dollars

(ii) Average rate of interest per annum—

1982/83
German Mark 6,56%
U.S.A. Dollars 13,34%
British Sterling 11,50%
Swiss Franc 7,44%
Special Drawing Rights 7,0%

1983/84
German Mark 8,52%
British Sterling 8,0%
Swiss Franc 5,81%
U.S.A. Dollars 10,48%
European Currency Units 11,25%

1984/85
German Mark 7,75%
Swiss Franc 5,93%
British Sterling 11,89%
U.S.A. Dollars 10,45%

(c) (i) 1982/83—R398 866 498,67
1983/84—R626 254 868,96
1984/85—R371 402 831,10

(ii) 1982/83—R171 524 959,54
1983/84—R194 892 283,28
1984/85—R288 675 124,47

(2) Yes; loans not subject to the repayment obligations of the Standstill were repaid to agent banks, investors and the International Monetary Fund.

QCOL 864
HANSARD 7/4/86

Diamonds

327. Mr L F STOFBERG asked the Minister of Finance:† 286

(1) Whether his Department has any information on the countries in which accumulated stocks of diamonds of South African origin are kept; if so, (a) in which countries are such stocks kept, (b) at what total amount are the stocks in respect of each such country valued, (c) what is the total (i) product cost and (ii) selling price of these stocks in each case and (d)(i) in which currency is the interest in these stocks paid, and (ii) on what value is this interest paid, in each case;

(2) whether his Department sees to it that control is exercised over these matters; if so, what control is exercised; if not, why not;

(3) whether his Department takes any steps to ensure that the bookkeeping in respect of these stocks is administered to the benefit of the South African taxpayer; if so, what steps; if not, why not?

The MINISTER OF FINANCE:

(1) No.

(2) No control is exercised apart from the provisions of Section 22 of the Income Tax Act, 1962, which provide for the inclusion of stocks on hand.

(3) Problems with the effective application of the existing legislation viz:

The Diamond Control Act, Act 39 of 1925;
The Diamond Export Duty Act, Act 16 of 1957;
The Diamond Cutting Act, Act 89 of 1979;

will be removed by proposed legislation to be tabled during the current Session. The proposed legislation will provide for the creation of a central body, viz the Diamond Control Board, which will be responsible for Control over the entire diamond industry and this legislation will fall within the jurisdiction of the Minister of Mineral and Energy Affairs.

QCOL 865
HANSARD 7/4/86

Crude oil

332. Mr B B GOODALL asked the Minister of Mineral and Energy Affairs: 288

(1) What was the average annual landed rand cost per barrel of crude oil in 1980, 1981, 1982, 1983 and 1984, respectively;

(2) what was the (a) average quarterly landed rand cost per barrel of such oil in 1985 and (b) landed rand cost per barrel of oil as at the latest specified date for which information is available?

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

(1) 1980 R30,21;
1981 R33,09;
1982 R40,11;
1983 R34,89;
1984 R45,86.

(2) (a) 1st quarter R56,51;
2nd quarter R57,45;
3rd quarter R60,80;
4th quarter R73,80.

(b) January 1986 R67,21.

General sales tax

HANSARD 7/4/86 QCOL 866 320

336. Mr B B GOODALL asked the Minister of Finance:

What amount in general sales tax had been derived from (a) individuals, (b) companies, (c) the (i) building and construction, (ii) retail, (iii) wholesale, (iv) manufacturing and (v) services sectors and (d) any other specified sources in the 1985-86 financial year as at the latest specified date for which figures are available?

The MINISTER OF FINANCE:

Statistics which distinguish between payments of sales tax by individuals and companies are not maintained. For statistical purposes collections of sales tax are analysed under the groups specified below. The analysis for the period 1 April 1985 to 31 October 1985 was as follows:

1. Building and Construction	R	919 946
2. Retail	R2	462 235 110
3. Wholesale	R	829 791 171
4. Manufacturing	R	729 057 099
5. Services	R	299 902 352
6. Agriculture and Mining	R	42 317 510
7. Catering and Accommodation	R	173 869 768
8. Advertising	R	58 876 535
9. Unclassified	R	2 759 838
Total	R4	599 729 329

General sales tax

370. Mr R M BURROWS asked the Minister of Finance:

What total sum (a) was obtained by the State from general sales tax levied on (i) books and stationery and (ii) school books and stationery and (b) was paid out in general sales tax by the State on purchases of school (i) books and (ii) stationery during the latest specified financial year for which information is available?

The MINISTER OF FINANCE:

(a) The total sum collected from sales tax levied in respect of the sale of (i) books and stationery during the 1984/85 financial year was R98 457 463. (ii) No separate statistics are maintained in relation to sales of *school* books and stationery.

(b) The Department of Finance is not responsible for making purchases of school books and stationery. Such purchases would normally be made by central government and provincial education departments and it is doubtful if figures relating to the amount of sales tax paid out in respect of those purchases are readily available.

QCOL 867.

HANSARD 7/4/86

Unemployment Insurance Fund

453. Mr P H P GASTROW asked the Minister of Manpower:

(1) What was the balance in the Unemployment Insurance Fund at the end of 1985;

(2) (a) what was the amount (i) paid into the Fund and (ii) paid out in benefits in that year and (b) to how many (i) White, (ii) Coloured, (iii) Indian and (iv) Black applicants were benefits paid?

The MINISTER OF MANPOWER:

(1) R149 766 002.

(2) (a) (i) R196 507 492.

(ii) R325 133 883.

(b) (i)-(iv) 426 136. Separate particulars on the number of Whites, Coloureds, Indians and members of the Black population groups who were paid benefits are not readily available.

Work-seekers

HANSARD 7/4/86

460. Mr P H P GASTROW asked the Minister of Manpower: Q COL 868.

How many Black males and females, respectively, were registered as work-seekers in the White areas of the Republic in each month of 1985?

The MINISTER OF MANPOWER:

Members of the Black population groups registered as work-seekers in the White areas of the RSA in 1985.

Month	Male	Female	Total
January	34 889	18 185	53 074
February	66 572	34 213	100 785
March	55 040	28 018	83 058
April	51 432	24 440	75 872
May	55 451	28 793	84 244
June	51 063	24 288	75 351
July	51 594	22 369	73 963
August	57 433	25 772	83 205
September	55 574	25 962	81 536
October	51 536	24 776	76 312
November	57 179	26 263	83 442
December	43 804	19 578	63 382
Total	631 567	302 657	934 224

QCOL 868

Apprenticeship contracts

HANSARD 7/4/86

463. Mr P H P Gastrow asked the Minister of Manpower:

(1) How many new apprenticeship contracts were registered in each trade in 1985 in respect of (a) White, (b) Coloured, (c) Asian and (d) Black persons;

(2) what total number of apprenticeship contracts were in operation in 1985?

The MINISTER OF MANPOWER:

(1) Industry	(a) Whites	(b) Coloureds	(c) Asians	(d) Members of the Black Population groups
Aerospace	129	2	—	2
Automobile Manufacturing	56	22	1	43
Building	447	442	75	76
Coal Mining	101	—	11	5
Diamond Cutting	—	—	—	—
Electricity Supply Undertaking	340	15	—	—
Explosives and Allied Industries	92	3	2	11
Furniture	28	20	7	1
Government Undertakings	364	40	—	1
Hairdressing	514	21	9	14
Jewellers and Goldsmiths	36	—	1	—
Local Authority Undertakings (Northern Transvaal)	27	—	—	—
Metal (Engineering)	2 840	316	278	331
Mining and Building-Mines	1 560	23	5	112
Motor	1 124	156	84	53
Printing	306	73	28	6
South African Transport Services	1 253	—	3	—
Sugar Manufacturing and Refining	13	4	9	9
Tyre and Rubber Manufacturing (Port Elizabeth, Uitenhage and Brits)	16	11	—	2
Totals	9 246	1 148	513	666

(2) 33 752.

Q COL 869

Labour Relations Act

HANSARD 7/4/86

473. Mr P H P GASTROW asked the Minister of Manpower:

(1) How many (a) industrial council agreements, (b) conciliation board agreements, (c) arbitration awards, (d) Wage Board determinations and (e) orders in terms of the Labour Relations Act, No 28 of 1965, were in force as at the latest specified date for which figures are available;

(2) how many (a) Whites, (b) Coloureds, (c) Asians and (d) Blacks were affected by each of the above five categories of wage regulating machinery as at this date?

The MINISTER OF MANPOWER:

(1) (a) 164.

(b) 1.

(c) Nil.

(d) 51.

(e) 5.

(2)	(a) Whites	(b) Coloureds	(c) Asians	(d) Members of the Black Population Groups
(a) Industrial Council Agreements	156 162	245 301	79 241	603 574

CAPE TIMES
7/4/86 320

Higher GST on way?

By GORDON KLING
Financial Editor

AUDITORS Pim Goldby fear General Sales Tax (GST) could be increased if government spending is not adequately controlled.

In one of many booklets by auditing firms analysing the 1986 Budget, it points out that since GST is effectively passed on to the public, taxes on individuals account for more than 62 percent of total tax revenue.

The firm believes the biggest question raised by the Budget is the adequacy of resources allocated to black education, black housing and reduction of unemployment.

Economists, however, are sceptical on the GST worry.

Old Mutual's chief economist, Rob Lee, considers the possibility of a hike in sales tax this year to be remote.

He agrees that government spending could well overrun the estimates, but he considers the figures in the Budget to be so conservative that there will be room for this.

In any event he thinks it "inconceivable" that GST would be touched before the report of the Margo tax commission expected in June.

Pim Goldby homes in on the Budget's planned 32 percent increase in taxes to be collected from individuals at a time when salary increments have fallen below cost of living increases.

Chemists seek end to surcharge

BUSDAY 8/4/86

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CHERILYN IRETON

PHARMACISTS are fighting to have the 10% surcharge on imported medicines and raw materials removed.

A similar tax imposed on books was dropped after public outcry.

Pharmacists are asking for the surcharge to be scrapped in an effort to bring down SA's soaring medicine bill.

"The 10% has got to be removed," says Pharmaceutical Society president Don Sutherland.

"The surcharge is imposed on base costs such as imported raw materials. This, together with GST, is adding at least another R150m to the price of medicine," he says. The society is to make renewed representation to the Minister of Health on these issues.

The alleged subsidisation by the private sector of the State medical bill has also been raised with government.

At the moment, pharmaceutical manufacturers tender for high-volume state contracts. However, when competition is tight or manufacturers have to compete with cheaper generic alternatives, prices are cut substantially.

"The result is that 60% of the volume is going through the State at around 35% of the price," says Sutherland.

When this happens, manufacturers are accused of loading the retail price to make up possible losses.

Although the price difference between what the state and retail sectors pay varies from item to item, differences from 17,5% to about 1 000% have been noted, says Retail Chemists Association past president Jack Bloom.

Bloom says he has no doubt the private sector is subsidising State medicine costs. "If the government paid 10% more for its medicines, it would cut a lot more off the retail medicine bill."

Manufacturers deny responsibility for the high cost of medicines at retail level, arguing that they sell medicines worth about R365m to the wholesale sector. Retail turnover on the same products is about R902m, they say.

CCs hit by higher tax

BUS DAY 9/4/86 (320)

LESLEY LAMBERT

THIS year's Budget significantly reduced the tax incentive formerly implicit in setting up a close corporation (CC).

The rate of tax payable by CCs, previously equivalent to the maximum marginal personal tax, now exceeds it.

Tax expert Costa Divaris says that the CCs, designed to ease the tax burden of small businessmen and entice the informal sector into the market, have lost one of their fundamental attributes as a result of Budget changes.

The maximum personal marginal rate has been reduced from 53,5% to 47,5% because of the abolition of the surcharge and 5% discount. But the CCs will not benefit from this reduction as the 50% corporate rate will now apply.

While the close corporation will maintain the benefit of paying tax only once on any distribution, it will now be subject to a higher rate than if the member had personally derived the income.

This could threaten the future of close corporations. Businessmen would try to avoid paying the extra 2,5% company tax.

"If no dividends are being paid out, the CC may as well resort to being a company," Divaris says.

Inland Revenue is bound to keep a beady eye on any such attempts at avoidance. As a spokesman warns: "The commissioner will be watching out for the payment of excessive salaries."

The Small Business Development Corporation's finance GM Sonny Tarr does not agree that the higher tax rate is altogether unjust.

"To assist small businessmen, close corporations are not subject to the same regulations and disciplines which apply to companies. With this added advantage, it is fair that they are subject to the company tax rate."

GFSA's State share drops 21%

CT 11/4/86 320

By GORDON KLING, Financial Editor

THE STATE is in for a beating on tax receipts from the gold mines in the quarter ended March 31.

Operating results released last night of the Gold Fields group (GFSA) show tax and the State's share has dropped 21 percent — from R325,443m to R258,621m in the first quarter of the year.

A similar pattern can of course be expected from the other mines.

GFSA's after-tax profit has declined 12 percent to R240,8m from the previous quarter's all-time high of R273,4m.

The lower profits are attributable to the significant improvement in the value of the rand against the dollar, which led to drop in the average price a kg from R27 170 to R25 029, a 4,8 percent rise in working costs to R305m (R294), a decline in the average yield to 8 g/t (8,2 g/t) and a decrease in production from 30 824 kg to 29 861 kg.

Working profit for the comparable period dropped from R545,234m to R443,798m and gold revenue dropped from R839,246m to R748,948m.

Milling was the same at 3,741m tons.

Working costs a ton of ore milled increased from R78,59 to R81,57, but capital expenditure decreased from R91m to R87m.

It should be noted though that Finance Minister Barend du Plessis has budgeted for a decline in gold mine tax revenues of 7,7 percent on reckoning that both the rand and costs would rise.

Presumeably the replacement of State aid for marginal mines with an ad hoc scheme based on the merits of individual cases will go some way towards making up what looks like a substantial shortfall in the making.

Unless, of course, the gold price picks up and the rand fails to appreciate further.

PERKS TAX FIN MAIL 11/4/86

Car changes (320)

The Department of Inland Revenue (IR) has recommended changes to the car perks tax tables to Finance Minister Barend du Plessis. To the *FM*'s knowledge, the recommendation applies to car allowances only — and not the company car table.

If the recommendations are accepted, taxpayers can expect details to be published in the next week or so. It is understood IR is particularly eager for finality as many employers have not yet handed employees their IRP 5 forms for the past tax year.

Changes to the official rate table for car allowances would recognise substantial increases in car running costs, particularly petrol, since the figures took effect on March 1 1985. In addition, IR has recommended that a new rate be appended to the official table for car allowances.

This so-called "casual" rate has been mooted to ease administrative pressure on employers and would *not* apply to full-blown car allowance schemes. The casual rate would add a fifth column to the table and span larger values than for car allowances. So, for example, instead of four values applying to cars valued between R9 000 and R12 000, only one "casual" rate might apply (although this may not be the actual bracket).

IR has recommended that the casual rate be applied retrospectively from March 1 1985 onwards. If an employee has been paid an allowance less than the casual rate, it need not be reported on the IRP 5. An example of where casual rate would apply is audit staff with their own cars who are paid when travelling to on-site audits.

An *increase* in the official rate table for car allowances would save taxpayers perks tax. By the same token, it is in the interest of taxpayers that the company car tables are *not* increased. With the different formulae applicable, such an event would mean more tax for the company car user. ■

LAND TAXES 3220 FINMAIL 11/4/86.

Absolute tax reform?

One of the more radical tax reform programmes — worldwide — is the notion of replacing *all* taxes with a tax on the productive capacity of land. The idea is that taxes which fall on production discourage production and the creation of wealth; while a tax on productive land encourages the maximum use of land, rapid development and wealth creation.

This line of thought underlies the submission of the Association of Incentive Revenue Research (AIRR) to the Margo Commission on tax. The AIRR's Godfrey Dunkley says a land tax comprises the collection of so-called "natural rent." This is extracted at the highest rates on prime land and reduces to zero on the least productive land.

The tax is based on the annual value of land, calculated on sales and purchases in the marketplace. "Natural rent" — without embroilment in academic theory — is best illustrated in SA by (municipal) site value rating. This rating (in reality an impost or a tax), says Dunkley, "encourages growth, productivity and employment."

As the graph shows, the most productive land earns the highest rent. Rent received is used to pay wages, interest and tax. The remainder is called economic rent and accrues to the owners of property.

At the other end of the scale is marginal land. Land not productive enough to pay wages and interest falls into disuse. Land which cannot support the cost of wages, interest and tax also falls into disuse. This point on the graph, L2, is known as the economic margin.

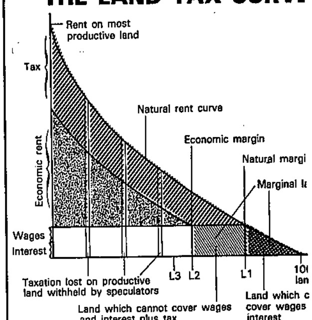
If wages and interest remain constant, the more taxes rise, the more land falls into disuse. And the more land that falls into disuse the larger the loss in economic growth, the greater unemployment, and the more the national loss.

Numerous factors work to move the economic margin to the point L3, which can be virtually anywhere to the left of L2. One factor — as shown — is speculators who withhold productive land from the market. Speculative land does not pay tax; overall revenues fall; taxes are increased and point L2 moves towards L3.

The regional services council levies, 0,1% of turnover *and* 0,25% of payroll, appear to overlook the theory behind land taxes. To be imposed in September, they will undoubtedly move the economic margin to L3 — or beyond.

In arguing for the tax on productive land Dunkley quotes Milton Friedman: "There is a sense in which all taxes are antagonistic to free enterprise — yet we need taxes ... so the question is — which are the least bad taxes? In my opinion, the least bad tax is the property tax on unimproved value of land."

THE LAND TAX CURVE



Municipalities have developed three main types of tax:

☐ The *flat rate* tax which imposes the same rate on land and improvements;

☐ The *composite rate* tax which taxes land at a higher rate than improvements; and

☐ The *site value rate* tax, based on land value only.

The provinces developed land taxes in isolation of the central legislature, and they are still collected at a local (or provincial) level. The exact method varies, but in general the Cape uses flat rates, Natal and the OFS State composite rates, and the Transvaal site value rates.

Over the past 30 years SA has experienced a marked swing — on a unit or town/city

CAPE TIMES 11/4/86

(320)

Tax cuts attractive for working wives

By AUDREY D'ANGELO

SINCE the last Budget a family would be better off in many cases if the husband stayed at home and the wife went out to work, tax consultant Costa Divaris said in an interview yesterday.

The fact that 20 percent of a wife's gross earnings are now tax free means that it pays for her to earn a larger salary than her husband or to own and run the family business.

Divaris said at a tax seminar in a city hotel that if a wife went into business she should do so as an individual and not form a close corporation.

If she formed a close corporation she would lose her tax advantage and her profits would be taxed at the rate of 50 percent.

His partner, Michael Stein, said that if a wife ran an unsuccessful business, closed it down and then took a job for the remainder of the year the assessed loss she had incurred through the business became her husband's assessed loss because he was the taxpayer and 20 percent of the wife's gross income from her job would still be tax-free.

But this was the case only if the wife's estate was not sequestrated. Once an estate was sequestrated assessed losses could not be carried forward.

Stein said that, in the present state of the economy, many companies must have assessed losses which would be a valuable asset to set against future profits.

But some of these assessed losses were being wasted by groups which undertook different activities in different companies, since a loss incurred by one company could not be set off against the taxable income earned by another.

"A structure with different branches or divisions in the same company avoids this problem," he advised.

Stein also emphasized the importance of carrying on trading for a full year in the case of a company if assessed losses were not to go to waste.

"A company will lose the right to carry forward an accumulated assessed loss if it ceases to trade for a full financial year," he warned.

He said such a company would still be considered to be trading, and carry forward its assessed losses, if it earned income from renting out property or equipment. But investment income alone would not allow it to retain its assessed loss.

An individual, however, could carry forward an assessed loss without having to continue to trade.

Stein warned that, in order to have an assessed loss, a holding company should not waive or forgive a debt owed by a subsidiary but should invoice it even if it was later written off as a bad debt.

rather than provincial basis — from flat to site value rating. Dunkley studied rating trends in 310 towns over the period 1951-1979. His conclusions can be summarised as finding that site value rating is far the best form of municipal tax:

☐ More than 60% of growth over the period occurred in towns using site value rating;

☐ Rating *improvements* in addition to land discourages growth: on average towns rating improvements did not keep pace with growth in gdp;

☐ Use of site value rating increased in popularity;

☐ Provision exists within legal parameters for all towns and cities to adopt site value rating (the system originally favoured by the boers); and

☐ Rural areas are subject to direct and indirect taxes which bear on production regardless of land value.

Collection of natural rent on productive land has many advantages. Tax avoidance and evasion are more difficult since land cannot be hidden under the cash counter or exported. Tax is collected from those most able to pay, encouraging the most efficient allocation of natural resources.

Collection of natural rent also discourages the accumulation of unearned income at the expense of the overall economy. If natural rent is collected from all land, whether productive or not, land becomes available at more reasonable prices to those willing and able to put it to use and pay rent under free market conditions. ■

BANKING 88 FIN MAIL 11/4/86

Black market

Citibank's announcement that it is opening a special unit in support of black entrepreneurs has highlighted the growing importance of this under-developed segment of the market. David Hexter, MD of Citibank, tells the *FM* that the main object is job creation.

Clients are to be attracted via personal contacts, advertisements in black newspapers and referrals. "We are seeing encouraging results despite monetary amounts being small," says Hexter. Enterprises assisted to date include pharmacies, clothing and textile, retailing and black estate agencies.

Hot on the heels of Citibank is IBM, which has deposited R300 000 with African Bank for use by the Soweto Building Contractors' Association in providing jobs and housing. Black entrepreneurs may borrow up to R16 000 over three months at 1% a month.

It is no coincidence that two notable US names are involved, considering domestic pressures on their parents. Hexter admits that foreign pressure factors made the bank more conscious of its obligations.

As some banking sources observe, however, Citibank's operations in SA are small in relation to its worldwide operations. Its loan facility to black businessmen must be looked at in the light of its overall loans portfolio.

Victor Sandamela, assistant GM of African Bank, tells *FM* that his bank welcomes the involvement of "white sector" banks.

African Bank has limited resources relative to the size of the black population. "Our modus operandi is to make the assistance we give to black businesses worthwhile, as we are mainly a retail bank just developing corporate and money-capital market services," says Sandamela.

African Bank has had a good response from businessmen for loans, but because of a limited shareholding and deposit base, it cannot meet demand. "At one time, a black man could not get gearing, capital injections, or any kind of finance for his business. Our aim is to satisfy that need. We are trying to attract our people away from the white sector banks they are used to."

Citibank regards black clients as a good risk and offers favourable terms. But it has no intention of stepping on the toes of African Bank or other institutions. "Our aim is to complement, not compete," says Hexter. "African Bank must operate according to conventional retail banking standards, whereas we look to non-profit marginal risk funding together with advisory and promotional support."

Hexter regards this niche of its business as a means to assist black advancement and so attract a loyal and growing clientele. "We are long-standing signatories of the Sullivan Code and regard this as an extension of our historical role," he says.

Sandamela looks forward to the day when banking will not be segregated into white and black, but regarded as one homogeneous industry. Black business leaders see the only way for the black community to gain a foothold in the economy is to mobilise their own money and ambitions. But the stumbling block is still petty regulation which prevents blacks with financial resources investing freely. ■

PERKS TAX 320 FIN MAIL 11/4/86

More than an impost

The tax deadline for personal taxpayers is May 14 — and many employers have not yet provided IRP 5 forms. The main reason, says Ernst & Whinney's Roger Bramwell, is the advent of perks tax. But after a year of perks tax, the tax system can claim to have survived the most difficult development in its history — if only just.

After the frenzy that preceded the introduction of perks tax and the various concessions, it is clear that the authorities are determined to stick to their guns. Finance Minister Barend du Plessis did not bow to pre-Budget lobbying to dilute the phasing-in of perks tax. But he did comment that the personal tax haul over the past year clearly indicated that perks were being used much more than the authorities had thought.

Despite many expectations to the contrary, perks tax is here to stay. Tax consultants report that some employers (and employees) believed that perks tax would never actually be implemented. Others thought it would be abolished by the year-end. Consequently, many employers did not prepare adequately.

So when the new IRP 5 and IT 3 tax forms arrived, many companies experienced minor chaos. Accounting firms and tax consultants were bombarded with inquiries. One bother in particular was that employers had to return a director-signed statement that perks given by the company were as designated.

Not only is the burden of collecting perks tax placed on the employer (with a few exceptions), but the calculation of perks tax values as well. It is an onerous obligation: previously, income tax tables were merely applied to employees' salary or wages and the relevant tax deducted. Perks tax uses a whole new breed of formulae, tables and deeming provisions.

Far from perfect perks tax may be, but it has one feature of greatness: certainty. Perks have always been taxable in theory, but the method to be used in calculating their taxable value was never clear.

For example, as a thumbnail rule, it is now better to have a car allowance than a company car. More precisely, any employee doing a lot of travelling will be better off with an allowance. FSA Management Consultants' Dave Dickens notes that a R20 000 car produces "break-even points" at 20 000 km and 17 700 km — depending on which car allowance formula is used.

If an employee travels less than these distances in a given tax year, it would pay him to have a company car. Much finance business, traditionally geared up for *company car* fleets, has been affected by this development.

Finance houses have adopted a new tack aimed at advising employers how best to manage cars, whether company owned or sponsored. The main tool is perks computer software. Among a wide variety of functions, the software is geared at optimising remuneration packages. Overall, perks tax has meant big new business for accountants, lawyers and specialists in the remuneration field.

One characteristic of the new certainty of perks tax is that many employers should switch perks, as with car allowances, or implement new perks.

Provision of residential accommodation, for instance, is taxable. Yet an employee may deduct R20 000 from income in calculating the value of the perk — making this perk attractive for the employer and tax efficient for the employee, often in the extreme.

The original intention of perks tax, to make the choice between a cash and a cash-perks remuneration package irrelevant, will be achieved when phasing-in allowances expire. Until then, the Commissioner for Inland Revenue can be sure that employers and employees will fight for every cent they can save as the personal tax burden burgeons. ■

Women in business better off

SINCE the last Budget a family would be better off in many cases if the husband stayed at home and the wife went out to work, says tax consultant Costa Divaris.

The fact that 20% of a wife's gross earnings are now tax free means that it pays for her to earn a larger salary than her husband or to own and run the family business.

Divaris said at a tax seminar in Cape Town that if a wife went into business she should do so as an individual and not form a close corporation.

If she formed a close corporation she would lose her tax advantage and her profits would be taxed at the rate of 50%.

Divaris' Michael Stein said that if a wife ran an unsuccessful business, closed it down and then took a job for the remainder of the year the assessed loss she had incurred through the business became her husband's assessed loss because he was the taxpayer, and 20% of the wife's gross income from her job would still be tax-free. — Sapa.

April 1986

Taxpayers likely to pick up 90% of bill for rebel rugby tour

(320)

TAXPAYERS are set to pick up the tab for 90% of the R2,5m sponsorship of the New Zealand rebel rugby tour.

This is because the sponsor, Yellow Pages, is likely to qualify for the special tax break — still to be legislated — entitling it to claim massive rebates from the Receiver of Revenue.

Yellow Pages, if it gets the deal, will end up paying only R250 000 out of its own pocket. The balance, R2,25m, will be paid back to the Maister Directories company via the taxman.

Shortly before the sponsorship deal was finalised on Monday the Department of Finance confirmed, in a letter telefaxed to the Transvaal Rugby Football Union (TRFU), that it intended to put the draft amendments to the Tax Act to Parliament before the recess.

CHERILYN IRETON

These amendments will allow sponsors of approved events to claim a maximum rebate of 90% on total tour expenses.

Although Director-General of Finance Chris Stals and Yellow Pages MD Denis Maister said the rebates had been guaranteed, Opposition spokesmen said there was little doubt the legislation would go through as expected.

"No National Party MP would vote against the amendments once the draft has been discussed by an executive committee," Progressive Federal Party deputy finance spokesman Brain Goodall told *Business Day*.

According to Maister, the sponsorship was offered to his company by the TRFU.

No other companies had been in line for the sponsorship, according to TRFU president Louis Luyt.

The controversial tax hand-outs first became public when government promised the rebates to sponsors of the Australian cricket tour.

Yellow Pages put up R1m

● See Comment Page 6

BUS DAY 15/4/86

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Inflation — the potent hidden tax

BARRY SERGEANT in the second of two articles

One of the most elusive concepts in taxation is the definition of tax itself. The income tax of employees is easy to understand with the regular pay-as-you-earn (Paye) deduction; sales tax is paid over-the-counter and company tax comes off corporate profits (albeit that book and tax profits rarely coincide).

Then the grey areas. The definition of income itself is notoriously difficult — as a perusal of reported law cases show. About 90% of all tax cases involve extraordinarily complex arguments about whether a designated chunk of money is income or capital.

Some species of cash are so slippery to categorise that the tax system ignores them completely. A houseowner who has discharged bond/s he had on his property, in theory at least, earns "rent" from the property — for not having to pay rent. This is a species of income which is simply not taxed.

When a tax system is not absolutely certain about what it is taxing, then it is not too difficult to see that it will also be unsure about the nature of tax itself. So the question of whether we are overtaxed assumes new proportions.

It was shown in a previous article (*Business Day*, April 15) that compared to their counterparts in the UK, Australia and the US, South Africans pay more tax. Yet that analysis was confined to income and income-related taxes; indirect taxes such as sales tax were ignored.

Also ignored in the analysis were what may be referred to as "hidden" taxes. Probably the most potent hidden tax is inflation which also, perhaps, qualifies as the most sinister tax ever invented. Consider that when the latest inflation rate increase is announced there is no simultaneous announcement of an increase in tax rates.

But this is exactly what happens. Inflation erodes a taxpayer's spending power — and to keep pace his salary must be increased. If this is done he creeps into a higher bracket on the progressive tax tables and pays more tax. And rising production prices force retail prices upwards: sales tax, because it is expressed as a percentage, takes more cash from the taxpayer.

□ MALCOMESS ... pointed out hidden taxes

Tackle the inflation/tax issues any way you may, inflation is a tax. In their tax systems governments have come to benefit from inflation in countless ways. Indeed, in increasing revenues, governments have a vested interest in not decreasing inflation. There are many simple solutions to the problem but the impetus for change in SA is low.

Michael Katz, a member of the Margo Commission on tax, has said that indexing tax rates (which would solve the inflation/tax problem) would institutionalise inflation. He is saying, in other words, that by indexing and allowing the tax system to recognise that inflation actually exists is not a good idea.

Perhaps inflation heads the list of hidden taxes but others are vying for the top notch. Last week in Parliament John Malcomess (PFP, PE Central) said that in 1985 government collected R3 664m in tax from the sales of cars, petrol and other levies related to the industry. He bemoaned Inland Revenue collecting sales tax four times (on average) from the same vehicle, as it is subject to sales tax each time it changes hands.

And Malcomess raised that classic feature of many hidden taxes, the collection of tax on tax. This process is (perhaps) just as sinister as inflation but its application can be said to be less arbitrary. So, as argued by Malcomess, sales tax is calculated on retail prices which already embrace one or more imposts.

Part of the petrol price before the 12% sales tax is imposed are customs and excise and levies for the national road fund, the central energy fund, and the equalisation fund. The only sense in collecting taxes on taxes is that more tax is collected; the process is impossible to justify or countenance in economic terms.

So the bottom line for the taxpayer who knows or senses he is overtaxed purely from an income tax viewpoint is also affected by a plethora of taxes which lurk behind virtually every fiscal vestige. But there are yet deeper hidden taxes waiting to raid the pockets of the beleaguered taxpayer.

Government's deficit financing is a form of hidden tax cancerous in at least two senses. When government expenditures exceed revenues it borrows from the capital and money markets where its demand swells interest rates across the economy. Taxpayers who also borrow pay higher interest rates than before. So their income is eroded by tax and inflation — and the increased margin on interest

□ KATZ ... no to recognising inflation

rates added by government.

Secondly, deficit spending must be financed. As state debt accumulates, the interest bill grows and taxes are raised to discharge (at least part of) the liability. This particular form of hidden tax has now reached massive proportions in SA.

The third largest single item on this year's spending programme is for "state debt costs". The amount estimated is R5,2bn — more than the budgets for welfare and health combined. Government also raises hidden tax from the prescribed asset requirements of financial institutions.

Although rates on prescribed assets are nearing market rates, traditionally the yields have been low, and pensioners, life insurance policy holders and investors have lost out. And an incalculable amount of hidden tax is raised by government via the extra-normal profits of government monopolies.

Escom, Sats, SABC TV, Posts & Telecommunications and their ilk fall into the category of institutions (possibly) charging prices which are in excess of prices that would be charged were circumstances more competitive. By the same token government-sanctioned private sector monopolies and oligopolies also eat into the taxpayer's pocket.

The so-called "TV industry" is a classic example, and to some extent at least, beer, tobacco, diamonds, glass, finished paper, all the commodities marketed by the single-channel fixed-price agricultural control boards, and so on. The tangible merits of the argument that monopolies and their close relatives are an impost on the taxpayer are, in the nature of man, open to sleepless debates.

It may be of interest that Charles Stuart's study of the (very high-rate) Swedish tax system led him to a simple conclusion: "Increases in hidden taxes constitute the major portion of total tax increases." The crying rejoinder is that the higher a country pushes visible taxes, the more it will attempt to wrest invisible taxes.

Taxpayers may live with the perception that they are overtaxed by visible taxes. When they analyse the further effects of invisible taxes on their earnings, they may wax suicidal. If they can cope with pre-suicide depression they should not review the size of SA's underground economy.

It is likely that high visible tax rates (and the unseen but felt effect of invisible taxes) has produced an underground economy generating no less than R40bn worth of taxable economic activity. That is worth billions of rands of ungarnered taxes.

The taxpayer who can accept Deputy Finance Minister Kent Durr's statement that we are not overtaxed most likely escapes sleepless nights. In the context of being overtaxed the most the Margo Commission has implied is that its central problem is the reduction of high tax rates.

If by tax rates the Commission means to ignore the myriad invisible taxes, it would not have begun half its work.

Parliament and Politics

Du Plessis attacks CP over schools

15/4/86

Political Staff and Sapa

HOUSE OF ASSEMBLY. — The direct tax paid by most Afrikaners was not sufficient to cover the cost of their children's education, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Replying to second-reading debate on the Budget, he rejected Conservative Party complaints that whites paid for the education of blacks.

Redistribution of income to pay for the schooling of developing communities in South Africa was an "absolute prerequisite" and a "Christian reality".

Mr Du Plessis said a white family with two children had to earn a total of R27 500 a year before they paid enough tax to cover their education.

Rough figures showed that 68 percent of two-child families did not reach this income-level.

Altogether, 89 percent of whites with one child at school and one at university, and 94 percent of those with two children at school and one at university, did not earn enough to pay for their education.

Quoting a study by University of Stellenbosch economic statistician Prof J L Sadie, Mr Du Plessis said that "even today" it was fair to say that English-speaking whites paid 60 percent of all income tax.

'Were on their knees'

A company could not be classified as purely English or Afrikaans, but according to Professor Sadie, only 22 percent of companies in this country were under Afrikaans control.

According to him, English speakers paid 75 percent of total company tax.

"I say categorically that it is acceptable to members of the CP that in the days when Afrikaans-speakers were on their knees, they were subsidized by English speakers.

"But now there is this illusion that the Afrikaner has developed to such an extent in the economy that he can stand on his own feet, this issue of redistribution of incomes is being thrown at our heads."

Facts showed that the claim that the Afrikaner was economically self-sufficient was "not true", Mr Du Plessis said. The "unarguable truth" was that even now the majority of Afrikaner families did not pay enough tax to cover the cost of their children's education.

He had never, since 1948, heard an English-speaker say he was against paying for an Afrikaner's education. This was because they realized all South Africans were bound by destiny into the same economic community.

Relief for motor industry

Rightist radicals tried to politicize this matter.

"But we as Afrikaners have no moral right to do this. The facts of the history of this country say otherwise."

It was a "shock" to hear the level of CP debate. South Africa was at an hour of crisis, and members had to rise above their own self-interest.

● Much-needed relief, possibly in the form of reductions in customs duty or some other tax concession, may be on the cards for the beleaguered Eastern Cape motor industry.

This was hinted at yesterday by Mr Du Plessis.

He stressed that while he did not want to raise hopes unnecessarily, consideration was being given to tax concessions and suggested a reduction in customs duties was one possibility.

Mr Du Plessis said any decision would have to await the report of the Margo Commission — expected within the next few months.

Changed GST structure

He said the commission was also to give consideration to a changed structure for general sales tax.

Until this had been done he believed no attempt should be made either to reduce GST or tamper with it structurally.

The minister contested claims that a reduction in GST would alleviate the plight of the poor, noting that most basic foodstuffs were exempt from the tax.

Mr Du Plessis rejected out of hand assertions that the Budget failed to give any attention to the country's inflationary problems.

Several elements addressed this problem, he claimed. These included:

● Setting money supply targets.

● Keeping increases in government expenditure below the inflation rate.

● The deficit before borrowing was reasonable by most limits — and the intention was to finance it in a non-inflationary manner.

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Parliament

SATS 'tax evasion' probe

Political Correspondent

HOUSE OF ASSEMBLY. — The Minister of Finance, Mr Barend du Plessis, is investigating allegations of tax evasion by his cabinet colleague Mr Hendrik Schoeman's South African Transport Services which saved SATS about R37 million in GST in two deals.

This emerged during Mr Du Plessis' reply to the Budget debate yesterday when he was asked by Mr Harry Schwarz (PFP Yeoville) what he intended doing about allegations of tax evasion by SATS. Mr Du Plessis said the matter was being investigated.

According to the Auditor General's report, SATS, using advance warning that GST was to be increased from 7 percent to 10 percent on July 1, 1984, entered into a deal with two companies "in order to avoid the payment on certain purchases of an increase in sales tax".

Agreements were entered into for the supply of goods valued at R600 million.

The agreements were submitted to the Receiver of Revenue, Johannesburg, who agreed with the computation and conclusions submitted to him.

The total purchase price of R600 million plus R42 million sales tax was paid in full in advance on June 29, 1984, but SATS is committed to take final delivery of the final items not later than June 30, 1988.

The Auditor General also reports: "During March 1985, further agreements to the value of R350 million were entered into with the same mediator companies under similar conditions, once again to avoid the payment on a further volume of purchases of an increase in sales tax from 10 percent to 12 percent which would have come into operation on April 1, 1985."

The deal was paid for by transferring SATS stock with a nominal value of R478 684 000 while R35 million sales tax was paid in cash.

SATS has agreed to buy back the stock at 73,66508 percent of the nominal value, together with accrued interest during the period March 16, 1985 to March 31, 1986.

Du Plessis hints at car trade relief

3USDAY 320 15/4/86.

CHRIS CAIRNCROSS

MUCH-NEEDED relief, possibly in the form of reductions in customs duty or some other tax concession, might be on the cards for the beleagured Eastern Cape motor industry.

This was hinted at yesterday by Finance Minister Barend du Plessis, replying to the Budget debate in Parliament.

He said government was fully aware of the problems being experienced in Port Elizabeth.

"If the motor industry is to be singled out, customs duties is one of the important areas in which the fiscus can help," he said.

Du Plessis stressed that while he did not want to raise hopes unnecessarily, consideration was being given to ways in which the area could be assisted by means of tax concessions.

He said that any decision on this score would have to wait on the report and recommendations of the Margo Commission — which is expected to submit its preliminary findings within the next few months.

He added the commission was also to give consideration to a changed structure for general sales tax.

Until this has been done, he believed no attempt should be made to either reduce GST or temper with it structurally.

Du Plessis contested claims that a reduction in GST now would substantially reduce the plight of the poor.

He noted that most basic foodstuffs

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Hints of car trade concessions

● From Page 1

were exempt from the tax and estimated that these exemptions would lead to revenue reductions of at least R1,5bn to the fiscus.

Du Plessis rejected out-of-hand assertions that the Budget failed to give any attention to the country's inflationary problems.

Several elements addressed this problem, he claimed. These included:

- Setting money supply targets;
- Keeping increases in government expenditure below the inflation rate;
- The deficit before borrowing was reasonable by most limits — and the intention was to finance it in a non-inflationary manner.

"We will not be using bank credit to financing our borrowing requirements," Du Plessis said.

He denied charges that the 2% across-the-board cut in expenditure by state departments was unrealistic.

"It is totally feasible — particularly in those departments which are people-intensive," he said.

☐ DURR ... rejected argument that we're "overtaxed"

So is SA really being overtaxed?

320 BUSDAY 15/4/86

BARRY SERGEANT
First of two articles

TABLE 1

Year Ending	SA rand 28/2/86	US dollar 31/12/85	UK pound 5/4/86	Aus$ 30/6/85
Taxable income at which maximum rate ensues	60 000	169 020	40 200	35 788
Effective rate to maximum	35%	38,5%	41,5%	33%
Maximum marginal rate	50%	50%	60%	60%
Surcharge	7%	—	—	—
Effective maximum rate	53,5%	50%	60%	60%

TABLE 2

APPROXIMATE TAX LIABILITY

	SA (Rand)	US (Dollar)	GB (Pound)	Aus (Dollar)(3)
Presumed Purchasing Power: equivalent of Rand	—	0,70	0,50	0,85
Tax year ending	28/2/86	31/12/85	5/4/86	30/6/85(3)
Salary	100 000	70 000	50 000	85 000
Wife's salary	24 000	16 800	12 000	(Husband and wife taxed separately)
Interest received	4 750	3 500	2 500	4 250
Dividends	4 000	4 000	3 000	5 100
Capital gain (long term)	—	2 800	—	—
Wife's earning allowance	(1 600)	(24 737) (6)	(2 205)	—
Mortgage interest paid	—	—	(5 000)	—
Interest (non-mortgage) paid	—	(4 160)	—	—
Medical expenses	(1 000)	—	(3 455)	—
Taxable income	130 150	68 203	56 840	(H)94 350 Add(W)20 400(4)
Tax payable(2)	58 032	18 164	25 393	(H + W) 51 626
Federal State (CA) (5)	—	6 897	—	—
Disposable income before tax	116 000	81 200	58 000	99 600
Disposable income after tax	57 968	56 049	31 447	49 974
Tax as a percentage of disposable income before tax	50%	31%	44%	52%
Tax as a percentage of taxable income	45%	39% (7)	45%	45%
Net after-tax income in Rands (at purchasing power rates)	57 968	80 070	62 894	65 284

Notes:
1. The calculations are approximate, for purposes of illustration and comparison only.
2. For purposes of rebates and credits, this is presumed to be a married tax payer under 65 with two children and no dependents, filing a joint return (for US purposes).
3. The Australian computation does not consider changes brought about by the Budget presented in August 1985.
4. In Australia, husband and wife are taxed seperately. The tax payable by the wife on a taxable income of A$20 400 is A$4 622.
5. The joint approximate State tax liability is California's, and is a deduction for Federal tax purposes, presently included in the itemised deductions.
6. These are excess itemised deductions.
7. Federal plus State taxes.

Source: Kevin Dillon, Price Waterhouse.

EARLIER THIS month in Parliament, Deputy Finance Minister Kent Durr rejected a Conservative Party argument that we are "overtaxed". Both sets of politicians, to say the least, were treading on thin ice by using an oversimplified concept.

When James Madison said that if men were angels, no government would be necessary he may just as well have said that if men were angels, tax would not be necessary. Governments need to raise tax simply to call themselves governments. When they have assembled themselves, the bigger the better; the more money they spend, the more successful they appear.

As every taxpayer knows, finding excuses to spend money is an instinct rather than a talent. Taxpayers who work in government exercise this instinct — with the difference of a seemingly bottomless pit of revenue. Bureaucrats at the top of the heap then compare themselves with successful entrepreneurs and multinational executives.

The main task of government is to formulate policy and then execute it. Apparently that policy is arrived at by democratic consensus; in reality it is produced to an immense extent by half-truths and selective reasoning. So when a deputy minister of the ruling party says we are not overtaxed he honestly means it.

Alas, governments are necessary. Without them there would be anarchy and life would be just as described by Thomas Hobbes: "Poor, nasty, brutish and short." Having accepted government, the imponderables arise: How much government? How much finance? How much spending? What kind of taxation? How much taxation?

An answer to the last question, politics aside, probes by necessity into the subjective and objective. Perhaps the subjective departure point is the alienation of the taxpayer from seeing what happens to the tax he pays. When you buy a beer over a bar you exchange cash for a commodity which is cold and golden and tastes good. You look at it and then you drink it down.

When you pay (say) R1 000 a month in tax to an office you have never seen it is difficult to imagine what on earth happens to all that cash. In the morning when the taxpayer rises he uses electricity for which he pays Escom via his local municipality. He dresses in clothes and shoes which he bought from the private sector; so, too, his car.

He travels to work on roads financed from his municipality rating (which is not a tax in this context). So far there is no evidence of him having seen an inkling of what happens to his monthly R1 000 tax.

At work the taxpayer uses paper and pens and computers manufactured by the private sector. He eats lunch in the canteen. The meal is not supplied by government.

Somewhere along the line the taxpayer realises that he is totally alienated from seeing how his R1 000 a month is used. If he enquires (or looks at his tax return forms) he is told the total tax haul is spent mainly on education, defence, and so on.

He may note that the third largest item in this year's Budget is for financing of State debt — making an overdraft almost as expensive as the cost of defending the country.

These are some of the subjective factors. But there are a number of objective arguments which suggest that we are indeed overtaxed.

Kevin Dillon, of Price Waterhouse Cape Town, has compiled very detailed tables comparing the liability of a typical taxpaying unit in four countries.

The computations are not absolute, in the sense that the final result is illustrative. But the result is magnanimous and unanimous: if you lived in the any of three favourite destinations of SA emigres, you would be better off than if you stayed here — assuming your basic income is unchanged.

This conclusion stands despite the computation showing that the taxpayer is worse off in Australia than SA (also, the SA 7% surcharge is now a 5% discount, cutting the top marginal rate to 47,5%).

Dillon's tables are technically perfect — but for his assumption of the value of the rand in other currencies. In the nature of the comparison he was forced to use some measure of value, and chose what he calls Presumed Purchasing Power. It is a haunting concept also known to economists as Purchasing Power Parity (PPP).

Nicholas Colchester, writing recently in the London *Financial Times*, noted that there is no such thing as a "just" or "correct" share price for a quoted company. "The price is dictated by all the eddies of whim, the currents of fashion and the climate of confidence in the stock exchange." So, too, with the value of floating currencies such as the rand.

Being a chartered accountant, Dillon erred on the side of conservatism. So, as the tables show, Dillon's rand is worth US$0,70, whereas for many months it has really been worth US$0,50 or less. This means that the US taxpayer shown in the tables would end up with rather more than the R80 070 shown. Dillon has also been very kind to the rand *vis-a-vis* the pound sterling and the Australian dollar.

Pretoria has been kind neither to the rand nor its taxpayers. James Buchanan, the academic, would be wont to ascribe this cruelty to his monopolist model. He uses it to explain the modern growth of taxing and spending levels in terms of increasing centralisation — and hence what he calls "monopolisation" — of the government sector.

Monopolists tend to be introspective, steeped in the past — yet without any obligation or need of taking corrective measures based on lessons learned.

Certainly, if the history of the taxpayer is examined it can be said that the modern South African is overtaxed. Fisher Hoffman Stride's Solly Gerber studied the elusive tax/inflation relationship for a submission to the Margo Commission on tax.

In one illustration he notes that between 1966 and 1985 the consumer price index increased by 600%. Then he presumes that tax rates prevailing in 1966 were adjusted annually in line with the inflation rate. In other words, the figures he has for 1985 are expressed in 1985 terms, as if we were still back in 1966.

Gerber found that the top marginal rate in 1985 should first have come in at R108 000 of income; in reality, it first applied at R60 000. The retirement annuity deduction should have been R7 200, rather than R3 500; the wife's deduction R2 768, rather than R1 600; the pension fund deduction R3 600, rather than R1 750. And so on ...

Once again the inescapable conclusion is that — compared with the recent past — South Africans are overtaxed. Meanwhile, the reality is that Pretoria is ratcheting taxpayers up the fiscal barometer. The recent Budget announced cuts in personal tax and no change in the sales tax rate.

Yet, thanks to inflation, revenue projections for the year show that personal taxpayers will pay 32% more income tax than last year and 14% more sales tax. If Durr can say that we are not overtaxed, he should also remind us that he has a silent and invisible blunderbuss. So does each of his colleagues.

15/4/86 BUS DAY 320

PARLIAMENT

2% cut in Budget estimates feasible

A CUT in the 1986/87 Budget expenditure estimates was feasible, Minister of Finance Barend du Plessis said in the House of Assembly yesterday.

● DU PLESSIS

Du Plessis said the 2% across-the-board cut was feasible in view of recent improvements in "variables" such as the rand's exchange rate, the drop in oil prices and interest rates, and agreement on foreign debt repayment.

Replying to the Second Reading debate on the Appropriation Bill he said these and other variables had had to be "fixed" to calculate expenditure estimates and that if it was possible, the whole budget cycle would have been reconsidered in view of their improvement to see where further savings could be made.

This could however not be done and it had therefore been decided to implement the 2% cut in all government departments and this was feasible.

Du Plessis dismissed criticism earlier in the debate by PFP finance spokesman Harry Schwarz (Yeoville) that government had lost its credibility over its expenditure figures, and that it could not curtail its spending.

The Additional Budget showed there were no real grounds to accuse government of not having adhered to its goals. They had needed only 0,4% over last year's Budget.

Responding to interjections from Schwarz on the feasibility of the 2% cut as applied to the police, the minister said it was true that the force was "80% personnel intensive" where cuts were not possible, but that savings were definitely possible in the other 20%.

The same applied to the various education departments where one-twelfth of the annual remuneration bill could be saved by delaying appointments for a month.

The Department of Foreign Affairs, under Pik Botha, was one that was "absolutely exposed" to variations in the rand's exchange rate.

Its budgetary allocation had been calculated at an exchange rate of under \$0,40, but this figure was now close to \$0,50, so there was obviously ample room for savings. — Sapa.

GST: call for change of format

FINANCE Minister Barend du Plessis yesterday said in the Assembly he believed the Margo Commission should recommend a completely changed structure for general sales tax.

However, he said in his reply to the Second Reading debate on the Budget, now was not the right time to tamper with the percentage or structure of GST.

Du Plessis had referred in the past to what he believed were some of the shortcomings in the structure of the tax and for these reasons believed the Margo Commission investigating the country's tax structure should recommend a change.

He said he did not agree with Opposition MPs that a reduction in the percentage of GST would benefit the poor.

They spent most of their income on food, which was tax-free, and government had in fact already assisted them by not re-introducing sales tax on food.

Responding to arguments that the Budget was of no benefit to the man in the street, Du Plessis said government had raised the threshold of income tax last year at the same time as it had "inadequately treated" those at the top end of the tax scale. — Sapa.

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Afrikaners 'cannot pay'

DIRECT tax paid by most Afrikaners was not sufficient to cover the cost of their children's education, Finance Minister Barend du Plessis said in the Assembly yesterday.

Replying to Second Reading debate on the Appropriation Bill, he said he rejected Conservative Party complaints that whites paid for the education of blacks.

Redistribution of income to pay for the schooling of developing communities was an "absolute prerequisite".

Du Plessis said a white family with two children had to earn a total of R27 500 a year before they paid enough tax to pay for the education of those children. Rough figures showed that 68% of those white, two-child families in SA did not earn enough to pay for their children's schooling.

Altogether, 89% of whites with one child at school and one at university, and 94% of those with two children at school and one at university, did not earn enough to pay for their education.

Quoting a study by University of Stellenbosch statistician Professor J L Sadie, Du Plessis said "even today" it was fair to say that English-speaking whites paid 60% of all income tax.

According to Sadie, only 22% of companies in this country were under Afrikaans control and English-speakers paid 75% of total company tax, Du Plessis said. — Sapa.

15/4/86. STAR

POLITICAL REPORT

English 'subsidised' Afrikaner progress

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Political Staff

PARLIAMENT — The English-speaking taxpayer had subsidised the development of the Afrikaner, Minister of Finance Mr Barend du Plessis told Parliament.

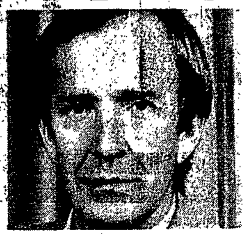
Even today most Afrikaans families did not pay enough tax to cover the cost of their childrens's education, he said during his reply to the Budget debate.

English-speaking South Africans still paid 60 percent of direct tax and 75 percent of company tax, according to a study by University of Stellenbosch economist Professor J L Sadie, said Mr du Plessis.

Though a company could not strictly be classified as English or Afrikaans, only 22 percent were under Afrikaans control, said Professor Sadie.

Mr du Plessis said it was a "sick argument" to complain, as the Conservative Party had, that whites were subsidising black education. The CP had not complained that in the early days when the Afrikaner was on his knees the English taxpayer had subsidised his development.

"Now they have the illusion that the Afrikaner has developed to much that he is now paying for black education."



Minister Barend du Plessis ... "subsidising Afrikaans".

But even today Afrikaans self-sufficiency was not a fact. Yet not one English-speaker had ever complained that he was sudsidising Afrikaans education.

"You are a disgrace to Afrikanerdom," Mr Tom Langley (CP Soutpansberg) interjected.

Mr du Plessis said that 68 percent of whites with two children at school, 89 percent with one at school and one at university, and 94 percent of those with two children at school and one at university did not pay enough tax to pay for their children's education.

The English-speakers had never complained about subsidising the Afrikaner because they realised that all were bound together indivisibly in the same economy.

Redistribution of money for education was an investment in the whole economy, which "expanded the cake for all to share".

Mr du Plessis said the level of the CP debate was shocking in this "crisis hour of the country's history", when everyone should be asking: "What can I do for my country?"

Mr du Plessis also reacted to criticism by Mr Harry Schwarz (PFP Yeoville) that his proposed 2 percent across-the-board cut in Government spending lacked credibility.

This target would still be met. Since the figure was set there had been considerable improvements in the economy, including a better exchange rate, lower fuel price and drop in interest rates.

The target was possible even in a labour-intensive department such as police — where Mr Schwarz had argued that it would cost 2 000 posts.

House of Assembly — Reply to Budget debate

Just what the doctor ordered — Du Plessis

320 DISPATCH 15/4/86.

GST structure should change, but now is not the time

MR DU PLESSIS

CAPE TOWN — The 1986/87 Budget had been correctly described by a National Party MP during its second reading debate as one that was "careful and politically right", the Minister of Finance, Mr Barend du Plessis, said yesterday.

Replying to the debate, he said the deficit before borrowing was relatively small and gave room for expansion if it was found necessary to increase borrowing later.

Mr Du Plessis also said South Africa's economy was not in a total recession. A considerable number of companies in the mining and certain agricultural sectors had done very well over the past year.

He agreed fully that the ceiling for personal income tax had been reached, which was one of the aspects the Margo Commission was considering.

Mr Du Plessis believed the Margo Commission should recommend a "completely changed structure" for general sales tax. However, he said, now was not the right time to tamper with the percentage or structure of GST.

He also did not agree with opposition MPs that a reduction in the percentage of GST would benefit the poor. They spent most of their income on food, which was tax free, and the government already assisted them by not re-introducing GST on food.

Responding to arguments that the Budget was of no benefit to the man in the street, Mr Du Plessis said the government had raised the threshold of income tax last year at the same time as it had "inadequately treated" those at the top end of the tax scale. "Is it not therefore fair to now adjust the top end of the scale?"

The minister also referred to the PFP's statement that the South African Transport Services' road-transport operators were allowed to compete unfairly with the private sector because Sats did not pay GST on petrol, nor the third party levy on fuel. He said the matter would be investigated.

Mr Du Plessis said the government's "drastic" fiscal and monetary control policies had to an extent led to the loss of some jobs and restricted the creation of others. There had, however, been no other way to control the economy. The measures had allowed the introduction of a mildly stimulatory Budget this year.

He said the government expected the inflation rate to drop "rather drastically" during the year. He rejected "out of hand" opposition statements that it did nothing to fight inflation.

The budgeted increase in expenditure over last year was lower than the inflation rate, while the deficit before borrowing was modest "by all standards" and would be financed in a non-inflationary manner.

Replying to criticism that the Budget did not provide enough incentive to save, he said the R500 limit for tax-free savings was five times the limit at the end of the previous financial year and would result in a revenue loss of R107 million.

He also said a reduction in customs duties was one of the important areas in which the government could help the ailing motor industry. However, this could only be considered after the Margo Commission investigating the country's tax structure had submitted its findings.

Mr Du Plessis said a two per cent across the board cut in the 1986/87 Budget expenditure estimates was feasible in view of recent improvements in "variables" such as the rand's exchange rate, the drop in oil prices and interest rates, and agreement on foreign debt repayment.

He dismissed criticism by PFP finance spokesman Mr Harry Schwarz (Yeoville) that the government could not curtail its spending.

Responding to interjections from Mr Schwarz on the feasibility of the two per cent cut as applied to the police, the minister said it was true that the force was "80 per cent personnel intensive" where cuts were not possible, but that savings were definitely possible in the other 20 per cent.

The same applied to the various education departments where one-twelfth of the annual remuneration bill could be saved by delaying appointments for a month. — Sapa

Cape Times 15/4/86 (32.0)

Review urged of 'tax-on-tax'

Staff Reporter

THE Cape Town Chamber of Commerce urges a review of ad valorem excise duty — described as "tax-on-tax" and "highly inflationary" — in its latest weekly bulletin.

The bulletin says excise duty — charged on so-called "luxury" items before sale to consumers — is "a relic of the old sales duty system" abolished when General Sales Tax was introduced in 1978.

"At the time of its introduction, GST was levied at a rate of four percent and the ad valorem excise duties at rates from 10 to 15 percent... these rates have since risen to 12 percent and 30 to 35 percent respectively," the bulletin says.

"There now exists a tax-on-tax situation which is both extremely burdensome and also highly inflationary," it adds.

The bulletin says not all products liable for ad valorem duty can "justifiably be regarded as 'less essential' or 'luxurious' goods".

"Differences in interpretation have given rise to the imposition of penalties on some companies," it says.

Du Plessis hints at car trade relief

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CHRIS CAIRNCROSS

MUCH-NEEDED relief, possibly in the form of reductions in customs duty or some other tax concession, might be on the cards for the beleagured Eastern Cape motor industry.

This was hinted at yesterday by Finance Minister Barend du Plessis, replying to the Budget debate in Parliament.

He said government was fully aware of the problems being experienced in Port Elizabeth.

"If the motor industry is to be singled out, customs duties is one of the important areas in which the fiscus can help," he said.

Du Plessis stressed that while he did not want to raise hopes unnecessarily, consideration was being given to ways in which the area could be assisted by means of tax concessions.

He said that any decision on this score would have to wait on the report and recommendations of the Margo Commission — which is expected to submit its preliminary findings within the next few months.

He added the commission was also to give consideration to a changed structure for general sales tax.

Until [illegible] been done, he believed no attempt should be made to either reduce GST or temper with it structurally.

Du Plessis contested claims that a reduction in GST now would substantially reduce the plight of the poor.

He noted that most basic foodstuffs

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Hints of car trade concessions

● From Page 1

were exempt from the tax and estimated that these exemptions would lead to revenue reductions of at least R1,5bn to the fiscus.

Du Plessis rejected out-of-hand assertions that the Budget failed to give any attention to the country's inflationary problems.

Several elements addressed this problem, he claimed. These included:

- Setting money supply targets;
- Keeping increases in government expenditure below the inflation rate;
- The deficit before borrowing was reasonable by most limits — and the intention was to finance it in a non-inflationary manner.

"We will not be using bank credit to financing our borrowing requirements," Du Plessis said.

He denied charges that the 2% across-the-board cut in expenditure by state departments was unrealistic.

"It is totally feasible — particularly in those departments which are people-intensive," he said.

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PARLIAMENT

2% cut in Budget estimates feasible

A CUT in the 1986/87 Budget expenditure estimates was feasible, Minister of Finance Barend du Plessis said in the House of Assembly yesterday.

● DU PLESSIS

Du Plessis said the 2% across-the-board cut was feasible in view of recent improvements in "variables" such as the rand's exchange rate, the drop in oil prices and interest rates, and agreement on foreign debt repayment.

Replying to the Second Reading debate on the Appropriation Bill he said these and other variables had had to be "fixed" to calculate expenditure estimates and that if it was possible, the whole budget cycle would have been reconsidered in view of their improvement to see where further savings could be made.

This could however not be done and it had therefore been decided to implement the 2% cut in all government departments and this was feasible.

Du Plessis dismissed criticism earlier in the debate by PFP finance spokesman Harry Schwarz (Yeoville) that government had lost its credibility over its expenditure figures, and that it could not curtail its spending.

The Additional Budget showed there were no real grounds to accuse government of not having adhered to its goals. They had needed only 0,4% over last year's Budget.

Responding to interjections from Schwarz on the feasibility of the 2% cut as applied to the police, the minister said it was true that the force was "80% personnel intensive" where cuts were not possible, but that savings were definitely possible in the other 20%.

The same applied to the various education departments where one-twelfth of the annual remuneration bill could be saved by delaying appointments for a month.

The Department of Foreign Affairs, under Pik Botha, was one that was "absolutely exposed" to variations in the rand's exchange rate.

Its budgetary allocation had been calculated at an exchange rate of under $0,40, but this figure was now close to $0,50, so there was obviously ample room for savings. — Sapa.

BUSDAY 15/4/86 320

GST: call for change of format

FINANCE Minister Barend du Plessis yesterday said in the Assembly he believed the Margo Commission should recommend a completely changed structure for general sales tax.

However, he said in his reply to the Second Reading debate on the Budget, now was not the right time to tamper with the percentage or structure of GST.

Du Plessis had referred in the past to what he believed were some of the shortcomings in the structure of the tax and for these reasons believed the Margo Commission investigating the country's tax structure should recommend a change.

He said he did not agree with Opposition MPs that a reduction in the percentage of GST would benefit the poor.

They spent most of their income on food, which was tax-free, and government had in fact already assisted them by not re-introducing sales tax on food.

Responding to arguments that the Budget was of no benefit to the man in the street, Du Plessis said government had raised the threshold of income tax last year at the same time as it had "inadequately treated" those at the top end of the tax scale. — Sapa.

BUSDAY 15/4/86 320

Afrikaners 'cannot pay'

DIRECT tax paid by most Afrikaners was not sufficient to cover the cost of their children's education, Finance Minister Barend du Plessis said in the Assembly yesterday.

Replying to Second Reading debate on the Appropriation Bill, he said he rejected Conservative Party complaints that whites paid for the education of blacks.

Redistribution of income to pay for the schooling of developing communities was an "absolute prerequisite".

Du Plessis said a white family with two children had to earn a total of R27 500 a year before they paid enough tax to pay for the education of those children. Rough figures showed that 68% of those white, two-child families in SA did not earn enough to pay for their children's schooling.

Altogether, 89% of whites with one child at school and one at university, and 94% of those with two children at school and one at university, did not earn enough to pay for their education.

Quoting a study by University of Stellenbosch statistician Professor J L Sadie, Du Plessis said "even today" it was fair to say that English-speaking whites paid 60% of all income tax.

According to Sadie, only 22% of companies in this country were under Afrikaans control and English-speakers paid 75% of total company tax, Du Plessis said. — Sapa.

(320) BUS DAY, 15/4/86.

DURR ... rejected argument that we're "overtaxed".

So is SA really being overtaxed?

BARRY SERGEANT
First of two articles

EARLIER THIS month in Parliament, Deputy Finance Minister Kent Durr rejected a Conservative Party argument that we are "overtaxed". Both sets of politicians, to say the least, were treading on thin ice by using an oversimplified concept.

When James Madison said that if men were angels, no government would be necessary he may just as well have said that if men were angels, tax would not be necessary. Governments need to raise tax simply to call themselves governments. When they have assembled themselves, the bigger the better, the more money they spend, the more successful they appear.

As every taxpayer knows, finding excuses to spend money is an instinct rather than a talent. Taxpayers who work in government exercise this instinct — with the difference of a seemingly bottomless pit of revenue. Bureaucrats at the top of the heap then compare themselves with successful entrepreneurs and multinational executives.

The main task of government is to formulate policy and then execute it. Apparently that policy is arrived at by democratic consensus; in reality it is produced to an immense extent by half-truths and selective reasoning. So when a deputy minister of the ruling party says we are not overtaxed he honestly means it.

Alas, governments are necessary. Without them there would be anarchy and life would be just as described by Thomas Hobbes: "Poor, nasty, brutish and short." Having accepted government, the imponderables arise: How much government? How much finance? How much spending? What kind of taxation? How much taxation?

An answer to the last question, politics aside, probes by necessity into the subjective and objective. Perhaps the subjective departure point is the alienation of the taxpayer from seeing what happens to the tax he pays. When you buy a beer over a bar you exchange cash for a commodity which is cold and golden and tastes good. You look at it and then you drink it down.

When you pay (say) R1 000 a month in tax to an office you have never seen it is difficult to imagine what on earth happens to all that cash. In the morning when the taxpayer rises he uses electricity for which he pays Escom via his local municipality. He dresses in clothes and shoes which he bought from the private sector; so, too, his car.

He travels to work on roads financed from his municipality rating (which is not a tax in this context). So far there is no evidence of him having seen an inkling of what happens to his monthly R1 000 tax.

At work the taxpayer uses paper and pens and computers manufactured by the private sector. He eats lunch in the canteen. The meal is not supplied by government.

Somewhere along the line the taxpayer realises that he is totally alienated from seeing how his R1 000 a month is used. If he enquires (or looks at his tax return forms) he is told the total tax haul is spent mainly on education, defence, and so on.

He may note that the third largest item in this year's Budget is for financing of State debt — making an overdraft almost as expensive as the cost of defending the country.

These are some of the subjective factors. But there are a number of objective arguments which suggest that we are indeed overtaxed.

Kevin Dillon, of Price Waterhouse Cape Town, has compiled very detailed tables comparing the liability of a typical taxpaying unit in four countries.

"The computations are not absolute, in the sense that the final result is illustrative. But the result is magnanimous and unanimous: if you lived in the any of three favourite destinations of SA emigres, you would be better off than if you stayed here — assuming your basic income is unchanged.

This conclusion stands despite the computation showing that the taxpayer is worse off in Australia than SA (also, the SA 7% surcharge is now a 5% discount, cutting the top marginal rate to 47,5%).

Dillon's tables are technically perfect — but for his assumption of the value of the rand in other currencies. In the nature of the comparison he was forced to use some measure of value, and chose what he calls Presumed Purchasing Power. It is a haunting concept also known to economists as Purchasing Power Parity (PPP).

Nicholas Colchester, writing recently in the London *Financial Times*, noted that there is no such thing as a "just" or "correct" share price for a quoted company. "The price is dictated by all the eddies of whim, the currents of fashion and the climate of confidence in the stock exchange." So, too, with the value of floating currencies such as the rand.

Being a chartered accountant, Dillon erred on the side of conservatism. So, as the tables show, Dillon's rand is worth US$0,70, whereas for many months it has really been worth US$0,50 or less. This means that the US taxpayer shown in the tables would end up with rather more than the R80 070 shown. Dillon has also been very kind to the rand *vis-a-vis* the pound sterling and the Australian dollar.

Pretoria has been kind neither to the rand nor its taxpayers. James Buchanan, the academic, would be wont to ascribe this cruelty to his monopolist model. He uses it to explain the modern growth of taxing and spending levels in terms of increasing centralisation — and hence what he calls "monopolisation" — of the government sector.

Monopolists tend to be introspective, steeped in the past — yet without any obligation or need of taking corrective measures based on lessons learned.

Certainly, if the history of the taxpayer is examined it can be said that the modern South African is overtaxed. Fisher Hoffman Stride's Solly Gerber studied the elusive tax/inflation relationship for a submission to the Margo Commission on tax.

In one illustration he notes that between 1966 and 1985 the consumer price index increased by 600%. Then he presumes that tax rates prevailing in 1966 were adjusted annually in line with the inflation rate. In other words, the figures he has for 1985 are expressed in 1985 terms, as if we were still back in 1966.

Gerber found that the top marginal rate in 1985 should first have come in at R108 000 of income; in reality, it first applied at R60 000. The retirement annuity deduction should have been R7 200, rather than R3 500; the wife's deduction R2 768, rather than R1 600; the pension fund deduction R3 600, rather than R1 750. And so on ...

Once again the inescapable conclusion is that — compared with the recent past — South Africans are overtaxed. Meanwhile, the reality is that Pretoria is ratcheting taxpayers up the fiscal barometer. The recent Budget announced cuts in personal tax and no change in the sales tax rate.

Yet, thanks to inflation, revenue projections for the year show that personal taxpayers will pay 32% more income tax than last year and 14% more sales tax. If Durr can say that we are not overtaxed, he should also remind us that he has a silent and invisible blunderbuss. So does each of his colleagues.

TABLE 1

Year Ending	SA rand 28/2/86	US dollar 31/12/85	UK pound 5/4/86	Aus$ 30/6/85
Taxable income at which maximum rate ensues	60 000	169 020	40 200	35 788
Effective rate to maximum	35%	38,5%	41,5%	33%
Maximum marginal rate	50%	50%	60%	60%
Surcharge	7%	—	—	—
Effective maximum rate	53,5%	50%	60%	60%

TABLE 2

APPROXIMATE TAX LIABILITY

	SA (Rand)	US (Dollar)	GB (Pound)	Aus (Dollar)(3)
Presumed Purchasing Power: equivalent of Rand	—	0,70	0,50	0,85
Tax year ending	28/2/86	31/12/85	5/4/86	30/6/85(3)
Salary	100 000	70 000	50 000	85 000
Wife's salary	24 000	16 800	12 000	(Husband and wife taxed separately)
Interest received	4 750	3 500	2 500	4 250
Dividends	4 000	4 000	3 000	5 100
Capital gain (long term)	—	2 800	—	—
Wife's earning allowance	(1 600)	(24 737) (6)	(2 205)	—
Mortgage interest paid	—	—	(5 000)	—
Interest (non-mortgage) paid	—	(4 160)	—	—
Medical expenses	(1 000)	—	(3 455)	—
Taxable income	130 150	68 203	56 840	(H)94 350
Tax payable(2)	58 032	18 154	25 393	Add(W)20 400(4) (H + W) 51 626
Federal State (CA) (5)	—	6 997	—	—
Disposable income before tax	116 000	81 200	58 000	98 600
Disposable income after tax	57 968	56 049	31 447	49 974
Tax as a percentage of disposable income before tax	50%	31%	44%	52%
Tax as a percentage of taxable income	45%	36% (7)	45%	45%
Net after-tax income in Rands (at purchasing power rates)	57 968	80 070	62 694	55 264

Notes:
1. The calculations are approximate, for purposes of illustration and comparison only.
2. For purposes of rebates and credits, this is presumed to be a married taxpayer under 65 with two children and no dependants, filing a joint return (for US purposes).
3. The Australian computation does not consider changes brought about by the Budget presented in August 1985.
4. In Australia, husband and wife are taxed separately. The tax payable by the wife on a taxable income of A$20 400 is A$4 622.
5. The joint approximate State tax liability is California's, and is a deduction for Federal tax purposes, presently included in the itemised deductions.
6. These are excess itemised deductions.
7. Federal plus State taxes.

Source: Kevin Dillon, Price Waterhouse.

Margo report still far away

BUS DAY (320) 16/4/86

LESLEY LAMBERT

IT WOULD be optimistic to expect the Margo Commission's report on tax reform to be made public by mid-year, says a Finance Department spokesman.

Although the task of the commission, chaired by Judge Cecil Margo, is expected to be completed by June this year, the report will then begin a rigorous bureaucratic tour.

It will first be perused by Finance Minister Barend du Plessis and his financial advisers. It will then be passed on to the Cabinet, which will study the document and decide on the next step to be taken.

Depending on how far-reaching the commission's recommendations are, it could the take a few more years to implement them. "After all," quips the spokesman, "you don't revise a tax structure overnight."

Harry Schwarz claims it it was immoral to seek advice on tax avoidance

17/4/86 STAR

320

PARLIAMENT — The Minister of Transport Affairs, Mr Hendrik Schoeman, had acted immorally by employing a merchant bank to advise his department on tax avoidance, Mr Harry Schwarz (PFP Yeoville) said yesterday.

Speaking in the debate on the Finance and Audit vote of the Budget, he said SATS had set a poor example to South Africans by avoiding tax, a practice that had been condemned by the minister of finance.

"Mr (Barend) Du Plessis has said that when somebody does not pay tax it means somebody else has to pay more."

Mr Schwarz said Mr Schoeman's department should hand over any money that had been saved as a result of the advice on tax avoidance.

Mr Schoeman said that if it could be shown that his department had acted illegally or immorally he would repay the money involved.

Mr Schwarz said that, while the action was not illegal, he believed it was immoral because the average taxpayer did not have the resources to hire a tax expert.

Tax has doubled in last four years

SOWK (320) 17/4/86

By Stan Kennedy

If present economic trends continue, the state will be looking to raise more than R70 billion in national taxes alone by 1990, Mr Raymond Parsons, chief executive of the Association of Chambers of Commerce, said in Potgietersrus last night.

Speaking to the local Chamber of Commerce and Industries on the Margo Commission of Inquiry into the tax structure, he said this amount represented a doubling in four years.

He said taxation affected the amount of capital available by encouraging or discouraging domestic savings and foreign investment. At present, tax levels were unattractive to overeseas capital and skills.

"Indeed, our tax rates are encouraging disinvestment and the brain drain to the extent that these are taking place for economic reasons."

He said there was a strong prima facie case that South Africa was overtaxed and that the present tax burden was undermining the real growth potential of the country.

Serious structural deficiencies existed as a result of the nature and size of the burden placed on personal incomes by rising state spending.

Unless state spending as a proportion of the gross domestic product was kept down in the years ahead, the scope to lower the tax burden was limited.

He believed that the instruments of privatisation and deregulation would assist in this regard.

Privatisation would make lower taxes possible, if properly handled, and the income from privatisation could be used to finance other policy objectives, such as reducing taxes or the national debt.

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FIN MAIL 18/4/86.

FILM PRODUCTION

Revenue cottons on

Film production is becoming big business in SA. A tax consultant reckons that taxpayers have funded as much as R150m of film productions over the past 18 months. Finance Minister Barend du Plessis was expected to announce changes to tax treatment of film finance in the Budget, but the issue was omitted.

Now it is said that a delegation visits Pretoria every week on some aspect of film tax finance. Word is out that Inland Revenue's film productions rates with the best in the world — it just needs clarity. If Revenue officials, who are keen to clear the controversy, take a logical route, they will demand proof that a production is shot mainly in SA.

A film industry executive feels that if, for example, an expensive American actor is part of budget costs, that cost should be ignored in considering what portion is spent in SA. But if shooting in a particular (foreign) locale is essential in sticking to the essence of another medium (for example, a novel), that should be considered part of a domestic production. ■

CLOSE CORPORATIONS

Overdue changes

One of the most controversial aspects of the sapling business vehicle, the Close Corporation (CC), is likely to be cleared by amendments of the Standing Advisory Committee on Company Law (SAC), which have been approved by parliament and await signature by the State President.

The main worry has been the CC Act definition of an "accounting officer." When the Act was promulgated last year, much expert opinion had it that the obligations of an accounting officer were even more onerous than an auditor. As a spokesman for the SA Institute of Chartered Accountants (SAICA) says, if so, the effect would be diametrically opposed to the intention of the legislature.

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Compared with February 1985, the newly defined M1(A) grew 20,6% (22,6% in January). M1 declined 11,9% (-12,8%) in the same period; M2 is up 12,8% (10,2%); and M3 increased 13,1% (10,6%). The Bank has also introduced provisional figures. It estimates money supply at R72,4 billion in March, below the target range of R74,5 billion-R77 billion. It believes M3 grew by 10% in March.

certain circumstances. The rejoinder is that the cost-saving in forming a CC is defeated by the replacement of audit by accounting fees.

In addition, recent tax changes have reduced the top personal marginal tax rate from 52,5% to 47,5%, while the CC rate remains 50%. This is yet another reason for not converting to a CC — and in itself seems contrary to the intention of the legislature.

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JOINT TAXATION FIN M 1990-04-26

Hire my wife

Wife swapping, anyone? Without it and similar abuses, the Budget's better tax deal for married couples does *not* imply a blanket deduction of 20% or even R1 800 of a wife's earnings from joint taxable income.

Sources at the Department of Finance point out that the concession has not been accompanied by any change in Section 20 (A) of the Income Tax Act, meaning that if the wife's income is in any way connected with her husband's, it does not qualify for the deduction.

Tax specialist Costa Divaris maintains that the proviso is another example of how government's deeds, as opposed to lip-service, make a mockery of its declared commitment to deregulation and promotion of small business.

Husband-and-wife teams are, of course, an accepted feature of both the enterprising formal and informal sectors. Yet the extra tax concession for married couples makes it even more alluring for a husband to hire his friend's wife, and vice versa, particularly where high salaries are involved, rather than keep the business in the family.

Doing the flowers

Looking at the concession from another angle, it now makes more tax sense to ask the boss to employ one's wife to do the office flowers in lieu of a salary rise.

Section 20 also disqualifies a wife's earnings allowance on royalty income such as that earned from granting permission to use patents, trademarks and designs, on copyrights (pity the wife who writes a bestseller in SA), and on rentals. Divaris thinks it might still be possible to gain some benefits in these cases if the wife were to form a close corporation and take a modest salary.

"The only reason these silly situations arise," says Divaris, "is that we are obsessed with the possible abuse of the tax system. In the end it's anti-small business."

Old Mutual's manager of legal services, Abri Meiring, says the whole rationale for the married allowance specifically focuses on the wife's earnings. The definition of her earnings includes only income gained independently of the husband, and the exclusions in the Act are very wide indeed, he advises. ■

A CHARTERED ACCOUNTANT

Ethics under fire

(320) FIN MAIL 18/4/86.

IN MY OPINION

The writer cannot be named for obvious reasons.

Recently a chartered accountant with over 40 years' experience wrote a letter to the *FM* on the question of tax advice. He said he would double his efforts to minimise clients' tax obligations, a proper course of conduct within the law.

When advice goes beyond legal parameters the ball park changes. I am a chartered accountant employed in industry, where I am responsible inter alia for credit control. To help assess the creditworthiness of smaller companies, I often ask for audited accounts: trade references, bank reports and investigations by credit agencies I find of limited value.

I am told time and again that the accounts laid before me are misleading because the sympathetic auditor has turned a blind eye to the true state of affairs to minimise tax liability. A common trick is to undervalue stock, but there are many others.

Some auditors — it seems to me — are aiding and abetting tax dodgers. So Finance Minister Barend du Plessis' attack on the audit profession last year is justified to that extent. From my experience, I would guess that many smaller companies — especially the "one-man" variety — are defrauding the fiscus.

I know several directors who, while paying the minimum tax, enjoy a high standard of living. They pocket cash sales and resort to other means of stealing. I have not hesitated to give the tax authorities tip-offs — albeit anonymously. I hate the thought that my fellow salary earners and I are subsidising the leeches.

A minefield of technical loopholes is recklessly exploited. Just to give one example: in many instances accounts disclose that a company's assets are fully encumbered. In other words, fixed property is bonded to secure loans; book debts are ceded to bankers as security for overdraft facilities; notarial bonds are registered over moveable property to secure directors' loans to their companies; fixed assets have been purchased under HP and so on.

In these circumstances, how can a creditor assess the financial position of private companies? I am also at a loss to know why the Companies Act is not used against dishonest directors. My company was recently "caught" by two companies which went into liquidation within weeks of making credit purchases. Why should the onus rest on creditors to prove that the directors knew or should have known that their companies had no reasonable prospect of paying for goods purchased on credit shortly before liquidation proceedings were instituted? As a rule, serious cash-flow problems manifest themselves long before companies go to the wall.

It seems to me that the law is on the side of delinquent directors. Far too few offending directors are prosecuted. They walk away unscathed — to take up the reins again in a new company.

I wonder how many directors know what the duties of a director are and are aware of what reckless trading is all about? It would also be interesting to know how many prosecutions have taken place in terms of Section 424 of the Companies Act.

Currently, any ignorant person can be appointed as a director and hide behind his ignorance and/or the economic downturn should his company crash. To close this loophole, I suggest that companies be required by law to incorporate in their audited accounts a statement of the more important ratios dealing inter alia with liquidity and solvency which any "mompara" can understand.

In my view, there is only one place for directors who fail in their positions of trust, causing endless hardship: prison. Their personal assets should be attached for the benefit of their victims. In 1985, 6 000 businesses failed. I wonder how many of these failures were contrived?

There should be no place in the profession for dishonest auditors. Perhaps they, too, should be locked up.

Tax burden undermining SA's growth

BUSDAY 18/4/86 (320)

STEPHEN CRANSTON

THE tax burden is undermining the economy's growth potential, according to Assocom CE Raymond Parsons.

The appointment of the Margo Commission was, it could be assumed, an acknowledgement that the SA tax system needed a complete overhaul, he told the Potgietersrus Chamber of Commerce on Wednesday.

State spending had to take up a smaller proportion of the gross domestic product, he said.

Total public sector spending had increased over the past few years from less than 35% to 37% last year and government intended to bring this percentage below the 1981 level by the end of the decade.

Privatisation and deregulation would make lower taxes possible, and the income from privatisation could be used to reduce the national debt.

Tax levels in SA were unattractive to overseas capital and skills and were encouraging disinvestment and the "brain drain" (emigration of skilled workers), he said.

Tax reform had to lower the burden to make evasion undesirable.

Parsons said simplicity was the most important criterion for a successful tax system.

Substantial permanent tax cuts were needed to make the system effective, he added.

3220 FIN MAIL 18/4/86.

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Film production is becoming big business in SA. A tax consultant reckons that taxpayers have funded as much as R150m of film productions over the past 18 months. Finance Minister Barend du Plessis was expected to announce changes to tax treatment of film finance in the Budget, but the issue was omitted.

Now it is said that a delegation visits Pretoria every week on some aspect of film tax finance. Word is out that Inland Revenue is considering amendments to stem abuses. The move follows an expose in the *FM* (March 21), detailing deals which brought foreign productions onshore and claimed tax breaks meant to apply only to genuine South African produced films, though only a fraction of the budget was spent here.

The taxpayer funds virtually all costs of such productions. The *FM* understands that Revenue is considering asking for proof that a substantial portion of the film budget, perhaps as much as 90%, is spent in SA, before a production would qualify for capital allowances, export marketing allowances and the box office subsidy. The *FM* had suggested that for a production to qualify for tax and other benefits, 70%-80% of the budget should be spent in SA.

The film industry is calling for clarity on film tax finance — as an alternative to the abolition of tax breaks. The philosophy of the South African tax system is that where a loophole is found and exploited — mainly because of uncertain tax law — the classic reaction is to abolish rather than clarify.

A senior official at Inland Revenue (most are sitting with the Margo Commission this week) denies that finality has been reached on what percentage of a budget should be spent in SA before qualifying for tax breaks — if any. Meanwhile, accountants and attorneys involved in film finance say a change is expected after the issue was ignored in the Budget.

A film industry executive says that Revenue should see a clear line between pure domestic productions (such as *The Gods must be Crazy* and *Deadly Passion* — both have recovered their costs and generated foreign exchange) and, on the other hand, a host of overseas projects funded partially or wholly by South Africans but not renowned for generating foreign exchange.

On that list are productions such as *Gold, Shout at the Devil, King Solomon's Mines, Zulu Dawn* and *The Wild Geese*. Some productions, though benefiting from South African tax breaks, are actually shot on location in Zimbabwe.

The consensus is that SA's tax deal for film productions rates with the best in the world — it just needs clarity. If Revenue officials, who are keen to clear the controversy, take a logical route, they will demand proof that a production is shot mainly in SA.

A film industry executive feels that if, for example, an expensive American actor is part of budget costs, that cost should be ignored in considering what portion is spent in SA. But if shooting in a particular (foreign) locale is essential in sticking to the essence of another medium (for example, a novel), that should be considered part of a domestic production. ■

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The main worry has been the CC Act definition of an "accounting officer." When the Act was promulgated last year, much expert opinion had it that the obligations of an accounting officer were even more onerous than an auditor. As a spokesman for the SA Institute of Chartered Accountants (SAICA) says, if so, the effect would be diametrically opposed to the intention of the legislature.

The main idea of the CC was to cut red tape — albeit almost exclusively for small- to medium-sized businesses. The CC Act has only 83 sections and fewer than 10 forms, compared to the Companies Act's 443 sections, 4 schedules and 52 forms.

As a new business vehicle the CC competes with the much older private and public company limited by liability; partnership; sole proprietorship and *inter vivos* trust. Many businessmen were attracted to convert to the CC for its obvious advantages but then found themselves obliged to employ an "accounting officer," as defined.

Apart from controversy over the duties of this officer, many small businesses found that their non-professional accountant (bookkeepers and para-accountants) had to be replaced with an accounting officer. According to the CC Act members of the following qualify:

□ SAICA;
□ Accountants and auditors registered in terms of the provisions of the Public Accountants and Auditors Act, 1981;
□ The SA Institute of Chartered Secretaries and Administrators (SAICSA);
□ The Institute of Cost and Management Accountants (ICMA); and
□ The Association of Commercial and Financial Technicians of Southern Africa, recently renamed the Institute of Accounting Technicians of Southern Africa (IATSA).

The first and second enjoyed statutory recognition prior to the CC Act; the third and fourth did not then enjoy that status; the fifth, established in 1982, is the only association that appears to be linked to the birth of the CC.

In the opinion of a non-professional accountant, IATSA, instead of alleviating the accounting problems of small business, has created new problems by denying practising bookkeepers and para-accountants membership — on the grounds that they have no academic qualification.

A spokesman for SAICA (which can be considered the umbrella body for accountants of all kinds) replies by noting that possession of a qualification at least provides the user of an accountant with certainty. And that the accountant is subject to a code of ethics and can lose his membership in certain circumstances. The rejoinder is that the cost-saving in forming a CC is defeated by the replacement of audit by accounting fees.

In addition, recent tax changes have reduced the top personal marginal tax rate from 52,5% to 47,5%, while the CC rate remains 50%. This is yet another reason for not converting to a CC — and in itself seems contrary to the intention of the legislature.

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● See Page 5

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Mines paid 28% less tax

JOHN TILSTON

TAX paid by gold mines in the first quarter of the year declined by 28% to R812,1m from the previous quarter's R1,12bn, according to an analysis of the gold mine quarterly reports.

The decline was a direct result of the stronger rand which significantly reduced the rand price of gold. The average value of the rand was 23% higher in the first quarter of this year, while the price of gold in dollars was on average only 6,2% higher at $343.

The lower receipts suggest that, barring unforeseen developments, the prediction in last month's budget that State tax and leasing receipts from gold mines would decline by 7,7% to R2,82bn this year was realistic.

Last year the gold mining industry paid just over R3bn in tax, but high inflation (generally expected to average about 17% for the year), relatively high capital expenditure by the mines and the generally stronger rand will all trim mine profitability.

Nevertheless, despite lower rand profits, the industry actually increased its dollar earnings from $1,53bn to $1,66bn.

The largest group of taxpayers was the Anglo American mines, which provided for tax and State's share of profits totalling R322,6m.

The newly-merged Free State Mines themselves paid R108m, 34% less than in the previous quarter. Gold Field's of SA mines paid R258,5m, Gencor gold mines R149,5m, and Anglovaal R86,6m. JCI saw a 64% reduction in its tax bill to R12,6m.

walks Libyan tightrope

respect of which concessions were approved, as indicated in the above-mentioned reports.

(ii) The Decentralisation Board is responsible only for reimbursing expenditure connected with industrial concessions, while the official bodies concerned are responsible for expenditure connected with other development aid, such as the provision of the necessary infrastructure at regional development points. Furthermore, funds for expenditure in respect of the acquisition of land, buildings, machinery and equipment are also being provided by the development corporations or private financial institutions.

(b) Particulars of all the aforementioned expenditure and funds, whether in total or on an industrial point basis, are not available. However, in the financial years 1982-83, 1983-84 and 1984-85 the Decentralisation Board's total expenditure on industrial concessions alone amounted to R90 million, R185 million and R337 million respectively. Furthermore, an indication of certain expenditure in respect of financing and the provision of infrastructure is given by the particulars shown in this connection on pages 15 and 16 of the Decentralisation Board's annual report for 1984-85.

(c) As mentioned in the introduction above, decentralisation assistance was provided mainly in the form of tax concessions, as well as transport rebates, prior to 1 April 1982 and the Decentralisation Board does not have particulars of the amounts in question at its disposal. With effect from 1 April 1982 only the total amounts in respect of the payment of industrial concessions which fall under the Decentralisation Board, are available.

(i) Assistance in respect of training is paid by the Department of Manpower and, as mentioned under (c), particulars thereof are not available at the Decentralisation Board.

(ii), (iii) and (iv) Particulars of the total amounts are shown on page 15 of the Decentralisation Board's annual report for 1984-85. It should be noted that certain of the amounts concerned relate to all industries which have received decentralisation assistance and which could have established as far back as 1960.

(d) (i) Only particulars of the number of employment opportunities which were created in terms of the present decentralisation programme in each of the respective development regions are readily available. While it can take two years and longer to physically establish a project, as mentioned under (a)(i), the following employment opportunities were created in respect of the projects which were approved during the first three years, ie from 1 April 1982 to 31 March 1985 and which had established until 30 September 1985:

Region	Number of employment opportunities
A. Western Cape	6 322
B. Northern Cape/Western Transvaal	1 815
C. Orange Free State/Qwaqwa	11 058
D. Eastern Cape	7 738
E. Natal/KwaZulu	28 808
F. Eastern Transvaal/Ka-Ngwane/parts of Lebowa and Gazankulu	5 013
G. Northern Transvaal/parts of Lebowa and Gazankulu	8 246
H. Pretoria-Witwatersrand-Vaal Triangle/KwaNdebele	2 106

(d) (ii) The particulars are based on information furnished by industrialists who have filed claims for the payment of concessions with the Decentralisation Board. Such claims can be submitted by industrialists only after they have been in operation for at least one quarter and some industrialists submit their claims only at a later stage. Accordingly, the actual employment can already be considerably higher than indicated by the above-mentioned figures.

(e) Please see the remarks under (a)(ii) and (b) above.

Note: All particulars relate only to the RSA and the self-governing national states and, therefore, exclude applications for industrial establishment in the TBVC-countries.

Mines

620. Mr H H SCHWARZ asked the Minister of Finance:

What amount in company tax was collected from (a) mining and (b) non-mining companies in (i)(aa) November and (bb) December 1984 and (ii) each month of 1985?

The MINISTER OF FINANCE:

	(a) Mining R	(b) Non-mining R
(i) (aa) November	144 674 008	189 280 620
(bb) December	69 244 570	373 608 140
(ii) January	16 926 209	634 123 077
February	743 015 890	210 052 259
March	11 461 015	371 324 099
April	2 591 955	424 947 897
May	259 249 124	122 869 149
June	143 927 091	378 342 788
July	18 919 600	928 572 375
August	926 683 337	252 758 685
September	40 847 725	485 452 654
October	1 525 011	538 260 039
November	245 931 508	145 557 167
December	131 266 689	383 510 344

Qcn 1241

21/4/86 HANSARD 320

Taxpayers

621. Mr H H SCHWARZ ~~asked the~~ Minister of Finance:

(a) What was the (i) number of individual taxpayers in each income category and (ii) tax assessed in each income category expressed as a percentage of total tax assessed in the 1984-85 tax year and (b) what percentage of each group of taxpayers is Black?

The MINISTER OF FINANCE:

(a)(i) and (ii) and (b) The statistics are not complete because ± 25 per cent of individual taxpayers have not yet been assessed.

Income category	Number of individual taxpayers in income category	Percentage Black taxpayers in income category	Tax assessed in income category as percentage of total tax assessed
Loss	9 269	0,39	0,00
Nil	30 681	4,64	0,00
1 — 1 000	18 905	6,12	0,00
1 001 — 2 000	23 255	9,08	0,00
2 001 — 3 000	25 671	13,54	0,00
3 001 — 4 000	36 400	15,69	0,02
4 001 — 5 000	44 344	15,85	0,07
5 001 — 6 000	53 816	16,45	0,15
6 001 — 7 000	63 832	15,49	0,30
7 001 — 8 000	75 236	18,58	0,52
8 001 — 9 000	78 672	17,94	0,74
9 001 — 10 000	75 306	15,71	0,95
10 001 — 11 000	69 570	12,67	1,14
11 001 — 12 000	64 218	9,48	1,33
12 001 — 13 000	57 494	7,06	1,44
13 001 — 14 000	53 932	5,35	1,62
14 001 — 15 000	52 674	4,14	1,87
15 001 — 16 000	50 692	2,99	2,08
16 001 — 17 000	49 330	2,46	2,32
17 001 — 18 000	48 214	1,95	2,56
18 001 — 19 000	46 487	1,56	2,77
19 001 — 20 000	45 459	1,26	3,00
20 001 — 25 000	191 682	0,76	16,54
25 001 — 30 000	133 523	0,36	16,66
30 001 — 35 000	78 470	0,28	13,22
35 001 — 40 000	42 837	0,23	9,26
40 001 — 45 000	22 614	0,23	6,02
45 001 — 50 000	12 124	0,19	3,84
50 001 — 60 000	10 628	0,17	4,09
60 001 — 70 000	4 086	0,15	1,98
70 001 — 80 000	1 968	0,05	1,14
80 001 — 90 000	1 142	0,26	0,78
90 001 — 100 000	748	0,13	0,57
100 001 — 150 000	1 384	0,22	1,38
150 001 — 200 000	386	0,00	0,56
200 001 — 250 000	146	0,00	0,28
250 001+	204	0,00	0,80
Total	1 575 399	7,03	100,00

Note: The statistics above do not include taxpayers under the Final Deducation System.

Taxpayers

622. Mr H H SCHWARZ asked the Minister of Finance:

How many taxpayers in each income category in respect of the 1984-85 tax year were (a) White, (b) Coloured, (c) Indian and (d) Black?

The MINISTER OF FINANCE:

The statistics are not complete, because ± 25 per cent of individual taxpayers have not yet been assessed.

	(a)	(b)	(c)	(d)
Loss	8 896	125	212	36
Nil	23 073	3 885	2 298	1 425
0 — 1 000	14 788	2 008	952	1 157
1 001 — 2 000	16 781	3 124	1 239	2 111
2 001 — 3 000	15 990	4 675	1 530	3 476
3 001 — 4 000	20 738	7 619	2 331	5 712
4 001 — 5 000	25 448	8 943	2 924	7 029
5 001 — 6 000	31 290	9 902	3 769	8 855
6 001 — 7 000	37 625	11 442	4 875	9 890
7 001 — 8 000	41 888	12 642	6 726	13 980
8 001 — 9 000	43 366	13 451	7 745	14 110
9 001 — 10 000	43 960	12 261	7 255	11 830
10 001 — 11 000	43 343	10 981	6 434	8 812
11 001 — 12 000	43 020	9 541	5 569	6 088
12 001 — 13 000	40 753	8 108	4 575	4 058
13 001 — 14 000	40 449	6 761	3 835	2 887
14 001 — 15 000	41 587	5 642	3 265	2 180
15 001 — 16 000	41 259	4 941	2 977	1 515
16 001 — 17 000	41 709	4 061	2 345	1 215
17 001 — 18 000	41 718	3 483	2 071	942
18 001 — 19 000	41 201	2 834	1 728	724
19 001 — 20 000	41 077	2 299	1 509	574
20 001 — 25 000	178 528	7 138	4 551	1 465
25 001 — 30 000	128 327	2 790	1 928	478
30 001 — 35 000	76 153	1 136	963	218
35 001 — 40 000	41 806	437	495	99
40 001 — 45 000	22 084	200	278	52
45 001 — 50 000	11 856	91	154	23
50 001 — 60 000	10 409	55	146	18
60 001 — 70 000	3 996	17	67	6
70 001 — 80 000	1 917	7	43	1
80 001 — 90 000	1 114	8	17	3
90 001 — 100 000	738	3	6	1
100 001 — 150 000	1 362	2	17	3
150 001 — 200 000	382	1	3	0
200 001 — 250 000	142	0	4	0
250 001+	202	0	2	0
Total	1 218 975	160 613	84 838	110 973

Note: The above statistics do not include taxpayers under the Final Deduction System.

Income tax

623. Mr H H SCHWARZ asked the Minister of Finance:

Whether any income tax was written off in the 1984-85 financial year as irrecoverable; if so, (a) in respect of how many (i) individuals and (ii) companies and (b) what was the amount of tax written off in each category?

The MINISTER OF FINANCE:

(a) (i) 2 240.

(ii) 133.

(b) (i) R1 802 615,99.

(ii) R2 052 553,93.

Income tax

624. Mr H H SCHWARZ asked the Minister of Finance:

What is the total amount of income tax assessed for the 1984-85 tax year in respect of (a) companies and (b) individuals?

The MINISTER OF FINANCE:

	Amount	% Assessed
(a)	R2 884 049 514	45,23%
(b)	R5 321 466 519	74,86%

Q col 1247 HANSARD 21/4/86

KwaNdebele: tenders invited

743. Mr P G SOAL asked the Minister of Education and Development Aid:

(1) Whether tenders have been invited for the construction of a (a) stadium, (b) supreme court building and (c) radio broadcasting centre in KwaNdebele; if so, (i) how many tenders were submitted, and (ii) from whom were they received, in each case;

(2) whether any contracts have been awarded; if not, when will they be awarded; if so,

(3) whether the lowest tender was accepted in each case; if not, (a) why not and (b) what was the amount of the (i) lowest and (ii) successful tender in respect of each project; if so, what was the amount of the successful tender;

(4) (a) what is the total anticipated cost to his Department of the construction of each of these projects and (b) when are they due to be completed in each case?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1) (a) and (b) Yes, on 1 April 1986.

(c) No.

(2) No. The closing date for tenders for the stadium and the supreme court building is 23 April 1986. It is anticipated that tender recommendations for both projects will be ready for submission to the State Tender Board by 30 April 1986.

(3) Falls away.

(4) (a) The total anticipated construction costs for each of the projects are as follows:

(i) the stadium R5 000 000
(ii) the supreme court building R2 900 000
(iii) the radio broadcasting centre .. R1 460 000

(b) 14 November 1986 for both the stadium and the supreme court building. A date in respect of the broadcasting centre has not yet been determined.

Q col 1248 HANSARD 21/4/86

Citizens

792. Mr K M ANDREW asked the Minister of Home Affairs:

(a) How many persons who were or are citizens of foreign countries became South African citizens in each of the latest specified 15 years for which figures are available, (b) of what countries were these persons citizens at the time and (c) how many citizens of each of these countries became South African citizens in each such year?

The MINISTER OF HOME AFFAIRS:

(a) *Persons who became South African citizens through naturalisation*

1971–3 420	1976–3 492	1981–3 721
1972–3 352	1977–2 200	1982–3 802
1973–3 097	1978–3 296	1983–3 663
1974–3 299	1979–2 952	1984–4 201
1975–3 203	1980–2 610	1985–3 196

Persons who automatically became South African citizens

According to information obtained from the Population Register a total of 62 139 persons automatically obtained South African citizenship by 31 December 1985. Separate figures in respect of each year are not available.

(b) and (c) Particulars of the countries of origin in respect of persons who become South African citizens through naturalisation are only being kept since 1983 and are as follows:

Country	1983	1984	1985
Angola	1	1	—
Argentine	—	4	5
Australia	9	12	10
Austria	13	14	10
Belgium	23	20	19
Bolivia	—	—	1
Botswana	6	11	6
Brazil	—	1	—
Bulgaria	1	4	4
Canada	5	9	3
Chile	—	1	2
Cyprus	1	15	12
Czechoslovakia	15	31	21
Denmark	1	6	3
England— U.K. and Colonies ...	1 082	1 042	682
France	11	16	14
Germany	44	68	48
Greece	51	71	59
Hungary	13	16	24
Iran	—	2	—
Ireland	15	15	7
Israel	26	52	90
Italy	17	27	25
Kenya	5	8	4
Latvia	1	—	—
Lebanon	6	6	7
Lesotho	2	1	1
Libya	—	1	—
Lithuania	—	—	1
Mauritius	12	27	19
Mozambique ..	1	4	1
Netherlands ..	65	178	79
New Zealand	2	5	3
Norway	—	—	2
Poland	11	48	45
Portugal	74	68	94
Rhodesia/Zimbabwe	1 880	2 120	1 569
Rumania	—	1	4
Russia	—	2	—
Scotland	—	3	1
Seychelles	1	2	1
Spain	—	2	1
Swaziland	3	15	7
Sweden	1	1	4
Switzerland ...	4	10	8
Tanzania	—	1	1
Turkey	1	—	1
U.S.A.	4	2	2
Uruguay	—	1	1
Wales	—	2	—
Yugoslavia ...	2	—	20
Zambia	14	43	26
Zaire	1	—	2
Asians	227	174	214
Stateless	12	38	33

Particulars of countries of origin in respect of persons who automatically become South African citizens are not being kept.

TUESDAY, 22 APRIL 1986

†Indicates translated version.

For oral reply:

General Affairs:

Question standing over from Tuesday, 15 April 1986:

HANSARD 21/4/86

Assistance with speech

Q col 1249

*17. Mr K M ANDREW asked the Minister of Finance:

(1) Whether he received any assistance from Government officials in respect of the (a) preparation and (b) typing of the Second Reading speech on the Appropriation Bill which was delivered by him on 17 March 1986;

(2) whether the original copy of this speech is still in his or his Department's possession; if not,

(3) whether he has disposed of the original copy; if so, (a) how, (b) when and (c) why;

BUS DAY 21/4/86 (320)(320)

Mines paid 28% less tax

JOHN TILSTON

TAX paid by gold mines in the first quarter of the year declined by 28% to R812,1m from the previous quarter's R1,12bn, according to an analysis of the gold mine quarterly reports.

The decline was a direct result of the stronger rand which significantly reduced the rand price of gold. The average value of the rand was 23% higher in the first quarter of this year, while the price of gold in dollars was on average only 6,2% higher at $343.

The lower receipts suggest that, barring unforeseen developments, the prediction in last month's budget that State tax and leasing receipts from gold mines would decline by 7,7% to R2,82bn this year was realistic.

Last year the gold mining industry paid just over R3bn in tax, but high inflation (generally expected to average about 17% for the year), relatively high capital expenditure by the mines and the generally stronger rand will all trim mine profitability.

Nevertheless, despite lower rand profits, the industry actually increased its dollar earnings from $1,53bn to $1,66bn.

The largest group of taxpayers was the Anglo American mines, which provided for tax and State's share of profits totalling R322,6m.

The newly-merged Free State Mines themselves paid R108m, 34% less than in the previous quarter. Gold Field's of SA mines paid R258,5m, Gencor gold mines R149,5m, and Anglovaal R86,6m. JCI saw a 64% reduction in its tax bill to R12,6m.

In respect of the 1985/86-financial year—

First quarter R189 422,03
Second quarter R179 523,40
Third quarter R228 952,26
Fourth quarter R222 000,62

(b) (i)(aa) and (bb)

Toll Plaza R2 916 861,90
Toll equipment .. R1 269 522,69

Total R4 186 384,59

(ii) 8 June 1984 to 31 March 1986.

(2) (a) In respect of the 1984/85-financial year—

First quarter ...... R 30 012,39*
Second quarter ... R121 648,95
Third quarter R130 836,59
Fourth quarter R138 169,61

In respect of the 1985/86-financial year—

First quarter R143 992,95
Second quarter ... R147 292,79
Third quarter R155 568,00
Fourth quarter R154 917,21

(b) In respect of the 1984/85-financial year—

First quarter ...... R 16 515,39*
Second quarter ... R 95 376,91
Third quarter R141 254,91
Fourth quarter .... R 86 533,30

In respect of the 1985/86-financial year—

First quarter ...... R 45 429,08
Second quarter ... R 32 230,61
Third quarter ..... R 73 384,26
Fourth quarter .... R 67 083,41

*As the Toll facility was only put into operation on 8 June 1984, the figures quoted are only representative of the period 8 to 30 June 1984.

(3) No.

(a) and (b) Fall away.

HoA

Rock lobster/abalone

795. Mr R R HULLEY asked the Minister of Environment Affairs and Tourism:

(a) How many catch permits have been issued to private individuals during the current season in respect of (i) rock lobster and (ii) abalone and (b) in respect of what date is this information furnished?

The MINISTER OF ENVIRONMENT AFFAIRS AND TOURISM:

(a) (i) 32 112 Rock lobster permits.

(ii) 10 489 Abalone licences.

(b) 1985 Season.

Pilchards/anchovies

796. Mr R R HULLEY asked the Minister of Environment Affairs and Tourism:

What estimated percentage of the catch of (a) pilchards and (b) anchovies in 1985 were immature juveniles?

The MINISTER OF ENVIRONMENT AFFAIRS AND TOURISM:

(a) 46 per cent by mass,
89 per cent by number.

(b) 53 per cent by mass,
65 per cent by number.

Anchovies/pilchards/pelagic fish

799. Mr R R HULLEY asked the Minister of Environment Affairs and Tourism:

How many tonnes of (a) anchovy and pilchard and (b) non-quota pelagic fish were landed during the 1985 fishing season or the latest specified period of 12 months for which figures are available?

The MINISTER OF ENVIRONMENT AFFAIRS AND TOURISM:

(a) 277 094 tonnes anchovy,
29 518 tonnes pilchards.

(b) 75 737 tonnes during the 1985 fishing season.

Mariannhill Toll Road

800. Mr L F STOFBERG asked the Minister of Transport Affairs:†

(1) What was the total capital investment in the Mariannhill Toll Road Project as at the latest specified date for which figures are available;

(2) (a) what is the (i) gross (aa) income and (bb) expenditure and (ii) net income in respect of this toll-road project and (b) in respect of what specified period are these figures furnished?

The MINISTER OF TRANSPORT AFFAIRS:

(1) R108 496 381,97 as at 18 February 1986.

(2) (a) (i) (aa) R136 960,43

(bb) R38 714,92

(ii) R98 245,51

(b) 7 to 31 March 1986.

The honourable member's attention is drawn to the fact that all the above-mentioned figures are unaudited and, therefore, subject to change.

QEOL 1417
HANSARD 23/4/86 320

Fuel: levies

801. Mr L F STOFBERG asked the Minister of Transport Affairs:†

(a) What is the (i) actual or (ii) estimated monthly income obtained for road-building purposes from the new levies on fuel and (b) in respect of what specified period is this information furnished?

HoA

The MINISTER OF TRANSPORT AFFAIRS:

(a) (i) The amount cannot be determined at this stage.

(ii) R49 million.

(b) 1 to 30 April 1986.

For written reply:

Own Affairs:

Octavia Hills: residential units

63. Mr S P BARNARD asked the Minister of Local Government, Housing and Works:†

(1) (a) How many residential units are there in the Octavia Hills flat complex and (b) how many of these units are occupied by White persons at present;

(2) whether these White persons were recently given notice to vacate their residential units in Octavia Hills; if so, (a) when, (b) why and (c) in respect of how many residential units;

(3) whether these persons were offered any alternative accommodation; if so, (a) what alternative accommodation and (b) where;

(4) whether these persons were offered any compensation in respect of moving expenses; if so, what are the particulars of this compensation;

(5) whether any of these persons vacated their residential units voluntarily; if so, how many;

(6) whether he will make a statement on the matter?

The MINISTER OF LOCAL GOVERNMENT, HOUSING AND WORKS:

(1) (a) 126.

Call to reduce import duties

Clothing firms hard hit by fabric shortage

Cape Times 23/4/86

By AUDREY D'ANGELO

THOUSANDS of jobs, and thousands of rands worth of business, are being lost because a shortage of fabric is forcing Cape Town clothing factories to work short time.

To ease the situation, clothing manufacturers are appealing to the government to reduce import duties temporarily.

Consumer

The chairman of the Cape Clothing Manufacturers Association, Simon Jocum, said in an interview last night that a reduction of import duties would not harm South African textile manufacturers, who would still have the major share of the market.

But it would enable manufacturers to import fabric they needed to carry out orders at prices which would keep clothing within reach of the average consumer.

"We are in the ridiculous situation that there is a shortage of fabric in the middle of a recession," Jocum explained.

"In normal times we import 20% of our fabric and 80% is produced locally. But, because of the weakness of the rand, imported fabric costs so much that at present only about 5% is imported."

However, he said, the South African textile industry was exporting profitably because of the weakness of the rand — which was the correct thing for it to do — and lacked the capacity also to meet an increased demand from local manufacturers.

"They laid off workers at the start of the downturn and cannot get them back — they are lost to the textile industry.

"It takes six months to train workers new to the industry. And the textile industry knows from experience that our economy goes from boom to bust like a yoyo and is unwilling to invest in more plant when it knows demand may have fallen again in a year or so."

Jocum said the textile mills were also unwilling to fill small orders from factories employing 80 workers or so, preferring the long production runs they could get for export orders.

In this situation, a "grey market" had arisen with manufacturers selling fabric to each other.

"The ridiculous situation has arisen when it is almost more profitable to sell fabric to other manufacturers than to sell clothes."

The secretary of the Industrial Council for the Clothing Industry, H Nel, said that in the three months to December the number of jobs in the Western Cape clothing industry had dropped from 59 000 to 51 000.

Applications

Between the end of December and the end of April there had been a further fall to 49 000 jobs and if the shortage of fabric continued he expected a further drop by the end of June.

Nel said he was receiving applications from factories to work short time because of a shortage of fabric.

In a speech to clothing manufacturers at a city hotel last night, Jocum said that raw material prices had risen by 20% in the past year.

Retailers were ordering at shorter notice while the textile mills wanted manufacturers to order further in advance — sometimes as long as eight or ten months.

Court told of rumoured Le Grange 'tax-swindle'

(320) STAR 23/4/86.

Pretoria Correspondent

A Pretoria magistrate's court heard yesterday that Minister of Law and Order Mr Louis Le Grange was rumoured to have been involved in alleged cases of tax swindling.

The former Receiver of Inland Revenue, Mr J T Du Plessis, gave evidence that he had heard rumours about Mr Le Grange's involvement in cases of alleged tax swindling, but could not say from whom he had heard the allegations.

FRIENDSHIP

Editor of *Nose* magazine Mr Martin Welz has been accused of defamation of character, allegedly resulting from a March 13 1985 article in which the editor wrote that an attorney, Mr Naas Ferreira, had neglected to pay tax because of his friendship with Mr Louis Le Grange.

Mr Welz has pleaded not guilty.

Mr Ferreira is a member of the firm of attorneys Mike Odendaal, Ferreira and Devul.

Mr du Plessis told the court he had ordered an investigation into all of Mr Ferreira's transactions because he had not believed Mr Ferreira was not involved in tax swindling after he had been informed by the headquarters of the Department of Inland Revenue that his records were clear.

Mr du Plessis said he had informed headquarters in March 1984 about possible negligence on Mr Ferreira's part in not paying in transfer duty money. Mr Ferreira had obtained legal opinion and submitted it in a report to the department. The report was accepted by the department, the court heard.

Mr du Plessis also alleged that suspicion had existed among department officials that the head of the team investigating Mr Ferreira's transactions had been transferred on promotion because headquarters had feared embarrassment. Mr du Plessis did not commit himself to the allegation during cross-examination.

State prosecutor Mr A Jordaan put it to Mr du Plessis that because of previous clashes with Mr Ferreira he still had a grudge against him and although he had disagreed with headquarters' decision that Mr Ferreira's files were in order, he had not gone to the trouble of reading the legal aid report.

Mr du Plessis replied that he had been too busy at the time and was also being transfered then.

Yesterday the court gave an order over-ruling the preservation of secrecy in order to determine whether the team of investigators had found any evidence of tax swindling by Mr Ferreira.

The court is attempting to establish whether Mr Welz's article was factually correct and if it was in the interest of the public to publish the information if it was correct. The case has been postponed until July 2.

Shirley Gunn detained outside Bellville court

CAPE TIMES 23/4/86 (320)

Staff Reporter

CLOTHING Workers' Union organizer Ms Shirley Gunn was detained outside Bellville Magistrate's Court and held for about half-an-hour yesterday.

Ms Gunn was due to appear with 40 other people on a charge of "committing a nuisance or disorderly conduct".

Mr E Mohammed, who is appearing for the 41, said Ms Gunn was released without being charged after he had made representations to a police captain.

He said the 41 accused and a number of supporters had arrived at the court in a bus. Police had boarded the bus and said only the accused could alight. Ms Gunn had objected and had been taken into custody.

Ms Gunn could not be reached for comment.

● In terms of a letter from the Commissioner of Police to the Editor of the Cape Times dated April 1, police liaison officers and spokesmen may not give any information concerning police matters or action to any member of the Cape Times editorial staff.

SAKERA ENDORSES IN BLACK AND WHITE

(320) 28/4/86
FIN MAIL 1/5/86

TAXATION

Waiting for the law

Many observers are concerned that the 1986 Revenue Laws Amendment Act will not be passed before Parliament recesses on June 20, to return on August 18. The amendments will confirm the (many) tax changes announced in the Budget.

However, they invariably include a number of changes kept under wraps until the Bill is passed. The tax system is in a general state of uncertainty with the Margo Commission's final report due at the end of June.

A revenue officer in Cape Town says, however, that it is "95% certain" that all revenue and finance legislation will be passed by June 20.

New issues

A number of new issues may creep into the legislation. Regulations for the Regional Service Councils, the first due for launch in September, are being circulated for comment. One expert who has studied the drafts describes them as "uncertain and in need of serious attention."

Moreover, estate duty may undergo further changes, with speculation rife that the Margo Commission will recommend that it be replaced by a capital gains or transfer tax. In its latest letter to brokers, National Mutual comments that the Budget changes to estate duty have raised several questions which remain unanswered: "What did (Finance Minister Barend du Plessis) mean when he spoke of phasing out estate duty in its present form?"

Speculation is also rife that the commission will recommend changing SA's tax system from one of source of income to residence. Taxing the taxpayer on worldwide income would bring SA in line with major tax jurisdictions.

Such a change would be important from a timing viewpoint since a wealth of tax avoidance schemes have sprouted with the favourable tax systems of independent states. Tax haven Ciskei, for example, shelters large amounts of what would be South African income on the residency basis; Bophuthatswana is used to avoid SA's 12% sales tax.

And as reported in the *FM* (March 21 and April 19), film industry insiders are calling for clarification to tax law affecting the industry. The latest development is that Revenue may seek to argue that unless foreign generated box office income accrues in relevant portions to South African residents, tax losses (used as the basis for film production finance) will not be allowed.

It is also said that Revenue may seek to give the three-year write-off of 70%/20%/10% of film production costs some mechanism in law, clarifying precedent and practice. Both issues would need amending legislation.

Finally, Pretoria may yield to the storm of protest mustered by the all but bankrupt motor vehicle industry and its associates. The industry is affected by at least a dozen taxes and has laid off tens of thousands of employees. Unchanged tax treatment would violate at least one classic canon of taxation, the ability-to-pay principle. ■

Arg Argus 26/4/86

Cost of dressing up may come down

By TOM HOOD

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CLOTHING prices could be cut and unemployment eased if a lowering of import duties becomes more widespread in the clothing and textile industries.

The Government cut import duties in the past week on knitted fabrics to 25 percent from around 35 percent.

This follows a redrafting of the import duty structure and will help clothing manufacturers who have been hard hit by high import prices and a shortage of knitwear fabric.

Also, next month clothing manufacturers will present their case to the Government for a temporary reduction in import duties on a wider range of fabrics of which there is an exceptional shortage.

The textile industry is also worried about a shortage of yarn and is applying pressure for a reduction or temporary abolition of duty.

Factories all over the country have laid off workers or cut working hours because of the shortage of fabrics.

"If fabric prices don't come down and the scarcity gets worse, it will obviously affect employment," said the chairman of the Cape Clothing Manufacturers Association, Mr Simon Jocum, this week.

"Once you have factories going on to short time and jobs are involved, the matter must be tackled very quickly."

Exports of fabrics, benefiting from the low rand, had aggravated the shortage.

But exporting was good business and was the industry's right, he added.

"We also have a right to seek other resources at reasonable prices."

GST township holiday as inspectors pull out

320 STIMES 27/4/86

By Ciaran Ryan

THE Department of Inland Revenue has stopped sending inspectors into black townships because of unrest.

There are fears that millions of rands may be slipping through the tax net as delinquent shopkeepers make hay.

Chief director at the Department of Inland Revenue Schalk Albertyn told Business Times: "We do not want to cause more unrest by sending in tax inspectors, so we are withdrawing from the townships until things simmer down."

Business Times was told that "comrades" had instructed several township traders to stop paying general sales tax (GST). In many cases the benefit is being passed to consumers. Other traders are simply using the unrest to withhold passing on GST.

Mr Albertyn says the Department of Inland Revenue has been forced to resort to other methods to combat delinquent traders.

He says: "Where traders have refused to hand over money we have withdrawn their GST numbers which entitle them to buy goods from suppliers free of GST. This means that they pay the GST before resale."

Wholesalers

But the receiver may still only be collecting a fraction of what it is owed. Most traders operate on a mark-up of between 50% and 100%. This means that the receiver picks up perhaps half of the GST owed.

Tax expert Leon du Toit says there is little the receiver can do to combat the non-payment of GST in the townships: "So long as the inspectors stay out of the townships, shopkeepers can hold onto GST."

Mr Albertyn says delinquency is no worse among black shopowners than among whites.

He says: "We have been able to police 100% of all shops by way of GST inspections, but this is no longer possible in the black townships."

Some wholesale stores on the Reef are thought to be losing GST because of fraudulent use of GST-exempt numbers. The Federation of Hotels, Liquor and Catering Association of SA (Fedhasa) alleges that liquor is being sold free of GST to the public for private consumption at one wholesaler on the East Rand.

The allegations have been sent to the Commissioner for Inland Revenue. Liquor may be bought free of GST if a person has a GST-exempt number and only if the drink is for sale.

According to the Department of Inland Revenue, GST revenue for the financial year to March 1986 is R150-million below the budgeted R8,32-billion.

However, it will be more than made up by tax revenue from companies which is expected to be R800-million higher than the R4,25-billion target thanks to the introduction of a third provisional tax payment and the withdrawal of incentive allowances.

MONDAY, 28 APRIL 1986

†Indicates translated version.

For written reply:

General Affairs:

HANSARD 28/4/86 QCOL 1441 320

Tax concessions

619. Mr H H SCHWARZ asked the Minister of Finance:

What is the total amount of tax lost or expected to be lost as a result of tax concessions granted to decentralised or deconcentrated industries in respect of the year ended 31 March 1985?

The MINISTER OF FINANCE:

Because many taxpayers (especially companies) have not yet put in their 1985 returns, it is not possible to give a final figure, but on the basis of assessments already raised, the income tax concessions granted to decentralised or deconcentrated industries in respect of the year ending 31 March 1985 will amount to approximately R67 million.

Seaweed

733. Mr D J N MALCOMESS asked the Minister of Environment Affairs and Tourism:

(a) When were licences for the collection of seaweed first issued; (b) how many applications were received at the time, (c)(i) to whom were they issued, and (ii) for what quantity of seaweed, in each case, and (d)(i) who are the current holders of such licences and (ii) for what quantity of seaweed in each case?

The MINISTER OF ENVIRONMENT AFFAIRS AND TOURISM:

(a) Prior to 1973.

(b), (c)(i) and (c)(ii) The required information is not readily available.

(c) (i) Taurus Products (Transkei) (Pty) Ltd; Taurus Chemicals (Cape Kelp) (Pty) Ltd; Kelp Products (Pty) Ltd; Western Kelp (Pty) Ltd; Eckloweed Industries (Pty) Ltd.

(d) (ii) Seaweed concessions are not limited to specified quantities.

Housing subsidies

HANSARD 28/4/86 1442 1423

734. Mr R M BURROWS asked the Minister of Finance:

What total amount was allocated to each specified State Department from 1 April 1986 for the payment of staff housing subsidies on a (a) compulsory and (b) voluntary basis?

The MINISTER OF FINANCE:

In accordance with the system of budgeting by objectives the Estimate is divided and compiled according to programmes. All expenditure items must therefore be appropriated to a programme in order to reflect the magnitude thereof.

Due to technical problems and restrictions, certain centralised provisions on the old item-basis, could however not initially be appropriated to programmes immediately. Examples hereof is the employer's contribution to pension and medical aid funds and the payment of subsidies on staff housing loans. It was however the intention to provide for these items under personnel expenditure in future whereby these services will be allocated to all the programmes of all departments.

From the 1985/86 financial year the technical problems surrounding the appropriation of housing subsidies were overcome and the appropriation of the subsidy was incorporated by Treasury under the heading personnel expenditure of all departmental programmes.

Because housing subsidy is a second level item, it is no longer specified as such in the Estimate of Expenditure since 1986/87 but forms a component of personnel expenditure at each programme. Each department will therefore, on request, be able to indicate what amount was included in his budget for this subitem of its expenditure. For reasons given in reply to your questions number 843 of 24 April 1985 and 912 of 9 May 1985, it will not be possible to distinct between subsidies on a voluntary and compulsory basis.

It is also the intention to incorporate similar centralised provisions to departmental programmes in future, for example employer's contribution to pension and medical aid funds.

28/4/86 QCOL 1443
HANSARD

South African citizens 101 206 238

791. Mr K M ANDREW asked the Minister for Administration and Economic Advisory Services:

(1) (a) How many (i) adults and (ii) children who are not South African citizens are at present permanently resident in South Africa and (b) in respect of what date is this information furnished;

(2) (a) what are the countries of which such (i) adults and (ii) children are citizens and (b) how many of these (i) adults and (ii) children are citizens of each of these countries?

The MINISTER FOR ADMINISTRATION AND ECONOMIC ADVISORY SERVICES:

(1) (a) 12 396 952.

(b) 5 March 1985.

(2)

(a)	(b)
Bophuthatswana	598 868
Botswana	36 183
Ciskei	335 814
Lesotho	157 037
Malawi	30 985
Mocambique	62 780
Self-governing national states*	9 834 281
Swaziland	49 712
Transkei	733 357
Venda	94 712
Zimbabwe	40 807
Other in Africa	34 588
England and Wales	95 274
German Federal Republic	25 109
Netherlands	17 508
Portugal	42 824
United Kingdom (so stated)	116 946
Other in Europe	60 485
Asia	10 693
America	9 754
Oceania	5 891
Stateless and unknown	3 344

*Residents of self-governing national states indicating citizenship other than South African citizenship.

This information has been obtained from preliminary tabulations of the 1985 population census. these tabulations do not provide information for adults and children separately. The information has not been adjusted for possible under-enumeration.

~~QCOL 1444~~
~~HANSARD 28/4/86~~

Daylight-saving time

891. Mr P G SOAL asked the Minister of Home Affairs:

(1) Whether he or any member of his Department has received any representations regarding daylight-saving time in the Republic; if so, (a) from whom, (b) when and (c) what was the (i) nature of the representations and (ii) response thereto;

(2) whether the Government has considered the usefulness of daylight-saving time in the Republic; if so, (a) when and (b) what decision was reached in this regard?

The MINISTER OF HOME AFFAIRS:

(1) Yes.

(a) Mrs M Waters (through the office of the State President) and Mrs M J Jansma.

(b) 8 November 1985 and 13 November 1985 respectively.

(c) (i) and (ii) Copies of the letters concerned and the replies there-

to will be made available to the hon member for his perusal.

(2) (a) and (b) The matter is being dealt with in the replies to the representations.

TUESDAY, 29 APRIL 1986

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†Indicates translated version.

For oral reply:

General Affairs:

Question standing over from Tuesday, 22 April 1986:

QCOL 1445
HANSARD 29/4/86

Ciskei: tax exemptions ~~405~~ 320

*28. Mr A SAVAGE asked the Minister of Foreign Affairs:

(1) Whether, with reference to the reply of the Minister of Finance to Question No 1 on 25 March 1986, he or any member of the Government has received any requests or representations from the Ciskei Government for a financial contribution in respect of the loss of revenue that Ciskei will sustain as a result of the tax exemptions granted; if so, (a) when, (b) on the basis of what formula was the South African Government to make a financial contribution in respect of this loss of revenue and (c) what was his response thereto;

(2) whether any other independent Black states are free to grant companies or individuals similar tax exemptions unilaterally; if not, what restrictions prevent them from doing so?

†The MINISTER OF FOREIGN AFFAIRS:

(1) No. (a), (b) and (c) Fall away.

(2) As independent states the SATBVC-states have tax sovereignty, but if a decision of any of the SATBVC-states affects the multilaterally agreed industrial decentralisation programme, then it ought to be cleared not only on a bilateral basis but also on a multilateral basis with all the interested parties (see paragraph 12 in the Revised Manual on the Implementation of the Regional Development Incentives).

New Questions:

QCOL 1446
HANSARD 29/4/86

SABC 260

*1. Mr L F STOFBERG asked the Minister of Foreign Affairs:†

(1) Whether he is involved in determining the policy of the South African Broadcasting Corporation in regard to the covering of speeches and opinions of members of the Opposition parties in the House of Assembly; if so, to what extent;

(2) whether he recently gave any instructions to the South African Broadcasting Corporation in this connection; if so, what was the nature of the instructions;

(3) whether he will make a statement on the matter?

†The MINISTER OF FOREIGN AFFAIRS:

(1) No, the policy of the SABC in respect of any of its functions is determined by the Board of the SABC and implemented by the Management of the SABC subject to the applicable statutory provisions.

(2) No.

(3) Although I am not involved in the determination of the policy of the SABC, I do, nevertheless, transmit representations by Members of Parliament as well as members of the public to the SABC for consideration.

submission of representations regarding pay issues by South African Transport Services staff unions; if so, who are the members of this committee; if not,

(2) whether he will give consideration to appointing such a committee; if not, why not?

The MINISTER OF TRANSPORT AFFAIRS:

(1) and (2) Although I have already decided to appoint such a committee the composition thereof has not as yet been finalised.

QCCL 1451

Black settlements

HANSARD 29/4/86

*5. Mr P G SOAL asked the Minister of Constitutional Development and Planning:

(1) Whether, with reference to his reply to Question No 13 on 8 April 1986, there are any further Black settlements or communities outside the urban areas that are still to be removed or resettled; if so, (a) how many, (b) what are the names of each of these Black settlements or communities, (c)(i) in which province and (ii) nearest to which White city or town is each of these Black settlements or communities situated, (d) when is it intended to remove or resettle them, (e) why is it considered necessary to remove or resettle them and (f) in respect of what date is this information furnished; if not,

(2) whether any other specified action is to be taken in respect of any Black settlements or communities outside the urban areas; if so, (a) what action, (b) for what purpose, (c) in respect of which settlements or communities and (d) when?

†The DEPUTY MINISTER OF DEVELOPMENT:

(1) and (2) There are no other areas in respect of which negotiations and definite agreements have been reached in terms of which total communities will be resettled. The Government has however received requests to assist people from certain communities with their moving.

Mr P G SOAL: Mr Chairman, arising out of the hon the Deputy Minister's reply, may I ask him what has happened to places such as Mathopestad? They were not included in the original list of 67 with which the hon the Deputy Minister provided me.

†The DEPUTY MINISTER: Mr Chairman, I clearly stated in the reply that no negotiations and agreements have been entered into with communities. On today's Question Paper the hon the member of Johannesburg North puts a question—Question No 7—about Mathopestad and he will get an answer to that. If there are other specific questions, we will be glad if the hon member would table them.

QCCL 1452

Mathopestad

HANSARD 29/4/86

*6. Mr P G SOAL asked the Minister of National Health and Population Development:

(1) Whether, since his reply to Question No 11 on 21 May 1985, his Department has found any reference to a request from the residents of Mathopestad for the provision of (a) clinics and (b) any other specified health facilities; if so, what was the nature of the facilities requested in each case;

(2) whether this request was granted; if so, (a) what facilities were provided and (b) on what dates; if not, (i) why not and (ii) what health or medical facilities are available to the residents of Mathopestad?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) No.

(2) Falls away.

Mathopestad

HANSARD 29/4/86

*7. Mr P G SOAL asked the Minister of Education and Development Aid:

(1) Whether, with reference to the reply of the Minister of Co-operation, Development and Education to Question No 14 on 7 May 1985, any meetings have been held with the residents of Mathopestad to determine a date for resettlement; if not, when will such meetings be held; if so, (a) when, (b) where, (c) what are the positions or ranks of the Departmental representatives who attended these meetings, (d) to whom did they speak, (e) on what date will these residents be moved and (f) what was the response of the residents of Mathopestad in this regard;

(2) whether he will make a statement on the matter?

†The DEPUTY MINISTER OF DEVELOPMENT AND OF LAND AFFAIRS:

(1) No. Further negotiations with the view to resettlement will take place as soon as the investigation regarding the ownership of the land has been completed.

(a) to (f) Falls away.

(2) No.

Cricket team

*8. Mr R A F Swart asked the Minister of Law and Order:

Whether a South African Police cricket team has been given any instructions not to enter a Durban and coast cricket league; if so, (a) why and (b) who gave these instructions?

The MINISTER OF DEFENCE (for the Minister of Law and Order):

No. Matches of the cricket league concerned *inter alia* take place on Sundays. Since 1964 it has been the policy of the South African Police not to partake officially in organised sport on Sundays.

(a) and (b) Fall away.

Acasia Park: Directors-General

*9. Mr B W B PAGE asked the Minister of Public Works:

Whether any Directors-General are housed in Acasia Park; if so, how many?

†The MINISTER OF PUBLIC WORKS:

Yes, nine.

QCCL 1454

National servicemen

HANSARD 29/4/86

*10. Mr C UYS asked the Minister of Finance:†

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(1) Whether the services of national servicemen who already possess accounting and/or B Com qualifications are made use of in offices of Receivers of Revenue in the Republic; if so, how many persons perform such service;

(2) whether these persons receive any additional remuneration; if so, what is the amount of the additional remuneration?

The MINISTER OF FINANCE:

(1) No. The persons with the qualifications mentioned or equivalent qualifications, of whom there are at present 182 in service, were granted extension of initial military service on certain conditions. They are full-time officials of Inland Revenue, are not subject to military discipline and do not receive military pay.

(2) The following allowances are paid to 97 persons in possession of the Chartered Accountants' qualification:

R4 200 per annum in the case of a senior taxation officer;

R3 000 per annum in the case of an assistant director.

GST not hit by unrest

29/4/86 BUSDAY (320)

GERALD REILLY and
CHRIS CAIRNCROSS

GST returns from black traders were normal, Inland Revenue's chief director Schalk Albertyn told *Business Day* in Pretoria yesterday.

Unrest in townships had not caused any dramatic decrease in general sales tax payments.

"As taxpayers, black traders are no more delinquent than whites" he said.

Albertyn said the amount of GST collected from black vendors was only a small percentage of total collections.

Problems had arisen in some Eastern Cape townships where consumer boycott campaigns were launched and where pressure was exerted on traders not to pay GST.

"However, in these cases, we withdrew registration certificates which meant they had to pay GST when they purchased supplies from wholesalers," Albertyn said.

He denied millions of rands were being lost in uncollected taxes because inspectors were being prevented from entering townships.

Albertyn noted that the number of registered vendors in townships was relatively small and turnover at these outlets was also small, which meant the amount of GST accountable was also "relatively small".

He was unable to estimate how much the State was losing through the non-payment of GST.

It is noteworthy, however, that total GST collections during the past tax year were R150m less than projected in the 1985 Budget.

Most of this was attributable to the slump.

FRIDAY, 2 MAY 1986

†Indicates translated version.

For written reply:

General Affairs: HANSARD

2/5/86 Q col 1511 320

Taxable income

337. Mr B B GOODALL asked the Minister of Finance:

(a) What were the total taxable earnings for Whites, Coloureds and Indians, respectively, in 1984 and (b) what was the (i) total taxable income earned in this year by each of these race groups and (ii) percentage increase or decrease for each such group over the previous year?

The MINISTER OF FINANCE:

			Whites	Coloureds	Indians
(a)		(1984)	24 679,9 m	1 462,3 m	1 171,5 m
(b)	(i)	(1985)	21 929,8 m	1 580, 1 m	842,9 m
	(ii)		4,54%	14,77%	22,33%

Notes:

(1) It is assumed that what is required under (a) and (b)(i) is the taxable income assessed for the 1984 and 1985 tax years, respectively. This excludes taxpayers paying tax under the Final Deduction System, in respect of whom accurate statistics are not available.

(2) The statistics for the 1985 tax year are incomplete because ± 25 per cent of individual taxpayers have not yet been assessed. The percentage growth has therefore been calculated on the average income per taxpayer.

Q col 1511

HANSARD 2/5/86

Mamelodi: ammunition issued

526. Mr P G SOAL asked the Minister of Law and Order:

With reference to his reply to Question No 6 on 11 February 1986, how many (a) tearsmoke canisters, (b) quirts, (c) shields, (d) helmets, (e) rounds of buckshot and (f) R1-rifles were issued to the members of the South African Police deployed in Memolodi on 21 November 1985?

HoA

The MINISTER OF LAW AND ORDER:

Except to mention that adequate equipment had been issued to members of the South African Police deployed in Mamelodi on 21 November 1985 to resist any eventuality, I am not prepared to furnish further particulars.

(a) to (f) Fall away.

HANSARD Q col 1512

2/5/86

99-year leasehold

528. Mr P G SOAL asked the Minister of Constitutional Development and Planning:

(1) How many houses (a) had been bought under the (i) 99-year leasehold and (ii) 30-year ownership scheme and (b) were being rented in each township falling under each specified Development Board as at 31 January 1986;

(2) how many housing units had been sold under the special State housing sale scheme in each specified Development Board area as at that date?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

99-Year leasehold is a form of land tenure and does not necessarily include houses. In the reply to question 1(a)(i) no distinction is made between developed and undeveloped sites in respect of the following Development Board areas. With this reservation, the question is replied to as follows:

Northern Cape Development Board

(1) (a) (i) 333.

(ii) 3.

(b)

Mataleng	404
Bongani	195
Motswedimosa	239
Tlhakatlou	224
Boipelo	117
Boichoko	616
Huhudi	399
Thembinkosi	127
Lukhanyisweni	101
Mziwabantu	110
E'Thembeni	246
Matlhomola	200

(2) 33.

Orange-Vaal Development Board

(1) (a) (i) 404.

(ii) 1 092.

(b)

Bothaville	817
Frankfort	156
Harrismith	811
Heilbron	4
Parys	25
Petrus Steyn	4
Viljoenskroon	145
Villiers	201
Vrede	237
Vredefort	32
Warden	84

(2) 174.

HoA

Southern Orange Free State Development Board

(1) (a) (i) 1 913.

(ii) 2 969.

(b)

Allanridge	—
Bethulie	132
Boshof	289
Bultfontein	—
Brandfort	305
Clocolan	109
Dealsville	178
De Wetsdorp	221
Edenburg	147
Excelsior	69
Fauresmith	134
Ficksburg	126
Fouriesburg	61
Hennenman	—
Hertzogville	—
Hobhouse	74
Hoopstad	155
Jagersfontein	75
Jacobsdal	189
Koffiefontein	102
Marquard	105
Paul Roux	8
Petrusburg	129
Philippolis	136
Reddersburg	156
Rosendal	4
Rouxville	47
Senekal	1 062
Smithfield	34
Soutpan	260
Springfontein	207
Theunissen	204
Trompsburg	188
Tweespruit	386
Vanstadensrus	2
Ventersburg	41
Verkeerdevlei	2
Wesselsbron	111
Wepener	—
Winburg	251
Zastron	318

(2) 1 913.

Natalia Development Board

(1) (a) (i) 14.

(ii) 3 205.

FINMAIL 320 2/5/86

DEFERRED TAX

Billions build up

In the running for a major overhaul of the tax system are deferred corporate taxes. The table shows that, for 98 selected businesses, deferred tax balances totalled well over R10 billion in 1981; they are probably around R14 billion now. This is known in tax circles as "the ever-increasing deferred tax balance."

An amount of R14 billion is more than one third of total government revenues. With the recurrent nature of allowances, the expansion of business and inflation, most of this will never be paid. Not surprisingly, deferred tax is a major issue for the SA Institute of Chartered Accountants (SAICA), which has issued a new draft exposure, APC-ED61, in the interests of updating accounting standards.

The problem is far from resolved. An expert's opinion is that ED61 is:

☐ Conceptually unsound;

☐ If applied, will result in conflicts with "the substance of business reality;" and

☐ Fails to deal with the problem of ever-increasing deferred balances, unlikely to be paid.

Deferred tax arises when items are deducted for tax and accounting purposes in different periods (timing differences). One solution to ever-growing deferred tax balance is to account only for taxes payable and ignore timing differences.

Some companies use a tax equalisation account to smooth out fluctuations in tax charge. A provision is created and credits-reversals are passed when tax is paid. Then the question arises: is deferred tax a reserve or a liability?

The present standard on deferred tax, AC102, came into effect in January 1975. It allows the balance to be accounted for on the liability *or* the deferral method (both are outside shareholders' funds). The statement does not allow the balance to be treated as a reserve, and obliges companies to provide in full for deferred tax.

Some accountants see deferred tax as a liability to be paid in future and others as a reserve — which in theory can be distributed.

In practice deferred tax makes companies account for more tax than they actually pay. Constant replacement of assets combined with high inflation mean that reversals of deferred tax provided for in the past are offset by larger originating differences.

One expert says that deferred tax should be regarded as a liability. Another says that

BIG BUCKS

Weighted average of the deferred tax balances of 98 selected undertakings.

		Rm
	1972	1 371,384
	1975	2 263,393
	1978	4 756,603
	1981	10 153,146
and forecasts:		
	1991	21 183,000
	1996	66 775,000
	2001	210 501,000

Source: Dr. F J Mostert, University of Stellenbosch Financial Research Unit.

while deferred tax is not a reserve, not all elements constitute true liabilities. Those other elements, she says, arise because of the matching concept and represent deferred benefits — the so-called comprehensive method.

One way out is to opt for the "partial approach," which details full amounts and composition of deferred balances in notes to the financial statements. This approach means more disclosure and, for shareholders, a closer touch on company cash flows.

However, the comprehensive method means even greater disclosure in that the effect is shown in the actual financial statements — not just the notes. Many companies are wont to transfer the balance off the balance sheet into the notes. This can mislead users of financial statements and is truly a case of reading the fine print. ■

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The case for land tax instead of RSC levies

WITH the first regional service council starting in September, BARRY SERGEANT reviews the new taxes that will finance it and the others to follow.

IN a country experiencing and somehow sustaining its most severe tax burden ever, the idea of new tax is daunting.

Pretoria is not talking about one new tax. It wants to impose on businesses a payroll and a turnover tax to finance its new regional service councils.

Businesses will be the villains for the new tax but, as is the case with any new tax or an increased tax, the consumer pays. Workers will receive smaller wages and salaries; shareholders will be paid smaller dividends; and customers will pay higher prices.

Pretoria is determined to implement the first new levies on September 1. That may happen in theory, but in practice the chances of businesses actually having to pay tax are close to zero.

The main reason is that the draft regulations to the RSC Act are yet to be gazetted and are far from final.

A second possible relief is that when the draft regulations are finalised and published, there will be ample room for tax planning. Tax consultants will advise you on any number of methods to avoid the imposts.

The opportunities for tax planning arise from the RSC levies being fundamentally flawed in economic theory. They are completely new, not being adapted from any other tax jurisdiction in the world. To confuse the issue further, the RSC levies are with the Margo Commission on tax, which is due to file its final report at the end of June.

The revenues raised from the two new taxes are to be used at regional level to finance public transport; garbage collection; bulk water supply; electricity supply; sewerage removal, and so on.

With any luck the RSC levies will go out with the first load of sewerage and be replaced by a tax that is acceptable and proven. And it is worth remembering that on other fronts Pretoria is preaching deregulation and privatisation.

Many, if not most activities handled by the RSCs are prime targets for privatisation (public transport the most patently obvious).

The draft regulations which will be appended to the RSC Act are currently for comment with selected bodies in the private sector. The document is marked "confidential" and, like the RSC Act, is peppered with anomalies and characterised by confusion.

But assuming the levies are imposed, some of the few absolute points in the draft regulations can be discussed.

The turnover tax will not be called that, but a regional establishment levy (REL) — limited to a maximum of 0,1% of turnover. The payroll tax will be called the regional services levy (RSL) — limited to a maximum of 0,25% of remuneration.

Finance Minister Barend du Plessis has enormous discretionary powers under the RSC Act. He can change the rate at whim and he can reduce the rates in a particular RSC area, while increasing them in others.

Discretionary powers create uncertainty and allow powerful lobby groups to make deals (the Americans use pork-bellied politicians to describe the phenomenon).

The merits or otherwise of the new Constitution, the source of the RSCs, are beyond the scope of this discussion. Here, surely some method of financing the RSC's within existing parameters could have been found? After all, the theory behind the RSC levies enjoys almost universal revulsion among economists.

The simple, short, and perhaps only answer to financing the RSCs, is an increased land value tax. There is international lobby arguing that this tax should be the only tax used in an economy. The lobby has some powerful voices.

To quote Milton Friedman: "These is a sense in which all taxes are antagonistic to free enterprise — yet we need taxes ... so the question is — which are the least bad taxes? In my opinion the least bad tax is the tax on the unimproved value of land."

In SA perhaps the main proponent of the land tax is the Association for Incentive Revenue Research (AIRR). It has submitted to the Margo Commission an argument that the land tax encourages growth, productivity and employment. Simply put, the land tax comprises the collection of "natural rent" based on the market value of land.

It is extracted on a sliding scale, the highest rate on the most productive land and a zero rate on the least productive land. The RSC levies are a tax on productivity: they will discourage increased productivity and the general creation of wealth.

The land tax, by contrast, is a tax on the productive capacity of land. It thus encourages the most productive use of land, rapid development and wealth creation. SA currently uses three main land taxes, the flat tax (on land and improvements); the composite tax (which taxes land at a higher rate than improvements); and the site value tax, which is based on land value only.

The AIRR's Godfrey Dunkley studied land taxes in 310 towns over the period 1951-1979. His study gave all the Oscars to the site value tax.

More than 60% of the growth over the period was experienced in towns using the site value tax; towns rating improvements lagged gross domestic product (GDP) growth, and site value rating increased in popularity.

Dunkley observes that provision exists within legal parameters for all towns and cities to adopt site value rating. It was the land tax most favoured by the Boers and has been in SA much longer than income tax.

There are many other powerful arguments in favour of the site value land tax. It can be used instead of the RSC levies which are new, flawed, uncertain and open to innumerable instances of avoidance and abuse.

Municipal authorities have been collecting land taxes since before the turn of the century. All that need be done is that the rate be increased.

Then, perhaps for once in the tax system, everyone will know where they stand.

CAPE TIMES 6/5/86

Builders hopes raised after bond rate cut

Own Correspondent

JOHANNESBURG. — The property market's reaction to reduced bond rates is likely to be fairly slow. While observers hail the cuts as encouraging and possibly stimulating, they stress that more confidence is needed for a major upturn.

For existing bondholders, those who bought when rates were low and are battling to keep up with the unexpected higher payments, the downward movement is welcomed as much-needed relief.

But potential buyers will probably maintain their "wait and see" attitudes, while interest rates are lower than inflation, being fearful of upward adjustment, comments the Institute of Estate Agents' president Norman Nel.

People are still a little insecure, he said, and these emotions play a vital part in their decisions to buy property.

Nevertheless Nel believes that property must start moving up as inflation continues to pressurize building costs and materials.

At a time when existing homes are available for 20% to 25% less than they could be built for, there are plenty of opportunities for the brave, he said.

Peter Erasmus, executive director of the SA Property Owners' Association (Sapoa), notes the market had expected rates to level out towards the middle of the year, possibly going up again in the third quarter.

With the current downward pressure it is quite possible that rates will continue going down, giving the market the surge of confidence it so desperately needs.

Sapoa hopes the beleagured construction industry in particular will benefit by the cheaper money.

Finally, he observes that property's lead-and-lag relationship with the economy means it'll take time before the effect is really felt.

Canadian reserves

OTTAWA. — Canadian foreign reserve holdings rose $186,7m in April to $3,47 billion from $3,28 billion at the end of March.

CAPE TIMES 6/5/86

'SA motor industry heading for disaster'

JOHANNESBURG. — The SA motor industry is heading for disaster, unless the government comes to its rescue with significant concessions on perks tax and GST.

This warning was sounded yesterday by Theo Swart, MD of McCarthy Group.

"If the government is serious about stimulating the motor industry, it should immediately ease up on the perks tax and at least halve GST on new and used vehicle sales for the next two years," said Swart.

"It should also heed the call of the manufacturers (Naamsa) for the scrapping of the 10% surcharge on all imported items affecting the motor industry," he added.

"The situation is so desperate that we simply do not have time to wait for the Margo Report.

"The motor market is in such a sad state that widespread unemployment is now threatened at the retail-end of the business.

"We all know that there is already 36% unemployment at the manufacturing-end," said Swart. — Sapa

Mr Vince Lochrie has been appointed a director of Foschini Stores (Pty) Ltd.

Yesterday in Parliament

Danger signs ahead as SABC faces 'poor' financial future

8(32) Mercury 7/5/86

CAPE TOWN—The future financial prospects of the SABC are poor and there is sufficient reason for concern over its future financing, a report tabled in Parliament yesterday claims.

The report, entitled 'The SABC's financial position and accounting policy in perspective', coincides with the debate on the Foreign Affairs and Information budget vote under which the SABC falls.

It was compiled by the SABC in response to criticism of its financial position and of its annual report, which was tabled in Parliament in April.

The report summarises criticisms levelled at the SABC as:

Attempting to convey an impression of poverty in spite of vast cash resources;

Unjustified

Diluting annual operating results by concealing profits by (a) writing off programme stocks in year of purchase, (b) writing off depreciation on land and buildings, (c) excessive provision for increased replacement costs, (d) being excessively conservative in respect of consultancy fees and establishment and installation costs, and (e) incomplete reporting;

Not revaluing assets (land and buildings);

Unjustified and excessive capital expenditure which would put it among the top five companies outside mining;

Increases in administrative expenditure far outstripped increases in programme expenditure.

Accumulate

The report, in answering the criticism, said the SABC had amassed cash funds in the years before TV2 and TV3 to accumulate reserves in anticipation of these services which for many years could not be self-financing.

'That the SABC sees danger signs on the road ahead is true. For 1985 and 1986 the SABC reports relatively large operating losses and future prospects are poor.'

The SABC therefore wanted to sound an early warning and was taking action now to avoid more drastic action in future.

The decline in its reserves was rapid and would reach a level by 1988 where there was little or no latitude for manoeuvre.

'The SABC will in future have to borrow for its capital needs. Deprecitation will finance roughly 50 percent of the known capital requirements.'

Weakened

The operating situation was going to be weakened by factors such as the introduction of M-Net, which would bring a proportionately greater advertising than viewer loss, the loss of 'interest' as a source of revenue, additional operating expenses flowing from new projects such as expanding the transmitter network, and steep increases of imported programme costs which would be aggravated with any further deterioration of the exchange rate.

'The critics also rank the SABC in terms of growth and turnover, capital expenditure and accumulated earnings,' the report says.

'However they do not mention how, if it were listed, the SABC's share price would have been affected by its profit performance over the past four years, even taking into account all the apparently conservative amounts written off and written back.' — (Sapa)

MIF head urges tax relief

BD DAY 8/5/86 (320)

Business Day Reporter

GOVERNMENT action to rescue the motor industry from threatening disaster is imperative, Motor Industries Federation director Jannie van Huyssteen said yesterday.

Organised industry, including the MIF, the National Association of Automobile Manufacturers of SA (Naamsa) and the National Association of Automobile Components Manufacturers have made repeated appeals in the past few months, at various levels of government, for relief — so far, without success.

The basic solution is to pump up consumer buying power, Van Huyssteen believes.

Among proposals made to government are immediate repayment of the 1980 loan levy; significant tax relief, including a cut in GST; abolition of the 10% import surcharge on motor-vehicle components; easing of perks tax; and further relaxation of hire purchase conditions.

Government appreciates the crisis in the industry but swift relief measures are vital, Van Huysteen added.

Naamsa president Peter Searle has the MIF's full support in seeking an interview with Finance Minister Barend du Plessis to stress the need for stimulating vehicle sales.

320

Calls for payout of levies

GERALD REILLY

GOVERNMENT has come under intense pressure from the private sector to pay back the more than R600m it owes taxpayers from the 1980 and 1983 loan levies.

Pretoria sources believe the release of the levy money will be part of a package to be announced soon by Minister of Finance Barend du Plessis to stimulate consumer spending and get the stalled upswing off the ground.

Inland Revenue's chief director Schalk Albertyn told *Business Day* that 1,079m individual taxpayers paid R156,2m into the 1980 levy, and 34 703 companies paid R64,7m.

With interest at 5%, the total payout would exceed R300m.

Albertyn said also 1,22m taxpayers paid R213m into the 1983 levy. Interest on the levy was raised to 8%. Paid within the next few months it would pump another R300-million into the economy.

There was no company levy in 1983.

FIN MAIL 9/5/86 320

GOVERNMENT FINANCES

Souring taproot

The taproot of government finances is turning sour — on account of both the revenue and expenditure. The issues of overtaxation and continued unfulfilled undertakings to trim and control State spending are probably the most telling.

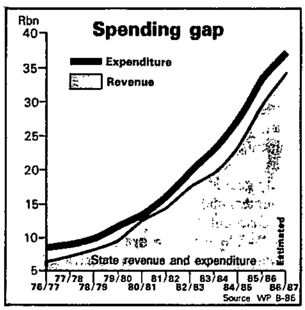
The increase in expenditure, from R8 billion in 1976-1977 to an estimated R37 billion 10 years later is self-destructive. For it means that government is spreading and limiting the productive endeavour that makes it possible for the private sector to pay higher taxes.

According to a PFP analysis, almost a third of total revenue this fiscal year will be paid to almost 800 000 public servants. PFP spokesman on the public service Reuben Sive estimates that a third of these officials are involved in administering and policing apartheid.

With Sive's figure of one third necessarily an estimate, P W Botha's recent depoliticisation measures would appear to have landed some officials without work. They still, however, have jobs: measures to remove a public servant from office are long winded, time consuming and costly.

Further sourness in the taproot is Pretoria's consistency in spending more than it estimates. While there may appear to be little wrong in this (especially when revenues also exceed estimates), financing deficits pushes up interest rates unnecessarily and misallocates resources. So the economy becomes increasingly less efficient and the public's belief in government's ability to reverse the trend gets progressively less.

An analysis from Louis Geldenhuys, economic consultant for stockbroker George



Huysamer, shows continual spending overshoots from the base year, 1979-1980. The highest increase in (actual) spending was recorded in 1984-1985 as 21,9%; second on the scorecard was a year later, at 21,6%.

Yet another assault on the taproot is the continuing low level of public-sector capital spending as a percentage of total expenditure. This comprised R11 billion in 1984-1985, or 20%, and is estimated at R14 billion or 19% this fiscal year. We are consuming too much and investing too little. That means we're eating our seed corn.

As a proportion of GDP, expenditure has risen from 24% to 26,7% in the past decade.

There are yet more worries in the nature of government spending. In the past decade, the most important changes in distribution of total spending are education (up from 13% to 18%), welfare and pensions (3,5% to 5,7%), and debt costs (4,9% to 14,2%). The last item will cost R5,3 billion this fiscal year, rating behind education at the top of the menu — almost on par with defence, and this spending is on an intangible item, not projects which encourage entrepreneurship, growth and employment.

The prospect that government spending estimates will gain credibility in the year ahead is shaky. ■

Footnotes

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2. Additional Allowances - ... than R35 per week

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Tour manager Ian Kirkpatrick said

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Millions lost in GST as pump prices follow oil down

BUS DAY 9/5/86 320

Govt seeks ways to protect fuel revenues

DAVID FURLONGER

GOVERNMENT is examining ways of protecting tax revenues in the face of falling oil prices.

The state has lost millions of rands in general sales tax (GST) as petrol pump prices have dropped in line with the collapse of world oil markets.

Senior fuel industry sources say they expect government, faced with the prospect of even greater revenue losses, to scrap GST on fuel and replace it with a higher excise duty.

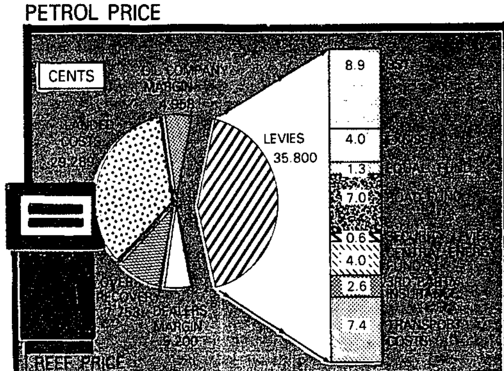
Immediate effects of such a move would be to slow further reductions in pump prices countrywide and push up the price at the coast.

The Department of Mineral and Energy Affairs says no decision has been reached yet on changes to the pricing structure.

Confirming that "a lot of analysis is going on", a spokesman said yesterday: "We have considered alternatives and discussed them with the Department of Finance, but there is no finality at this stage."

While reports from Britain and the US yesterday said certain crude prices were showing unexpected recovery, analysts say the full effects of the recent decline — most crudes fell to around $10/barrel, compared with the official Opec (Organisation of Petroleum Exporting Countries) level of $28/barrel — have yet to trickle through to SA pumps.

PETROL PRICE



93 OCTANE AT 83c/LITRE: WHERE YOUR CENTS GO

Recent reductions in petrol pump prices have already cost government millions of rands in GST.

At 106c/l, the state was taking 11c in GST. At 83c, this is down 2c/l, or a rand a tankful.

Reef motorists who pay 83c for a litre of 93-octane petrol are contributing 8,9c

To Page 2

BUS DAY 320 9/5/86

Fuel tax plan sought

From Page 1

of that in GST and a pre-determined 4c in excise duty. To protect its income, say the sources, government wants to abandon GST and increase excise duty by about 10c.

Pump prices in SA are worked out on a complicated formula (see graph).

In spite of local production, costs are based on world prices and the landed cost of the commodity.

Once the oil companies and dealers have taken their pre-set margins, the state takes another huge slice in various levies, including Third Party, central energy fund, security, road fund, equalisation fund and excise duty.

In the case of inland petrol pumps, there is a further levy imposed for transport costs from the coast where, in theory, fuel is landed.

A certain margin is allowed for over- and under-recovery of costs. While the Department of Mineral and Energy Affairs subsidised (under-recovered) prices by up to 19c/l in 1984, it is now over-recovering by nearly 8c while world oil prices are low.

On top of all this comes GST. Where it touches the levies, it is in effect a tax on a tax.

The department spokesman said government was aware of criticism of the "tax-on-tax" and transport cost components of the fuel price and was looking at ways to overcome them.

The effect of the suggested new pricing system would be to slow the benefit for SA motorists of further reductions in international oil prices.

An 8c fall in the pre-GST price at present would be followed by an approximate 1c fall in GST. Under the new, inflexible excise payment, the basic price would have to fall considerably further before any advantage was seen.

Equally, any potential increase in the fuel price would be delayed by the new system.

Coastal motorists could expect to pay more under the new formula. A price of 75c/l, including 12% GST, would rise to nearly 77c when incorporating 14c excise duty.

The new formula would be a reversal of the trend nearly two years ago, when excise duty was reduced from over 10c/l to 4c/l because of the increase in GST.

Government's share of GST on advertising is SABC's loss

329 STAR 10/5/85

PRESS • TV • RADIO • PR • ADVERTISING

THE NEWSMAKERS by PETER FARLEY

:ion,

The debilitating impact of the imposition of GST on advertising has been brought firmly to the fore by the financial results from the SABC, which showed that the corporation lost R27 million last year.

But there has been a deafening silence from the corporation on the issue of GST, and SABC management has blamed almost every other economic factor for its financial losses.

Nevertheless, research by McCann DeVilliers' Tim Bester shows that combined advertising spending on TV and radio last year totalled R294 million. With GST at 12 percent, this would have meant some R29 million was paid to the government by the ad agencies — on behalf of their clients — before the money for the ads went to the SABC.

Bester points out that for every R1 million budgeted to be spent on advertising, 10,7 percent — or R107 000 — is deducted before any money is passed on to the media. So the SABC, or the print media for that matter, never get the benefit of that money.

The SABC's total advertising revenue last year should, therefore have been R325 million if there had been no GST. Total revenue for the corporation was R389 million, after including license fees and sundry other income.

SABC's deputy director general for finance Wynand Harmse admits that, "without GST our losses would have definitely been a lot smaller." He accepts that when GST was introduced on advertising it mostly came out of existing budgets, but does not believe all of that money would flow back into ad budgets should the levy be lifted.

But, even if the SABC would not have received the entire R29 million — to make a profit for the year of R2 million, it could have reduced the losses to a pretty nominal figure.

However, Bester reckons that not one client would have reduced spending if GST had been lifted: "As far as clients are concerned the budget is a million, whether it includes GST or not."

But what is even more farcical is that the cost of collecting the GST could save money for government, which is raking in payments from a wide variety of sources with one hand and then with the other hand having to give back virtually all of it to the SABC to fund the losses.

The impact on other media is pretty much the same, but with income from a wider variety of sources the direct result of GST payments is not as easy to pick out. However, if the SABC were to forcefully come out in a public stance against GST it is likely that the government would take more notice than the general lobbying from the industry that has so far taken place.

It is also worth bearing in mind that the removal of GST would be a far more efficient way of the corporation balancing its books this year than to have to go back to the public for yet another emotive increase in the license fees.

Kreepy Krauly's agency resigns

Following the announcement the Jonssons had parted company with Swissair, another agency has resigned a previously high-profile client.

This week it was Bernstein Loxton Golding & Line to part company with Kreepy Krauly after a four-year relationship.

Darryl Bernstein puts it down to a lack of activity by the pool-cleaners in recent months.

At a recent function organised by the Creative Directors' Forum (CDF) was Charles Blakemore (right) who is to chair the judging panel at this year's Loerie awards. With him is CDF head Laurance Kuper.

Car sales hit hard by perks tax

By Michael Chester

The impact of the perks tax on the pattern of car buying has been "alarming" since its introduction a little over a year ago, according to studies carried out by motor firms.

And they believe worse is to come unless they can persuade the Government to alter the rules on tax and fringe benefits.

The perks tax will be high on the agenda when Mr Peter Searle, president of the National Association of Automobile Manufacturers (Naamsa), meets Finance Minister Mr Barend du Plessis to discuss new economic stimulants to pull the motor industry out of its worst sales decline in more than a decade.

The executive committee of Naamsa, which conducted the probe, is alarmed by the impact of taxed fringe benefits, even though the first phase covered only 25 percent of the ultimate full tax rate on company cars.

Now the Minister is being asked not only to revise the tax level but also to extend the phasing-in period to seven years — in line with the timetable laid out for perks tax on housing loans.

The first cause of alarm inside Naamsa was an unprecedented increase in the demand for used cars at the expense of new models.

In 1984 the ratio of used to new cars in total sales was a modest 1,5 to one. Within months of the launch of the perks tax, the gap had yawned to 2,5 used cars for every new car finding a buyer.

Worst of all, even fleet owners — on whom the motor industry normally relies for at least 80 percent of all new cars — joined the shift to second hand cars.

Since the beginning of 1984 the market penetration of smaller cars has zoomed from 48 percent of all sales to around 64 percent — while the share taken by medium models has fallen from 34 percent to 26 percent.

Naamsa's executive committee is also woried by signs that business fleet owners are showing a tendency to shift policy from handing out company cars to key employees and instead offering travelling allowances and loans to buy their own cars.

The trend is expected to gain tempo as the perks tax is pushed to progressively higher levels — with sales of new cars suffering as motorists running business cars on their own account are likely to hold on to their vehicles longer before changing models.

BUS DAY 13/5/86.

Tax return reprieve for some

320

BEULAH BROWN

THE taxman has extended the deadline for completed tax returns from tomorrow to June 30, but only for employees who have not yet received their IRP5 forms from employers.

Explaining that many employers — including state departments — had not yet made these forms available, Schalk Albertyn, chief director of the Directorate of Inland Revenue, said yesterday he found the situation "very, very unsatisfactory".

Taxpayers who have received IRP5 forms and who do not submit them by tomorrow can, however, expect a fine of at least R100.

The postponement follows concern in the revenue office after thousands of letters "which we are unable to handle at this late stage" arrived.

"It's the third consecutive year that we have had to grant extra time", Albertyn said.

GST FM 16/5/86 (320)

A cut on the cards?

Speculation is that Pretoria's next move to stimulate the economy will be a cut in the 12% GST rate: maybe by at least 1% and possibly as early as this week. The idea that GST be cut is gathering momentum amidst calls from the private sector — and official concern that consumer confidence has not been sufficiently inspired by recent fiscal and monetary relaxations.

The call is underlined by Finance Minister Barend du Plessis' general desire to reduce taxes — now at an historic high as a percentage of GNP. In addition to a reduction in GST, there is speculation that some move may be made for early repayment of a loan levy.

A cut in the GST rate necessarily leads to the question of how the subsequent hole in revenue could be plugged. Disciplined spending combined with Pretoria's habit of underestimating revenues is one answer. Another is the consensus among economists that higher deficit financing is acceptable.

While the cost of a GST cut is enormous in absolute terms, as a proportion of overall revenues it is not unaffordable. A one percentage point cut in the rate costs R788m in a full fiscal year — equal to just over 2% of total 1986-1987 revenues.

Extra spending of almost R800m (depending on if, when and by what amount the rate is cut) would be highly stimulatory. Besides, much extra spending would itself attract GST so the fall in revenue would not be fully proportional.

Why cut GST (which is really a transactions and not a sales tax), not other taxes? It is by far the most effective and efficient. It can be gazetted without parliamentary approval; administrative hassles are minimal. GST is politically the wisest tax to reduce as the poor who do not pay income tax benefit, and is arguably the most visible of all taxes.

And the beleaguered motor industry, lobbying extensively at the highest level for lower taxes, has singled out perks tax as a main problem. Yet any change in perks tax would lead to enormous administrative problems for employees, employers and indeed Inland Revenue.

A cut in GST, by contrast, because of its simplicity, would benefit the motor industry at its most visible level. Sales of second-hand motor vehicles (easy, since they must be registered), could be exempted from GST — like many foodstuffs.

A leading economist estimates that a 2% cut in GST would have an immediate effect on inflation, reducing it by at least 1%. He notes that spending would most likely then increase on non-durables.

"Deficit financing, given that the minister will depart from his sacrosanct targets, is acceptable because credit demand is so slack. A GST cut is the best option as it would have the most immediate impact on consumer confidence." ■

FIN MAIL 16/5/86.

TAXATION 320

Changing confusion

Speculaton and confusion on a number of tax matters is widespread prior to next month's legislation. The issues range from broad policy matters such as where a taxpayer's income should be taxed to relief for the all but bankrupt motor industry, affected by more than a dozen taxes.

There are many contentious areas. Tax consultants report, for example, that different Revenue offices interpret certain perks tax issues in different ways. Some say that the 10 000 km a taxpayer is presumed to travel privately for the car allowance may be challenged.

Sedentary workers may be called on to prove that every kilometre they travel in a tax year is not on business purposes. But other offices are said to be satisfied with the deemed 10 000 km. At least one major accounting firm is to approach Pretoria for a ruling.

An issue which affects corporate taxpayers is treatment of the lifo reserve. After defective 1984 legislation Inland Revenue issued a lifo "practice note" in the latter part of 1985. Part of that was also defective and a statement was issued in January to the effect that retrospective legislation would be passed to settle the matter.

The legislation is still awaited. The wait affects provisional payments of companies — in turn affecting past and future estimates and cash flows. The real problem is the amounts of money involved, which can run into millions of rands with large companies.

Assuming the amendments pass through parliament next month (there is speculation that they may be held over until parliament sits again in August), there is then the problem of the Margo Commission. It is due to report at the end of June; there is no knowing when its report will be made public.

In keeping with past developments, certain Margo Commission recommendations may appear early — in the June legislation. Perhaps the most likely is an attempt to halt the cross-border flow of cash into tax-haven Ciskei. This would be a detail of a major concept change expected from the Margo Commission, namely, changing SA's source rule to a residence tax on world-wide income.

If an adverse ruling is made on Ciskei investments by South African residents, advice garnered from the past would be to invest in Ciskei before June. Historically, Revenue's tactic has been to ignore developments to a certain date and block them for the future.

Extensive and intensive lobbying by the motor industry and its allies for tax relief may be granted recognition. Many senior motor executives have held meetings at Cabinet level, quoting unemployment and other distressing figures as reasons for relief.

On the other hand, until recent years SA had more car manufacturers than any other country. The main reasons were irresistible tax incentives for manufacturers and protection from imports. A number of manufacturers have now closed their doors for good: recession plus tax may rationalise the industry.

Meanwhile Inland Revenue has warned that Wednesday this week was the final no-fine day for personal taxpayers to submit returns. Employees who have not received IRP 5 forms from their employers can submit as late as June 30 without fear of fines.

With the number of employers who have been dazed and confused with the complications of the first year of perks tax, many personal taxpayers will be on a minor tax holiday. ■

19/5/86 BUSDAY 320

Mild stimulation is expected

Tax, black housing package on the cards

GERALD PROSALENDIS

A PACKAGE containing cuts in indirect taxes, as well as accelerated government spending on black housing development, is on the cards and is expected to be announced shortly by government.

"The way is now open for a combination of some form of tax relief and increased government spending on black housing," says a senior monetary official.

Faced with a sluggish economy which has refused to respond to lower interest rates, the authorities have opted for a mild massage to give sagging confidence a lift.

It appears the authorities are intent on obtaining their target growth rate of 3% for the year and are focusing their attention on fiscal ways of achieving it.

They have been inundated recently with various shopping lists. The Economic Advisory Council spent last week sifting through them.

"But the final form of the package has not yet been finalised," says one source.

However, a short-list has been drawn up and, although not all recommendations will be implemented, possible measures include:

- □ Reduction in the 10% surcharge imposed last year on imported goods;
- □ Adjustments to indirect taxation in ways which would aid the ailing motor industry;
- □ A go-slow on the phasing-in of fringe-benefits tax on motor vehicles;
- □ Reduction in the surcharge on tax payable by mines. If this were to occur, the mines have assured the authorities they would proceed immediately with large-scale investment;
- □ Revision of the rates of marginal taxation, mainly to benefit young professionals;
- □ Further revision of joint taxation on married couples;
- □ Early repayment of the 1979-80 loan levy; and
- □ A cut in the price of petrol. The authorities are believed to have stockpiled oil at a reasonable price in the first quarter. This would enable them to hold down local prices if the import price went up.

However, a cut in GST, which has been the subject of intense market speculation, is unlikely — officials say it would be too costly.

A 1% cut in GST across the board would cost government roughly R1bn in revenue for the year, and would narrow its options in implementing other measures.

The authorities have stressed at great

● To Page 2

Tax and housing deal awaited

320 BUSDAY 19/5/86

● From Page 1

length, however, that not all the proposals can be implemented. Therefore, the final package is expected to be mildly stimulatory and would have to be within the broad constraint of keeping the deficit before borrowing within reasonable limits to avoid interest rates kicking up.

The measures will have to be introduced before June 30 — to allow the necessary legislation for tax cuts to be approved by Parliament — although the chances are that it will come much sooner.

● See Comment, Page 6
and News focus, Page 7

BUS DAY 19/5/86

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(192)

Carmakers seek tax relief

HAMISH McINDOE

MOTOR industry leaders hope Friday's crisis talks with government in Cape Town will lead to significant tax and other fiscal concessions.

But National Association of Automobile Manufacturers of SA (Naamsa) president Peter Searle said some of the industry's proposals had been "flatly turned down" by Trade and Industries Minister Dawie de Villiers.

He said government opposed changes to general sales tax, and industry watchers believed fringe benefits tax changes would not be considered until the Margo Commission completed its tax probe.

The two-hour meeting included talks with Commissioner for Inland Revenue Carl Schweppenhauser.

Government is expected to make a formal response to the industry's representation within a fortnight. Naamsa officials were joined by component manufacturing industry representatives.

They pressed for further reduction of hire purchase rates; early repayment of loan levies; a lowering of GST on vehicles; a new schedule for the perks tax; and dropping the 10% import surcharge on vehicle parts and accessories.

Naamsa vice-president and Samcor MD Spencer Sterling admitted that government was unlikely to make a special case of the motor industry by scrapping the 10% import surcharge.

The Motor Industries Federation said in its latest report that 20 000 jobs had already been lost and the slide would continue unless relief were forthcoming.

21/5/86 Star

BUSI

Excessive taxes are forcing entrepreneurs 'out of work'

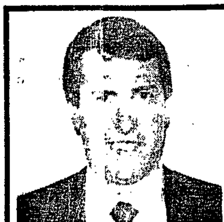
England, long regarded as one of the "high tax" countries takes 29 percent from companies and 30 percent tax from individuals. This includes massive social welfare expenses such as unemployment insurance (the dole).

In contrast South Africa, once regarded as one of the low tax countries of the world, collects up to 50 percent from companies and 47,5 percent from individuals. Small wonder that tax experts abound in this country — specialists whose sole purpose is to find ways and means of reducing the taxpayer's liability.

Why the need for this burden on our people? Obviously our political system has been a major factor. However, it is quite likely that the whole approach to taxation is wrong — we are not talking about the method of taxation which is currently the subject of the Margo Commission.

One may feel doubtful whether or not you obtain value for money in respect of the immense sums which are required to run the country. However, we can scarcely feel more oppressed by taxation than some of our forefathers. The most profitable of all taxes, from the State's point of view, is income tax which is regulated each year by the Finance Act, founded upon the budget.

Two aspects warrant attention. Firstly it appears as if our Finance Minister decides on how much he wishes to spend, then taxes accordingly. This is the precise opposite of the way a well run enterprise looks at the problem.



Anthony Tobin is an independent tax consultant. In this article he looks at South Africa's tax system and suggests some solutions to lighten the tax burden.

The financial manager would first look at his projected revenue and then adjust his expenses accordingly. By taking the former approach the country is being overtaxed to the point of diminishing returns.

It is only this realisation which has forced the Minister, in his last budget, to reduce personal tax from 53 percent to 47,5 percent and company tax from 53 percent to 50 percent in the hope that many entrepreneurs who have stopped "working for the receiver" will go back into business.

The second aspect is the so called "equality taxation". In communist Russia everybody is equal. However, as we all know some are more equal than others with luxury cars, homes, holiday villas and so on. South Africa seems to have embarked on the same direction with the introduction of the "perks tax".

This means that many individuals are penalised for low interest loans and usage of company vehicles. The interest penalty means that less money is being spent on housing. With the present building slump it would seem to us that the opposite approach should be taken and all housing loans should be subsidised in the hope of reviving the building industry.

The company vehicle problem has contributed to a slump in the motor industry that has resulted in major crisis for manufacturers, dealers and component producer. The purchase of new cars is being put off more and more, even with large companies, vehicles are transferred to alternate "owners" so that the effective value and hence effective tax is reduced.

Surely the sensible remedy is the immediate and complete abolition of the "perks tax"? This may mean that some individuals will get some "extra" tax free benefits. However, it would also mean a tremendous boost for the motor and building industries with a resulting increase in employment and profits, a broadening of the tax base, and a reduction in the State expenditure due to the current high cost of unemployment.

So what if there are more of the "more equals". What is important is job creation, not job destruction.

Because of our high tax rate many entrepreneurs have given up working. These are the very people that we can least afford to lose. They are the ones who create employment, expand the economy and as a result, the tax base. How can we coax them back?

The answer seems quite simple — reduce our maximum rates to say 25 percent. Due to the various allowances and deductions this is already higher than the present average tax paid by companies. At this level special deductions — investment allowances — would not be needed and the profit incentive would return.

The overall amount of tax collected will probably fall for the first year ot two but therafter should increase dramatically. The greatest need would then be for the minister not to increase expenses in order to spend the available taxable income.

Recovery before reform possible

Kantor calls for lower tax rates

320 CAPE TIMES 22/1/86

By AUDREY D'ANGELO

ECONOMIC recovery does not depend on a solution to this country's political problems being found first, University of Cape Town economics professor Brian Kantor said yesterday.

He told the annual congress of the Federated Hotel, Liquor & Catering Association of SA (Fedhasa) at the Cape Sun that the economy needed more stimulation to get it going.

This could be applied by reducing taxation to put more money in people's pockets and by allowing free competition.

Increased prosperity would result in more money being available to spend on black housing and education and other necessary projects and would make it easier to solve political problems.

Kantor said: "Our economic lifeblood is draining away because we are not offering holders of capital and owners of skills rates they consider competitive with those in other parts of the world."

The poor in particular would suffer "unless we can make our economy genuinely competitive again, as it has been until recently".

He said an economic miracle of this kind was not impossible, even in SA's present circumstances.

"We should not give up hope that this can be done, even without a political solution first. We can turn this whole thing round and if we do we can solve our political problems."

Economic development should receive absolute priority.

"Never has economic growth, increased spending and increased output been so important."

It was therefore necessary to increase competition and give up protection for certain industries, allowing market forces to work freely.

Competition in a free market prevented exploitation as well as increasing efficiency, and real redistribution of wealth could not be achieved through taxation since firms built it into their costs to be met by consumers in the end.

Confidence

Kantor said SA consumers were suffering from both lack of confidence, which made them unwilling to spend, and from cash flow problems.

The past two Budgets had been totally unsuitable for a country in recession and had actually increased revenue from taxation.

"The government does not need the revenue, it is getting too much."

Kantor said the SA tax system should be reformed so that it taxed consumption instead of income.

Provision should be made for encouraging saving, when people could afford to do so, by allowing all savings as a deduction from individual or corporate income tax.

Kantor said the Receiver of Revenue would not be the loser because a growing economy would mean a growing tax base and extra savings would mean extra growth.

"The income tax system should be simplified in the direction of a few broad brackets and these tax brackets should automatically be indexed to inflation."

Fix the economy first — professor

BUSDAY 22/5/86

320

Own Correspondent

ECONOMIC recovery does not depend on first finding a solution to SA's political problems, says Cape Town University economics professor Brian Kantor.

● KANTOR

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Emigrants from SA uproot at greater pace

BUSDAY 22/5/86

GERALD REILLY

SOUTH AFRICANS are uprooting themselves at an accelerating pace to settle in other countries, according to figures released yesterday by Central Statistical Services.

The migration loss in January and February this year was 1 044 people, compared with a gain of 2 554 in the two months last year.

In the January-February period, immigrants totalled 1 333 against a record of 2 377 emigrants for the two months last year.

A breakdown in the emigrant figures highlights the continuing serious loss of professional and skilled workers.

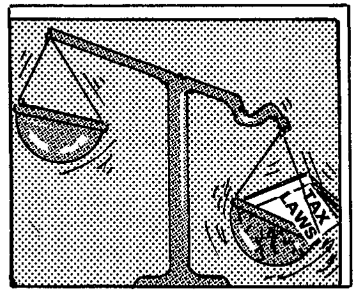
In this period, 78 (39 last year) engineers left the country, 20 (9) medical doctors and dentists, 30 (6) accountants, and 54 (22) educationists.

Economists said it was virtually certain that the trend would continue.

They stressed that uncertainty about future political developments, the economy, and the threat of a tightening web of sanctions, would continue to influence those with saleable skills to consider emigrating.

Tourism was also hit in the January-February period. Foreign visitors totalled 187 242 compared with 226 738 last year.

When it comes to tax law, it's pay now — and pay later . . .



320

BUDAT

23/5/86.

BARRY SERGEANT

THERE IS nothing more fundamentally offensive to the character of Western legal systems than prejudicial retrospective legislation. Something you do today — legitimately, on correct legal advice, within the parameters of the law — is tomorrow made illegal. You lose your life savings or you are locked up or you are fined.

In SA, such legislation now follows a simple path. The executive, in the form of a politician, decides — after a knee jerk (or deep reflection) — that the law should be changed. It is then rubber-stamped by the legislature in Cape Town's tinkering Parliamentary process.

The courts (as the third tier in SA's once Westminster-based tricameral system) are powerless to usurp prejudicial retrospective legislation. The principle of Parliamentary sovereignty dictates this — no matter how iniquitous the law under question.

What is now worrying is that prejudicial retrospective legislation is becoming a (seemingly unnoticed) commonplace phenomenon in SA. Its incidence is confined almost wholly to fiscal and, in particular, tax law. Why?

A leading Johannesburg attorney argues that the reason is the apparent innocuous nature of fiscal law. Were retrospective law commonplace in matters of security or matters affecting the general public weal, the outcry would resound nationally.

Moreover, the use of retrospective law in tax matters is percieved as an action by the authorities against tax avoidance — and perhaps even tax evasion. So it is mainly ignored; in some cases impliedly approved.

Yet the matter still stands: prejudicial retrospective law is abhorrent and fundamentally objectionable in all Western legal systems; no less our common law Roman Dutch tradition.

Outside SA fiscal law examples of prejudicial retrospective law are difficult to find: perhaps the only example worth mention is the Monty Python-ish Terrorism Act, number 83 of 1967.

Even there — perhaps — it can be argued that *any* government might resort to heavy-handed law to catch killers of the most sinister and cowardly sort.

By contrast, the list of SA's retrospective fiscal law is a pregnant one. There was the ending of tax-based lessor trust financing in the infamous 1984 Ides of March. And the death knell for many pure endowments in Finance Minister Barend du Plessis' equally infamous "after dinner speech".

Other fiscal law is prejudicially retrospective in its effect or operation. There are examples from the Income Tax *and* Sales Tax Acts of provisions which hit leases that were concluded before a certain date — but are to run until a date after the law takes effect. These are leases legally and legitimately entered into by parties with then unknown adverse consequences.

Prejudicial retrospective law is antagonistic to centuries of development of laws and legal theory. It is an absolute sign of incompetent government and it is an abuse of power.

The latter because retrospective law amounts to law by decree. It is also invariably extra-Parliamentary law diametrically opposed to the tenets of our constitution(s).

In the field of fiscal law, the phenomenon of retrospective law has thrown choiceless taxpaying citizens into a Chernobyl-type atmosphere. Tax consultants and other professionals, such as lawyers and accountants, are acutely aware of the contamination of sensible tax planning. They want an end to it.

One (fruitless) way out is to approach the authorities for a tax ruling or directive to clarify a matter.

In the 1984 Ides of March the legislature prejudicially affected transactions concluded with *the written approval* of the Commissioner of Inland Revenue. Transactions worth hundreds of millions of rands — perhaps billions — were smeared into oblivion at the stroke of a pen.

The success of the Ides of March and its quiet aftermath made the authorities very bold.

So bold that they now use the hard, cold *threat* of retrospective law.

The latest development in the process is to warn taxpayers that law which stands on the statute books and is not to the suiting of Inland Revenue will be "clarified" by retrospective law.

The example at hand is the tax benefits that pertained to corporate stock valuation by use of the so-called last-in-first-out ("lifo") method. The benefit was originally granted so that companies could to some extent recognise the effects of inflation on the value of their stocks.

That was unusual enough in itself. A thorough perusal of the SA legal system in its entirety reveals scant — if any — evidence of recognition that inflation actually exists in the real world. Then the authorities decided to end the tax benefits of "lifo" stock valuation. Parliament passed law to that effect in 1984.

Ended, yes; but the benefit would be phased-out over a number of years. Unfortunately, the new law on "lifo" was imperfect. Shortly af'er the 1984 amendments, Revenue was made well aware of the problem via expert opinion.

Noted one private sector tax consultant: "There exists an interesting anomaly which may entitle the taxpayer to a double deduction . . ."

The State legal draftsmen — in arrogance or ignorance — poopoohed the warnings and said they would stand by the law as amended. Taxpayers were then given the choice of interpretation.

As befits the legal precept that anyone is entitled to arrange their affairs to pay the least possible tax, they took the gap.

They chose to adopt what came to be known as the "different basis" of stock valuation. It meant they claimed the so-called double deduction — legitimately. Rather than an immediate resort to prejudicial retrospective law, the authorities started messing around.

SA tax "law" is comprised of two elements, roughly equal in proportion: law *stricto sensu;* and Inland Revenue practice.

The Income Tax Act is stuffed with so many discretional provisions that practices are of necessity developed over time between taxpayers and the authorities.

This practice is kept in secret Revenue files which are not available to the public or tax experts. For decades there have been calls for this to not be so, and when Carl Schweppenhäuser took over as Commissioner, the first "practice notes" were issued.

The third happened to be on the "lifo" question — after the 1984 loophole was written into the statute books. It was issued in September 1985 and, in common with the law it tried to clarify, was defective.

Then, in December, with the blessing of Du Plessis, Schweppenhäuser said the issue would be clarified for good in this current session of Parliament — *retrospectively.*

Parts of that statement were obscure; there was the curious use of the concept of "good faith." Today, nobody can say with certainty that the law will ever be passed.

If it is, the (further) "lifo" amendment may benefit Inland Revenue in no less than three different ways: certain taxpayers may end up paying back taxes, interest *and* penalties.

If this is indeed the result, the authorities will have not just the precedent of successful prejudicial retrospective law; there will then also be the precedent that they can threaten such an abhorrence and get clean away with it.

The "lifo" saga is an issue of national, if not international, importance. It has created severe practical problems for a community experiencing its highest tax burden ever. It is another step towards bringing fiscal — and other — law into total disrepute.

Moreover, the "lifo" process, if concluded as promised, is an embarrassment to the legislature, the executive and the judiciary. In its broadest context, the "lifo" matter belongs in the field of jurisprudence.

In SA's quasi-democratic constitutional system (at best), that means it should have ended up in one place, and one place only: a court of law.

Jurisprudence is the grandest and broadest legal subject. As R W M Dias notes, it is the study of law in the context of man's swelling preoccupation with conflicting ideologies and troubled social conditions.

The process of SA's "lifo" saga has already earned itself a place in jurisprudence. And one certainty jurisprudence provides in an uncertain world is its insistent resort to justice, which is decided in impartial courts.

There, let the best "lifo" man win. Let the SA taxpayer/citizen feel confident that similar matters in the future will be resolved in the forum created exclusively for such ends.

It is now time for prejudicial retrospective law to be banished — not from memory but from implicit national policy.

FIN MAIL 23/5/86.

TAX 320

Perks man cometh?

There is widespread speculation that Inland Revenue has created a special "hit squad" to monitor perks tax returns. A tax authority, however, tells the *FM* that this is not the case. Private sector tax consultants, on the other hand, insist that a revenue official has been appointed to prosecute defaulters.

IT8 forms — which summarise the value of perks — must be signed by a company director. Various penalties are prescribed if the forms are incorrect.

Because IT8s must be sent direct to Pretoria and not a local Receiver, the suspicion is that Revenue is arming a new squad to verify details. But a Revenue spokesman says the forms were centralised mainly for statistical purposes.

Such statistics would aid Revenue and Finance in budgeting exercises. Many perks are subject to phasing-in provisions and values will be material in years to come. Nevertheless, a number of tax consultants know of clients who have been approached by tax inspectors regarding IT8 and IRP5 (employee) forms.

Some of these officials, it is said, comprise part of the "hit squad" tax unit staffed mainly by professionals seconded from military service. Perks tax policing would be an additional task for this force — originally constituted to search for patent cases of tax evasion. The only special effort Revenue has made regarding perks is to train a number of its 6 000 staff.

A Revenue spokesman says a "substantial" number of IT8s have arrived (SA has about 170 000 companies) so far. Some have been returned; mainly those signed by auditors rather than a director. Tax consultants say such certificates are sent in for so-called "dormant companies."

Revenue argues that many dormant companies have no trading profits, but possess substantial unappropriated profits and, for example, "large" loans to directors. Such loans are invariably "soft" and fall within the net of perks tax law.

Another problem area is that, in theory at least, no IT8 form may be absolutely correct. Perks tax is still in its teething days and Revenue practice and company interpretation of perks law varies. If a company and Revenue interpret just one aspect of perks tax differently, an IT8 will be wrong.

A Revenue spokesman says such cases will be treated with no malice. On the other hand, as a tax consultant says, some companies do not know "what the hell is going on with perks tax." Some IRP5s, for example, reflect the gross value of perks granted without regard to phasing-in concessions.

Furthermore, some employers believe (erroneously) that if a car allowance has been granted at the "official rate," no disclosure need be made. Certainly employers who have not prepared for perks tax have an exciting time ahead of them. ■

Taxman more 'sophisticated'

BUS DAY 23/5/86 (320)

THE authorities are increasingly concentrating their efforts on big business by sophisticated tax enforcement, says Johannesburg tax specialist Arthur Andersen.

While more effective tax enforcement would benefit law-abiding companies, they were often unaware of how advanced and incisive the methods of the tax authorities had become, he added.

Andersen was addressing the Federated Hotel, Liquor and Catering Association of SA (Fedhasa) conference at a Cape Town hotel yesterday.

He said the industry still enjoyed special tax allowances on certain items and it was essential for the association to lobby for the continuation of industry interests.

Andersen reminded hoteliers that tax had to be planned as part of any enterprise from its inception. There were many taxes that were not receiving sufficient attention from businesses and these included GST, customs and other indirect taxes.

He advised hoteliers and businessmen to adopt a more sophisticated and comprehensive tax planning strategy to survive because of the highly volatile economic and tax environment. — Sapa.

Saambou offers new savings deal

BUS DAY 28/5/86 (358)

GERALD REILLY

A NEW savings facility offering an "extremely competitive" interest rate for investors who need to have funds available at relatively short notice has been announced by Saambou National building society in Pretoria.

Special savings certificates with a minimum balance of R10 000 are now being offered.

Saambou MD Hendrik Sloet said the facility was well suited to clients who wished to keep their money available in anticipation of a financial transaction.

Interest rates on the special savings certificates can be adjusted upwards, if market rates rise, without affecting the period of the investment.

Interest is calculated on daily blance and capitalised annually or on withdrawal of the investment.

Withdrawals can be requested on 30 days' notice. This period can be reduced in special circumstances with an interest rate adjustment.

banks and supervisory agencies. The draft addresses a wide range of issues including: balance sheet, income statement, contingencies and commitments, reserves, trust activities, and uncollectable loans and advances.

Final IASC standards have no binding force, but members are pledged to make best endeavours that rules are observed. SA is a founding member of IASC, but its general levels of disclosure are not high on the international scorecard. ■

LIFO FIN MAIL 30/5/86 320

Horrible tax case

Next month's promised retrospective legislation on lifo stock reserves may benefit Inland Revenue in three different ways. Some taxpayers could end up paying back taxes, interest *and* penalties.

The abhorrence of retrospective legislation aside, this triple recoupment would set a new tax precedent — spelling extreme danger for tax planning. The corporate taxpayer's quandary? Whether to:

- ☐ Abide by its original recent assessment for its third provisional payment — thus rendering itself liable for future interest on a provisional tax shortfall; or
- ☐ Anticipate legislation not yet (and which may in fact, never be) on the statute books — thus unnecessarily reducing immediate cash resources.

The lifo struggle has been well documented. After an exposé of faulty legislation (*FM* September 13 1985), Inland Revenue issued its third "practice note." The following week the *FM* published an analysis showing that part of the practice note itself was faulty.

Revenue's reaction was a statement in late January, approved by Finance Minister Barend du Plessis, that retrospective legislation would be passed this year to put the matter "beyond doubt."

Taxpayers under threat are those who adopted the "different" or preferred basis for lifo valuation under the faulty legislation. This allows a double deduction of the lifo reserve.

If the impending legislation outlaws the "different basis," taxpayers may have to pay substantial back taxes. Moreover, their provisional tax payments would be wrong.

This in turn implies the levying of interest, and, perhaps, penalties. On promulgation of the legislation, the Commissioner of Inland Revenue could issue a company with an additional or revised assessment. He would then be able to levy interest — currently 15% a year and not itself tax-deductible.

The "different" basis is within existing law. But because Revenue perceives it hinges on a loophole, it has reacted violently by recourse to retrospective legislation.

Some time ago, Revenue was aware of the problem, after expert opinion from private sector tax consultants. Noted one: "As the Act stands, an interesting anomaly may entitle the taxpayer to a double deduction in respect of the 'overhead excess'."

This is where a taxpayer is allowed to deduct from both stock and taxable income the overhead excess — the additional portion of attributable overhead costs added to the nominal value of stock on the so-called "different basis." Revenue's opinion is that the double deduction could only be claimed where trading stock was undervalued in previous years.

A further problem arises from Revenue's statement that a taxpayer who notifies Revenue "in good faith" that it chose the "different basis" will not be "penalised."

This raises the question: can a taxpayer be said to be acting "in good faith" if he decided not to anticipate future legislation, despite full knowledge of the Commissioner's statement and proceeded to abide by his original 1984 assessment for his third 1985 provisional payment?

The official viewpoint is that until the legislation, Revenue will give taxpayers who adopt the "different basis" the benefit of the doubt. Then, says an official, "assuming the doubt which apparently exists is removed . . . taxpayers will be asked to update their provisional tax payments." ■

THIRD PARTY INSURANCE

Court case catch

In July 1983, a Datsun E20 Ekonobus, registered and insured in Bophuthatswana, collided with a Volkswagen Golf at the intersection of the Pretoria-Rustenburg and Mooinooi-Turfgrond roads.

The accident left a two-year-old child dead, a six-year-old brain-damaged and four adults seriously injured — all members of two Moolman families travelling in the Golf. Recent action in the Pretoria Supreme Court in which the occupants of the car claimed nearly R1m damages has sparked a controversy regarding the validity of reciprocal Third Party insurance.

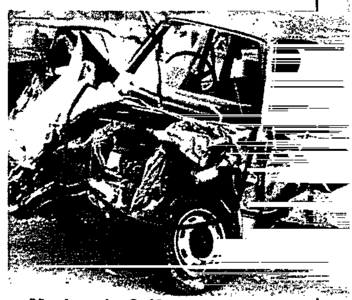
This is because of a misunderstanding about the judgment handed down in March in the case of R P G Moolman and Others against Incorporated General Insurances (IGI) and subsequent press reports that created doubts about the validity in SA of Bophuthatswana Third Party insurance. Repercussions have reached as far as the tabling of questions in the House of Assembly and discussions in the Bophuthatswana Cabinet.

"The judgment has been widely misinterpreted," says a Motor Vehicle Assurance (MVA) Fund official. "The validity of the Third Party insurance wasn't at issue. Because of a reciprocal agreement between SA and Bophuthatswana, it doesn't matter in which state an accident happens or where the vehicles are insured, you will be able to claim compensation." This was confirmed by a spokesman for the Bophuthatswana MVA Fund.

The problem, according to Ronnie Andrews, IGI claims director, is that the action was instituted under the wrong Act. Criticism of IGI's role is unfair, he says. "It's not our cash and we are simply administering the claim on behalf of the Bophuthatswana MVA Fund."

Says IGI's attorney: "The vehicle was insured in terms of the Bophuthatswana Compulsory Motor Vehicle Insurance Act No 32 of 1980. The attorneys for the plaintiffs issued a summons on the basis that the vehicle was insured in terms of the South African MVA Act. This was factually incorrect. A copy of the declaration of insurance, showing under what Act the vehicle is insured, is available on request.

"An application was then brought on behalf of the families to amend the summons issued out of the Transvaal Division of the Supreme Court, alleging that the vehicle was insured in terms of the Bophuthatswana Act. This was opposed on the basis, among other things, that in terms of this Act any claim had prescribed (the period within which it could be lodged had expired)." Victims have two years in which to lodge a claim and a further 90 days to issue summons so the deadline for lodging the Moolmans' claim was October 1.



Moolman's Golf . . . centre of confusion

"It is common for insurance companies to extend prescription if a claim has been lodged, but no request for an extension was made."

Where does this leave the victims, whose lives have been devastated by the accident and the subsequent medical and legal expenses?

Says the IGI attorney: "A portion of Melanie Moolman's claim will not prescribe until after she is 21. So, in her case, we are prepared to consent to an amendment in an appropriate form. As for the rest, it would have been possible to apply for condonation on the grounds of special circumstances — had such a claim been made within 90 days of the claim prescribing. But our view is that it is now too late."

A second application is pending. "It is for an amendment to the pleadings," says the plaintiffs' attorney. "I am not prepared to comment further as the matter is now *sub judice*." ■

Govt tax-cuts and other concessions are on the cards

STAR 3/5/86. (49) 3.320

By Michael Chester

An economic package that may include a two-percent cut in general sales tax can be expected from the Government inside the next few weeks, according to a leading Johannesburg stockbroker firm.

A review prepared by Davis Borkum Hare predicts Government action is imminent in a bid to break "a crisis in consumer confidence".

Both the March Budget and the big slide in interest rates had failed to boost consumer spending — crucial to the start of an economic recovery out of prolonged recession.

UNCERTAINTIES OVER JOBS

Consumers, faced with declining incomes in real terms and uncertainties over jobs, were still not prepared to increase their spending or debt commitments and the stalemate was blocking the normal circuit into economic revival.

"Under the circumstances," say the stockbrokers, "the Government is likely to fill the gap through higher State spending and a tax-cut, spending package can be expected to be announced shortly.

"This may take the form of a 2 percent GST cut, or might be a package consisting of a loan levy repayment, pay-as-you-earn rate reductions and import surcharge cuts."

Even then, even with a rise in State spending, any recovery looks likely to be sluggish during the current quarter. It would still be difficult to achieve the official projection of a three-percent economic growth rate for the year as a whole.

"Promise of recovery in the economy, which looked to be on the cards late in 1985, seems to have dissipated.

"The current account of the balance of payments has deteriorated drastically, unemployment is rising fast, credit demand is stagnating, and retail sales — noteably car sales — have turned down".

Exports were also performing "very badly" at the moment, with merchandise exports in the first three months of the year no more than 13 percent better than a year ago.

Industry hopes for relief dashed

320 BUSDAY 2/6/86

Govt says no special case for motor trade

HAMISH McINDOE

GOVERNMENT has rejected the motor industry's pleas that it be treated as a special case, dashing hopes that meaningful concessions for the industry's fiscal burden will be forthcoming.

A senior Finance Department spokesman confirmed that any relief would be framed as part of Finance Minister Barend du Plessis' broader measures to reactivate the economy.

"Direct relief for motor manufacturers is not being considered, but the industry will clearly be affected by any measures taken to stimulate the economy," the spokesman said.

Toyota marketing director Brand Pretorius said he was disappointed government would not directly address the problems facing the motor industry.

"We are the second biggest employer in the industrial sector and this alone should accord the industry special consideration," he said.

But National Association of Automobile Manufacturers (Naamsa) director Nico Vermeulen conceded that "government will not make a special case of motor manufacturers".

Nissan MD John Newbury yesterday repeated calls to government to help revive the collapsed new-vehicle market, saying "the industry is already taxed to the hilt".

Business Day understands Finance Department officials informally told motor industry quarters late last week not to expect direct fringe benefit tax relief or other fiscal concessions.

Naamsa is believed to be rushing a last-minute submission on elements of the perks tax structure to the Minister before the third budget reading in the House of Assembly on Wednesday.

Industry watchers believe government is avoiding a public commitment to motor manufacturers at the risk of provoking an outcry from other recession-hit sectors of the economy.

The combination of very low sales — a projected 165 000 units compared to 1981's 301 000 — and the high cost of imports has left the motor industry in dire financial straits.

Government has been warned by Naamsa and the Motor Industries Federation that disaster lies ahead unless consumer spending is increased to an extent where vehicle sales are boosted.

In a separate development, the Department of Trade and Industry (DTI) is expected to announce the dropping of the 10% import surcharge on some vehicle parts early this week. But a DTI spokesman would not confirm this.

tion on ceremonial occasions and in the Army to drink the toast to the office or to the individual who occupies the office of State President?

The DEPUTY MINISTER: Mr Chairman, it is traditional to drink the toast to the office and not to the person. [Interjections.]

†Mr J H VAN DER MERWE: Mr Chairman, arising out of the hon the Deputy Minister's reply, I want to notify him of an event and at the same time ask him what he is going to do about it. We are going to tell national servicemen and soldiers on a large scale that they must drink a toast on the Republic of South Africa . . . [Interjections.] We will not drink to the State President!

†The CHAIRMAN OF THE HOUSE: Order! The hon member must take his seat. [Interjections.] Order! There are apparently hon members who think they may shout here as they wish, but the rules do not allow that. Hon members will at this early stage be forced to leave the Chamber. I expect order!

New Questions:

*1. Mr L F STOFBERG—Law and Order. [Withdrawn.]

Q.cur 2091
HANSARD 3/6/86

Competition Board

*2. Mr L F STOFBERG asked ~~the~~ Minister of Trade and Industry:†

(1) Whether (a) his Department and/or (b) the Competition Board has received any complaints or representations about a certain conglomerate which allegedly controls approximately 55% of the companies listed on the South African stock exchange;

(2) whether it is a function of the Competition Board to limit such a concentration of control over listed companies; if so, (a) in terms of what statutory provision and (b) what action does this Board intend taking in this connection; if not,

(3) whether his Department intends taking any action in this connection; if not, why not; if so, what action;

(4) what is the policy of his Department in regard to excessive concentrations of control over companies?

†The MINISTER OF TRADE AND INDUSTRY:

(1) (a) and (b) No.

(2) Yes, only if it restricts competition and is regarded as not being in the public interest. Every conglomerate does not necessarily create a monopolistic situation.

(a) The Competition Board is empowered to investigate and to deal with monopolistic situations in terms of the provisions of the Maintenance and Promotion of Competition Act, 1979 (Act 96 of 1979) as amended by the Maintenance and Promotion of Competition Amendment Act, 1986 (Act 5 of 1986).

(b) No drastic action against the existing concentration is intended in the immediate future. Historical and various other factors have contributed to the existing degree of concentration of economic power. Although large acquisitions of control are stopped by the Competition Board before taking place, there is no responsible instant solution for existing concentrations of economic power. The important causing factors are under consideration.

(3) As has been said already, it is a function of the Competition Board to investigate and deal with monopolistic situations and the Board will, whenever it is deemed necessary, investigate and make recommendations in this regard to the Minister of Trade and Industry. From the reply to (2) it will be noted that action is taken only where a monopolistic situation restricts competition and is regarded as not being in the public interest.

(4) The Maintenance and Promotion of Competition Act, 1979, as amended, provides that the Competition Board shall undertake a continuous study of trends towards increased economic concentration with a view to the investigation of acquisitions which are not justified in the public interest. Furthermore, the Board has to consult at its request with any interested party to a proposed acquisition with a view to advising him on the likelihood of the existence of circumstances which do not justify such acquisition in the public interest.

†Mr L F STOFBERG: Mr Chairman, arising out of the hon the Minister's reply, is he aware that the conglomerate referred to here is Anglo American? [Interjections.]

†The MINISTER: Mr Chairman, I have already, on several occasions, expressed the Government's concern about the high degree of concentration in the South African economy. Within the powers given to it by law, the Competition Board takes the necessary steps to prevent further concentration. The hon member is quite free to bring to the attention of the Competition Board any specific restriction of competition of which he is aware.

†Mr L F STOFBERG: Mr Chairman, further arising out of the hon the Minister's reply, is he aware that the conglomerate concerned pushed up its profits by 35% in the year until the end of March . . .

†The CHAIRMAN OF THE HOUSE: Order! The hon member is making a statement and not asking a question.

3/6/86 a cur 2093
HANSARD
3320

Tax

*3. Mr L F STOFBERG asked ~~the~~ Minister of Finance:†

(1) Whether (a) individual income tax payers are required to pay tax on dividend income and (b) companies are exempted from such tax; if so, why is this distinction made;

(2) Whether his Department has investigated the possibility of the non-taxability of dividend income being a contributory factor to the formation of conglomerates among companies; if not, why not; if so, with what result;

(3) whether he will make a statement on the matter?

The MINISTER OF FINANCE:

(1) (a) Yes.

(b) Yes. In South Africa we follow the so-called classical system of taxing companies and their shareholders. Under this system a company is subject to normal tax on its taxable income and the dividend declared out of after-tax income is again subject to normal tax (less certain reliefs in terms of section 19 of the Income Tax Act) in the hands of an individual shareholder. Where, however, the shareholder is a company the dividend is not subject to tax as it has already borne tax in the hands of a company.

(2) No. There is no evidence to support this belief. The Margo Commission is, however, looking at our present system of company/shareholder taxation and will without doubt report on its findings.

(3) No. The above would suffice.

†Mr J J B VAN ZYL: Mr Chairman, arising out of the hon the Minister's reply, can individuals also be exempted from tax on dividends? A part of it is exempt, but can the full amount be exempted?

†The MINISTER: Mr Chariman, I have just said that dividends in the hands of individuals are taxable in particular ways. We have already debated the matter previously,

Govt told to create jobs and cut GST

ARGUS 4/6/86

By DAVID BRAUN
Political Staff

THE Government is under pressure to announce large-scale job creation projects and a cut in general sales tax in its new package to revive the economy.

Finance Minister Mr Barend du Plessis is to announce the package in the next week or so.

In a brief statement released yesterday, Mr du Plessis said the Government was carefully considering all economic indicators of the state of the economy and weighing different options for the possible stimulation of economic activity.

He said he would evaluate the present economic situation in the third reading debate on the Budget Bill, in which he would announce the Government's reaction.

The debate would probably take place in mid-June.

It is generally expected that to create jobs where they are most needed, Mr du Plessis will announce large housing projects and schemes to upgrade infrastructure in black townships.

He is expected to cut GST in a bid to stimulate consumer spending and he may order a repayment of loan levies as well as further income tax cuts.

The Progressive Federal Party spokesman on Finance, Mr Harry Schwarz, said today it was crucial that the Government put money in the hands of people who needed it most and who were going to spend it on South African products.

"The Government is going to have to deal with unemployment or else we will not have the remotest chance of solving the unrest," he said.

On the other hand, he warned, the Government had to be careful not to stimulate the economy if that meant a substantial increase in demand for imported goods.

Priority

With the rand at its present low levels, a large surge in imports would have a massive inflationary effect.

Mr du Plessis's package should therefore stimulate local production, and that could be done by creating jobs in new capital projects. Black housing was an obvious urgent priority.

A cut in sales tax would also be a fair and equitable way of putting money in the hands of the people.

Mr Schwarz said the Minister could raise the money needed for such a package by borrowing internally. The economy was sufficiently liquid and the percentage of the budget allocated to borrowing was low enough to allow for this, he said.

Chief's assembly to attend freedom rites

ARGUS 4/6/86

The Argus Correspondent

DURBAN. — When the Chief Minister of Kwazulu, Chief Mangosuthu Buthelezi, becomes the first black person in the country to receive the freedom of a white town at Pinetown tomorrow he will take his 140-strong legislative assembly with him.

Crowds of unofficial visitors are expected and there will be tight security at the civic centre before the chief's helicopter tour of Pinetown.

Assembly members will sit on the civic theatre stage to see the chief receive the gold key as Pinetown's eighth freeman.

The civic hall seats only 350 people and admission is by invitation only.

However crowds from black areas around Pinetown are expected to attend and the meeting will be relayed by loudspeaker outside the building.

During the ceremony a mace carved in traditional Zulu style will be presented to the Pinetown Council. And Chief Buthelezi and previous freemen will also be given freedom of the new toll road — with the consent of the Department of Transport — to make their freedom of the area complete.

Call for June 16 stayaway

ARGUS 4/6/86

The Argus Correspondent

JOHANNESBURG. — The Congress of South African Trade Unions, the United Democratic Front and the National Education Crisis Committee (NECC) have jointly decided that June 16 be commemorated by a one-day nationwide stayaway.

In a statement released in Johannesburg yesterday the three organisations said the decision — a departure from an earlier call by the NECC for a three-day stayaway — was taken after "an elaborate and unprecedented process of consultation between these mass-based organisational formations".

"We call on all South Africans, black and white, to observe a one-day stayaway on June 16 as we regard this day as a public holiday," the statement said.

It added that doctors, nurses and journalists were exempted from the call.

Call for GST cut to spur economy

By David Braun, Political Correspondent

4/6/86 SMR

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Cape Town

The Government is under pressure to announce large-scale job creation projects and a cut in general sales tax in its new package to revive the economy.

Finance Minister Mr Barend du Plessis is to announce the package in a speech in the Third Reading debate on the Budget — probably in the week starting June 16.

Mr du Plessis said in a brief statement yesterday that the Government was in the process of considering carefully all indicators of the state of the economy, and weighing different options for the possible stimulation of economic activity where it was deemed necessary.

He said he would evaluate the economic situation in the Third Reading debate and announce the Government's reaction.

It is generally expected that to create jobs where they are most needed, Mr du Plessis will announce large housing projects and schemes to upgrade infrastructure in black townships.

To stimulate consumer spending, he is expected to cut GST and may order a repayment of loan levies as well as further income tax cuts.

Imports inflation danger

The Progressive Federal Party spokesman on finance, Mr Harry Schwarz, said today it was crucial that the Government put money in the hands of people who needed it most, and who were going to spend it on South African products.

"The Government is going to have to deal with unemployment or else we will not have the remotest chance of solving the unrest."

He warned that, on the other hand, the Government had to be careful that stimulating the economy did not lead to a substantial increase in demand for imported goods. With the rand at its present low level, a surge in imports would have a massive inflationary effect.

Mr du Plessis's package should therefore stimulate local production, he added. That could be done by creating jobs in new capital projects. Black housing was an obvious urgent priority.

A cut in GST would also be a fair and equitable way of putting money in the hands of everybody.

Mr Schwarz said Mr du Plessis could raise the money needed for such a package by borrowing internally. The economy was sufficiently liquid and the percentage of the Budget allocated to borrowing was low enough to allow for this.

Inequities in relief under fire

BUS DAY 5/6/88

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Retailers need tax allowances too — OK boss

MERVYN HARRIS

OK BAZAARS chairman Meyer Kahn has appealed to the tax authorities not to discriminate against mass retailers.

He says in the company's annual report that he hopes the Margo Commission will address the inequities and distortions which have crept into the tax system over the years, particularly since the removal of Retail "Lifo" Concessions.

"We trust that tax allowances will be granted to retailers as an incentive to encourage capital expenditure on retail facilities as is the practice in the manufacturing industry.

"The attempt to stimulate mass production through these incentives without also stimulating on equal terms the secondary step of mass distribution remains a complete anomaly," he says.

Retailers are also concerned over new taxation to provide finance for the Regional Services Councils, as it will hit profits at a time when these are already under severe pressure.

"This increase in taxes should be offset by a corresponding reduction in other taxes so that there is no increase in the total tax burden.

"Firms operating on a low mark-up, high turnover basis, which pass on economies of scale to consumers, will be penalised by having to pay higher taxes than will be paid by high mark-up, low turnover operators.

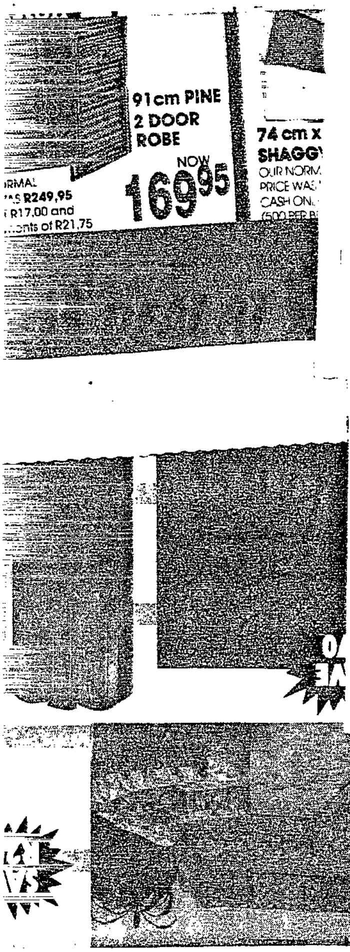
"Furthermore, labour-intensive businesses such as mass retailers have to bear a higher tax burden than capital-intensive organisations. This will also tend to aggravate unemployment."

He urged the immediate removal of the 10% surcharge on the value of many imported commodities because of its cost-raising inflationary effect.

OK is also opposed to extended shopping hours as the concept is inflationary, the directors say in their report.

Increased costs that extended shopping hours must generate will lead to a rise in the cost of merchandise to the consumer whose disposable income remains at the same time constant.

However, as some stores will obviously benefit at the expense of others, OK will experiment with the opening of selected stores, using a flexi-hours approach rather than one of extended hours.



Labour MPs tell of trials and suicides in detention

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TWO Labour Party Members of Parliament told the House of Representatives of their experiences in solitary confinement after being detained without trial by security police.

Mr Peter Hendrickse (LP Addo) and Mr Charles Redcliffe (LP Schauderville) were speaking yesterday against the second reading of the Internal Security Amendment Bill.

Mr Hendrickse read out a long list of detainees who had died in detention of various causes. Many committed suicide by hanging.


Mr Hendrickse

"These people died while in detention where they were exposed only to police. Can you begin to understand why we have problems with this legislation?"

In 1976 he had been held for two weeks in solitary confinement in the same cell "that caused Steve Biko's death". During that time he was constantly threatened by his police "keepers" that he would be "handed over" to "Colonel Goosen", the policeman involved in Steve Biko's death.

"During that time I was given three slices of dry bread with jam to eat and two cans of coffee without sugar served in a rusty jam tin that lay around the cell I was put into."

When he complained an officer merely told him that he was "supposed to receive proper food". His mother could not bring it to him as she was not supposed to know where he was being held.

She was visiting his father, similarly detained 250 km away.

Mr Redcliffe said the LP could not agree to a measure which was conducive to abuse of police powers.

"My own detention is still vivid in my memory," he said.

He was summoned for questioning by the security police. They accompanied him to drop off his car at his wife's place of work and then to his house where they conducted a systematic search.


Mr Redcliffe

He was taken to Port Elizabeth where he "appeared" before Colonel Goosen. "I waited for an hour. Then he delivered judgment on me. He was prosecutor, jury and judge all wrapped into one."

Mr Redcliffe said he was "sentenced" to 14 days detention and driven to Kirkwood where a cell was emptied of two occupants.

"There I was in semi-darkness, no light and a mat on the floor and dressed in my suit."

He then heard the cell block being opened and two policemen entered his cell. They had found a pamphlet among the personal possessions he had surrendered. It was an LP leaflet dealing with death in detention to which the two men took personal exception. They assaulted him.

He still suffered impaired hearing from the assault. — Sapa.

FRIDAY, 6 JUNE 1986

†Indicates translated version

For written reply:

General Affairs:

HANSARD

Maputo: Imports of petrol/diesel fuel

1007. Mr L F STOFBERG asked the Minister of Mineral and Energy Affairs:†

(1) Whether petrol and diesel fuel for use in the eastern parts of the Transvaal is supplied by means of imports through Maputo; if not,

(2) whether it is anticipated that large quantities of fuel will be provided by means of imports through Maputo in the foreseeable future; if not,

(3) whether a zone price system for fuel, based on the delivery of large quantities of fuel through Maputo, is being maintained; if so, why;

(4) whether, in terms of the above-mentioned zone price system, fuel users in certain parts of the country are being subsidised by fuel users in other parts of the country; if so, (a) why and (b) what are the relevant particulars in this connection?

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

(1) No.

(2) No.

(3) and (4)(a) and (b) Yes. Maputo has been phased out as port for the importation of crude oil as a result of the production of Sasol II and III as well as Natref being sufficient to supply the whole of the Transvaal with petrol and diesel. The prices of Sasol products supplied to the crude oil industry for the marketing of those products, excluding those marketed by Sasol itself through Sasol pumps, include transportation costs equal to the amount of transportation should these products be distributed through Maputo.

In accordance with the current price zone system, the prices of products sold in a portion of the area served by Natref are based on the transportation tariff calculated at the Maputo port tariff while Natref supplies the products at the Durban port transportation tariff. The deficit is being debited to the industry's under-overrecovery account and the recovery thereoff is spread over the total consumption in the Republic. The amount is small relative to the total value of sales in the country.

The total price zoning system is currently being investigated in order to eliminate the abovementioned as well as other problems.

English-speaking persons: income tax into Treasury

HANSARD

1064. Mr H D K VAN DER MERWE asked the Minister of Finance:†

6/6/86

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Whether his Department has statistics on what portion of the amounts paid into the Treasury by English-speaking persons in South Africa by way of income tax, has been spent on education for Afrikaans-speaking persons; if not, why not; if so, what amounts from this source were spent on such education during the past four decades?

The MINISTER OF FINANCE:

No, it does not serve any fiscal purpose to keep information of this nature.

HANSARD

Unemployed persons

6/6/86

1070. Mr B B GOODALL asked the Minister of Manpower:

(1) (a) What total amount was spent during the latest 12-month period for which information is available on (i) job creation programmes and (ii) programmes for training unemployed persons and (b) how many persons were (i) employed as a result and (ii) given training;

(2) what (a) total number of persons were involved in, and (b) was the total cost of, administering these programmes as at the latest specified date for which information is available?

The MINISTER OF MANPOWER:

(1) (a) (i) An amount of R124,77 million was spent on job creation programmes during the 1985-86 financial year.

(ii) R87,6 million was spent on programmes for the training of unemployed persons during the 1985-86 financial year.

(b) (i) More than 560 000 persons were employed.

(ii) 253 168 persons were given training.

(2) (a) The number of persons involved on these programmes by participating bodies varied from day to day and consequently it is not possible to determine the exact figure.

(b) Officials involved with the special job creation programmes do this work over and above their normal duties and consequently there were no extra costs incurred in the administration of the programmes.

Annual reports

1090. Mr P G SOAL asked the Minister of Manpower:

(a) How many annual reports were produced by his Department during the latest specified period of 12 months for which information is available, (b) in respect of what bodies were these reports produced, (c) what was the cost of producing each such report and (d) who did the printing of each report?

The MINISTER OF MANPOWER:

(a) Four reports were produced.

(b) Director General of Manpower in respect of the 1985 calendar year.
National Manpower Commission in respect of the 1985 calendar year.
Unemployment Insurance Fund in respect of the 1984 calendar year.
Workmen's Compensation Commissioner in respect of the 1984-85 financial year.

(c) R24 490,46; R16 520,00; R1 377,60; R1 093,22.

(d) Cape and Transvaal Printers (Pty) Ltd, Cape Town
Cape and Transvaal Printers (Pty) Ltd, Cape Town
Pretoria Printers, Pretoria
Hennie's Secretarial Services (Pty), Ltd, Pretoria.

Annual reports

1097. Mr P G SOAL asked the Minister of Finance:

(a) How many annual reports were produced by his Department during the latest specified period of 12 months for which information is available, (b) in respect of what bodies were these reports produced, (c) what was the cost of producing each such report and (d) who did the printing of each report?

The MINISTER OF FINANCE:

(a) Seven.

(b) (i) S A Mint.

(ii) Branch: Public Finance (Report of the Local Authorities Loans Fund Board).

Forex confusion

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FINMAIL 6/6/86

Pierre du Toit is a chartered accountant and advocate. He is a tax partner with Arthur Andersen & Co.

Much has been written about the treatment of foreign currency transactions for tax purposes. Our highest courts have addressed certain aspects of the matter, but typically in a manner which sought to restrict the impact of their pronouncements, rather than in a manner which could have wider application.

There is only one example of legislation which explicitly deals with the area — Section 24(b) of the Income Tax Act — and that is restricted to certain realised gains or losses on foreign debts owing by South Africans. Revenue practice, unfortunately, has not been consistent.

This is a lamentable technical confusion in an economy generally regarded as very "open" in the degree to which it trades across national borders.

But it does not end there. Because of the international nature of SA's trading, our banking sector and business community have had to develop sophisticated financial mechanisms to cope with the complex world of currency exposures — witness the wide use of forward exchange contracts, foreign currency swaps, cover roll-overs, currency options and so on. In none of these cases does there seem to exist any real analysis of tax implications.

Only legislation can restore the order. Such legislation should aim for a balance between the following objectives:

□ Simplicity. The system should be intelligible to ensure proper compliance and prevent intentional or unintentional evasion;

□ Certainty. The entrepreneur should be able to predict the tax implications of currency transactions with certainty so as not to be inhibited by artificial factors of uncertainty in an area already fraught with risk;

□ Equity towards and among taxpayers and the State; and

□ Supportive of the economy. In an open economy like this, the tax regime should facilitate cross-border trade, not hinder it.

A main obstacle in the way of simplicity and predictability is the differentiation between so-called capital and revenue exchange gains or losses.

There seems to be an automatic assumption that the nature of the currency adjustment should assume that of the underlying transaction, as if there can be no distinction between the underlying transaction and the financing activity.

Despite some *obiter* references by our courts as to the underlying theory involving the treatment of interest, no one has yet seriously suggested that the taxability or deductibility of interest should depend on whether the financed expenditure was of a capital or revenue nature.

There seems to be at least some argument that exchange gains or losses are no more nor less an operational function of deferred cash flow than interest, and that their treatment should be similarly independent of the underlying transaction.

Whatever the strict legal analysis (and that has not in my view been cogently argued in any precedent), it certainly does not force economic reality to conclude that exchange gains or losses relate more closely to operational rather than structural aspects of a business.

Furthermore, if simplicity is an objective, removal of the capital/revenue distinction legislatively will make a considerable contribution. After all, Section 24(b) already draws no distinction between so-called capital or revenue transactions; unfortunately, however, it deals only with realised gains or losses on foreign debts.

Another major area of complexity is the aspect of timing and related questions of realisation or otherwise of gains or losses.

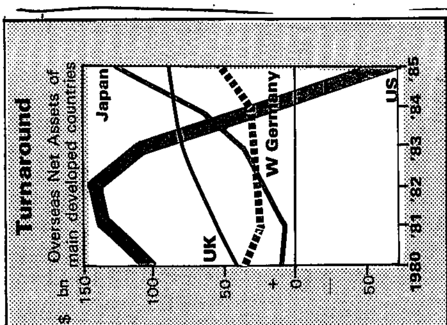
In the Caltex case the court pronounced only on the quantification of an expense in the case where the foreign currency expense had not yet been settled by year-end; it said nothing about foreign currency income, and declined to comment on the consequences if the debt remains unpaid at the end of the succeeding year. It is in succeeding years that the distinction between the finance which gives rise to the currency adjustments and the underlying transactions becomes clear — the quantification must now be unaffected, yet currency fluctuations can still change drastically the net worth of the taxpayer even where the foreign debit or credit is not yet realised.

Although there are tantalising comments in the Plate Glass case regarding the possible tax relevance of subsequent-year currency fluctuations.

It is not so much in the distinction between realised and unrealised adjustments that the problem lies, as in inconsistent treatment. It would be much simpler to tax all currency adjustments, whether realised or otherwise, or alternatively recognise only realised adjustments as tax-relevant.

From a philosophical viewpoint, more is probably to be said for treating only realised adjustments as tax-relevant, as this would correlate more closely with economic ability to pay or real need for relief. Simplest would be to determine that transactions should be valued at the date they are unconditionally entered into, with subsequent currency fluctuations having tax relevance only upon realisation; such an approach would recognise the distinction between the underlying transaction and finance.

Obviously, the legislative distinction between foreign debits and foreign credits has no justification and must be removed. Also, the role of the discretionary Section 11(b) regarding expenditure or losses incurred outside SA should be removed.



The flow of funds has been maintained this year. In March, for example, net foreign bond investments by Japanese residents jumped to $8,5 billion, from around $6 billion in February.

In terms of gross external assets, Japan still trails the US and Britain, which had $914 billion and $712 billion respectively at the end of 1984. ■

FINANCE

ARGUS 11/6/86 320

Margo asked to define a 'capital gain'

Financial Editor

The Johannesburg Stock Exchange has asked the Margo Commission on taxation to define for tax purposes what is income and what is a capital gain. Such a ruling would clarify a muddy situation.

Capital gains are free of tax while receipts regarded as income are fully taxable at the receipient's highest marginal tax rate. As there is no iron-bound definition of what is a capital gain and what is income, the Receiver of Revenue has to make the final decision — which is often contrary to what the tax payer expected.

At present investors who sell shares which have been held for a short period do not know whether the Receiver of Revenue will define their profits as income or capital. The result is that investors tend not to sell their shares to avoid having to pay tax. This leads, among other things, to a shortage of shares on the stock exchange.

However, not everyone will support the stock exchange's appeal. Some tax experts believe that once there is a specific ruling on what is a capital gain, it will open the way to a capital gains tax on all assets sold.

The JSE's executive president, Mr R A Norton, says one of the key issues facing the economy is tax reform.

Writing in the JSE's latest annual report, he says the present system does not adequately encourage savings and capital formation — especially of risk capital — for a country with the huge capital needs of South Africa.

The JSE has suggested to the Margo Commission that it uses the simple test now operating in the United States to define capital and income. In the US an asset held for more than six months is of a capital nature.

"This proposal, which is so clear and effective, would end the constant corrosive uncertainty as to what is income and what is capital under our tax laws," says Mr Norton.

"Shares and other important assets, held against the owner's will to avoid penalty on realisation, would become negotiable on a clear basis to the bvenefit of all."

He says the JSE has also called for the abolition of the Marketable Securities Tax (MST).

This would be in line with world trends where study and experience has shown that transaction taxes of this sort have no real economic value other than ease of collection, and are inimical to sound capital markets.

The MST tax was a tax on risk capital, yet major categories of default-free stock were exempt.

He says the share market's strength in the past year has been due to the people buying shares as an inflation hedge, rather than to a strong economic recovery.

Historically, the performance of the market has provided a sound hedge against inflation over many years, and in recent years sectors of the market have gone a stage further to provide counters which are effective hedges against the depreciation of the rand.

In the year ended March the value of shares traded on the JSE exceeded R8 billion — more than double the figure for 1985, 1984 and 1983.

Star 11/6/86

Visions of more consumer spending have turned out to be a myth

Breadwinners are worse off than ever

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Visions of more consumer spending power that were created by announcements of tax cuts in the 1986 Budget have turned out to be myths.

Most breadwinners have found that in fact their income tax bills are still heavier — and nearly all of them find they are worse off than ever.

The cash harvest reaped by the Department of Inland Revenue from personal income tax in the current 1986/87 year will be the biggest crop on record.

Breadwinners who thought the 1986 Budget would leave them better off may be in for a grave disappointment. MICHAEL CHESTER reports.

PAY INCREASE — 12 PERCENT
INFLATION — 18 PERCENT

	1985/86	1986/87
Basic salary	20 000	22 400
How spent:		
Pension fund contributions	1 500	1 680
Medical expenses	1 200	1 416
Taxation	2 027	2 366
Living expenses (the balance)	15 273	18 022
Total	20 000	23 484
Shortfall		−1 084
* * *		
Basic salary	40 000	44 800
How spent:		
Pension fund contributions	3 000	3 360
Medical expenses	1 200	1 416
Taxation	9 041	9 858
Living expenses	26 759	31 576
Total	40 000	46 210
Shortfall		−1 410
* * *		
Basic salary	60 000	67 200
How spent:		
Pension fund contributions	4 500	5 040
Medical expenses	1 200	1 416
Taxation	18 169	19 130
Living expenses	36 131	42 635
Total	60 000	68 221
Shortfall		−1 021

The slide in living standards has been illustrated by tables prepared by P-E Consulting Services showing how a family is still worse off than a year ago.

To ensure the validity of the comparisons, the experts have drawn a profile of a married man with a non-working wife and two minor children — battling the currents of the present 18 percent inflation rate.

Pension fund contributions equal 7,5 percent of basic salary and medical contributions and excess expenses were running at R1 200 last year. Tax rebates come to R1 155.

It is assumed the family budget last year managed to scrape home in balance. Even if the breadwinner won a 12 percent pay increase for 1986 — better than average — the family budget will run into the red.

The Catch-22 problem waits in hiding whatever the pay level — R20 000, R40 000 or even R60 000 a year.

"The apparent tax cuts announced by Finance Minister Barend du Plessis on March 17 were illusory," says Dr Azar Jammine director of the Econometrix research unit.

"While it was intended to sound like a R1 billion give-away — with the abolition of the 7 percent tax surcharge and the introduction of a 5 percent rebate — in fact tax collections will be the heaviest yet".

Econometrix estimates that overall personal income tax will still soar by as much as 22,5 percent, hoisting the total from R8 820 million in 1985/86 to R10 806 million.

The sorcerer at work is inflation and the way it causes what economic boffins call "fiscal drag" or "bracket creep" — the mechanism that pushes more and more breadwinners higher and higher up the tax ladder every time they win increases in salaries and wages in their vain efforts to try to keep pace with the cost of living spiral.

Econometrix takes as an example a taxpayer who last year earned R10 000 — about R833 a month. If he started 1986 with a 10 percent pay increase (little better than half the rate of inflation but the sort of increase that was better than average), even with the tax cuts his actual tax bill is up from R935 to R1 024.

Unaltered

The only scrap of consolation is that had the old tax rates stayed unaltered the taxman would be grabbing R100 more.

If the identical taxpayer was lucky enough to be given a 20 percent pay increase, the tax sting would be worse — up from R935 to R1 230.

True, if he received no pay increase at all his tax bill under the new rates would be lower, down from R935 to R877. But his spending power in real terms would be slashed by 18 percent or more by the vicious cut of inflation.

So there was no escape from a shrinkage in living standards.

Higher up the income brackets, a taxpayer who picked up a 20 percent pay increase to add to the R50 000 he earned last year is seeing his tax bill shooting up from R17 982 to R20 762.

And even if the basic income tax rate is not quite as bad as it was, the odds are that a taxpayer on this sort of salary now also has to confront more cuts from the perks tax on such items as running a company car or using company housing loans.

"The injustice of the tax system is magnified by trends that prove how fiscal drag is forcing private individuals to carry a more and more disproportionate share of the overall tax burden," says Dr Jammine.

Load

The proof is set out in a set of Econometrix pie-charts.

Five years ago, the share of total tax revenue shouldered by personal income tax payments was only 15,6 percent.

By last year, private individuals were carrying 29,7 percent of the load.

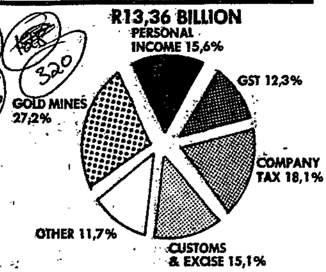
And this year — despite the tax-cut fanfare — they will be lumbered with as much as 32 percent of the burden.

"The time has arrived for a really dramatic round of tax reductions," argues Dr Jammine.

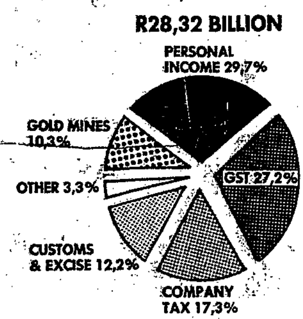
"No doubt the Government would argue the national economy cannot afford drastic tax cuts.

"The governments of nearly all the Western nations are in the process of selling more and more state enterprises to the private sector, which almost invariably do a better job with them.

"Their successes are enormous. South Africa must follow suit — or face calamity".



1980/81



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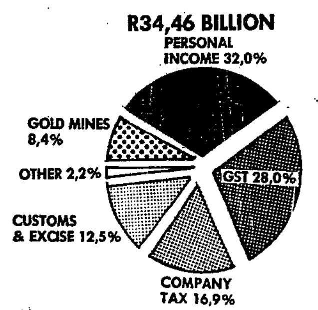


1986/87

RESISTANCE Argus 13/6/86 (320)

2% off GST or we won't pass Bill, says defiant LP

By PETER FABRICIUS
Political Staff

THE majority Labour Party in the House of Representatives has refused to pass a technical Bill on sales tax until GST is cut by at least two percent.

And it is clear that the move is a result of a new mood of resistance, following the stalling of two tough security Bills.

The Sales Tax Amendment Bill deals with several minor matters and was passed without much comment by the House of Delegates yesterday.

But the House of Representatives passed an amendment suspending the debate on the Bill until the Minister of Finance, Mr Barend du Plessis, cut GST by at least two percent "to alleviate the plight of lower-income groups".

Mr Charles Redcliffe (LP Schauderville) said he had appealed to the Minister to do this earlier but had received no response.

The Bill had to be passed by the end of this session to give effect to changes in the Budget.

Mr Redcliffe indicated the move was made in the light of the Government's "intransigence" on the Public Safety Amendment Bill and the Internal Security Amendment Bill.

A GST cut of two percent would cost R1 200-million and only the Cabinet could decide that.

FIN MAIL 18/4/86.

JOINT TAXATION 320

Two for the taxman

It is said that a number of tax consultants are advising a scheme for married taxpayers to reduce tax payable. The method appears to be based on advice that a couple lie and tell the Receiver of Revenue that they are separated. They give separate addresses and are issued separate tax numbers.

The advice is based on the notion that a married couple, both economically active, pay less if taxed singly than if taxed jointly.

In the past, a genuine legal separation did indeed mean that joint taxpayers paid less. However, since this year's introduction of the minimum of 20%/minimum R1 800 wife's earnings deduction, this rule no longer universally applies.

JOINT TAXATION

Some now pay less

Taxable income	R18 900	R31 700	R41 700	R58 900	R76 700	R131 700
Tax payable:						
Jointly	2 491	6 659	10 822	18 508	26 942	53 067
Singly	2 172	5 535	8 829	15 943	24 922	55 774
Additional tax	319	1 124	1 933	2 565	2 020	(2 707)

Source: Fisher Hoffman Stride

False separation

In terms of the Income Tax Act, especially Section 7(2), whether separation is genuine is a matter of discretion for the Commissioner of Inland Revenue. The separation should appear to be permanent.

False "separation" is a tax-saving exercise one line below the ultimate form of married tax dodging — a bogus divorce. In such cases, especially if the couple have children, the "divorced" wife may then qualify for housing assistance as a single parent. The "ex-husband" creeps in the back door and the divorce means less overall tax payable *plus* housing aid.

It is now said that bogus divorces and false separations are common.

Both "separation" and "divorce" are obscure examples of tax evasion. On the one hand, if the tax system allows abuse, it solely is to blame. On the other hand joint tax evasion is a loss to fiscus — for other "married" couples continue to pay joint tax.

Those who have "separated" or "divorced" to save tax may now have an unpleasant surprise. After introduction of the minimum of 20%/minimum R1 800 wife's earnings deduction this year, some married taxpayers will pay *less* tax than if they were single. Fisher Hoffman Stride's Sandy Swart says that as soon as a wife pays the top marginal rate (47,5% on R60 000), the couple pays less tax than they would singly.

The rule applies even if the husband earns nothing. So the old notion that married taxpayers would pay less overall tax on a single basis is obsolete. This fact is not generally known and was hardly publicised when Pretoria introduced the 20%/minimum R1 800 wife's deduction.

It is also not generally known that joint taxpayers may file separate tax returns. But while the exercise may do something for feminine independence and emancipation, it will not save tax. ■

Another two bills blocked

Cape Times 13/6/86

320

By EBRAHIM MOOSA
Political Reporter

TWO more bills have been blocked by the tricameral allies of the Nationalist Government — making it a total of four bills in less than two weeks.

Yesterday the Labour Party rejected the Sales Tax Amendment Bill in the House of Representatives unless the government gave an undertaking that General Sales Tax would be reduced by at least two percent.

Speaking during the second reading stage of the bill, Mr Charles Redcliffe (LP Schauderville), the LP's main spokesman on finance, proposed an amendment which read:

'To stimulate economy'

"This House declines to pass the second reading of the Sales Tax Amendment Bill unless and until the Minister of Finance undertakes — in view of the state of the economy, and in particular the serious plight of the lower income groups — to reduce (GST) to at most 10 percent."

Mr Redcliffe said that he had proposed to the Minister of Finance, Mr Barend du Plessis, during the budget debate, that he reduce GST from the present 12 percent to 10 percent in a bid to "stimulate the economy" which was in a "serious state".

The relief measure was necessary to alleviate the plight of the lower income groups. The poor, he said, did not benefit at all from the five percent reduction in personal taxes as proposed in the budget.

He added that it was "scandalous" that an explanatory memorandum to the bill only reached him yesterday.

Department 'not alerted'

Mr Redcliffe said he was willing to withdraw his amendment if the Minister of Finance gave an undertaking to reduce GST.

Mr Kent Durr, Deputy Minister of Finance, said after the debate his department had not been alerted about the decision to suspend the debate.

The proposal to reduce GST by two percent would involve the loss of R1 200 million by the Treasury, Mr Durr said.

Another bill, the Borders of Particular States Amendment Bill, which aims at providing more land to homelands, has also been rejected by the House of Representatives and Delegates at the standing-committee level.

Seven top companies pay less than R1000 in tax

320

W/L Argus 14/6/86

By DAVID CUMMING

JOHANNESBURG. — At least seven major JSE-listed companies have paid less than R1 000 in tax in the last five years, in spite of making profits in the period ranging from R87 million to R5 million.

And many more have paid only nominal contributions to the fiscus in the period.

These are the findings of an analysis by Johannesburg tax consultant Nic Nel of figures recorded for major listed companies in the JSE Handbook.

The average rate of tax of the companies analysed was 28,25 percent.

Mr Nel says they reflect good tax management and the companies' observance of their duty to shareholders. But he is critical of the system which has allowed companies to exchange deductible interest against non-taxable dividends "for 24 years and longer".

Using a fictitious mining investment company, Mr Nel explains the implications of the system.

The company borrows R100 million at 20 percent interest and deducts the interest for tax purposes. The money is invested in the form of preference shares with the mining company itself or overseas and the dividends at 10 percent are received tax free.

The loss to the fiscus is R10 million and the cost to the company is, initially R10 million — but it receives the dividends tax-free.

Mr Nel then assumes the mining company comes into production and the first R100 million of its profits are tax-free. It declares all profits out as dividend and in this way repays the mining investment company, which, in turn, repays its original loan.

The result, says Mr Nel, is a new mine, fully operational, at no cost to the parent but at considerable cost to other taxpayers, particularly in present value terms.

 380

New PAYE scales for women come into effect next month

Working wives to feel the pinch

The Argus Correspondent

DURBAN. — Working wives generally will see their take-home pay shrink from next month when the Receiver of Revenue begins to apply new PAYE deduction tables.

Ironically the smaller pay packets — a woman earning R2000 a month, for example, will lose an extra R64,66 a month in PAYE - come at a time when other taxpayers (including their husbands) are contributing less as a result of a number of concessions outlined in the March Budget.

The reason for this anomoly is that PAYE tables applied to earnings of many working wives last year proved inadequate. Many of their husbands would have been obliged to have paid in large sums at 1985/6 assessment time had Minister of Finance Barend du Plessis not taken pre-emptive action in his March Budget this year — by announcing that up to 20 percent of wives' earnings were tax-free and making this retrospective to 1985/6.

While most taxpayers will continue to enjoy a slight reduction in PAYE this year (as a result a five percent tax discount and the removal of a seven percent tax surcharge) the taxman has taken advantage of the general fall in rates to adjust upwardly the tables for married women.

Tax tables now being posted out by the Receiver of Revenue in Durban — and to be applied from July 1 — show the extra tax payable is relatively small for married women with modest incomes.

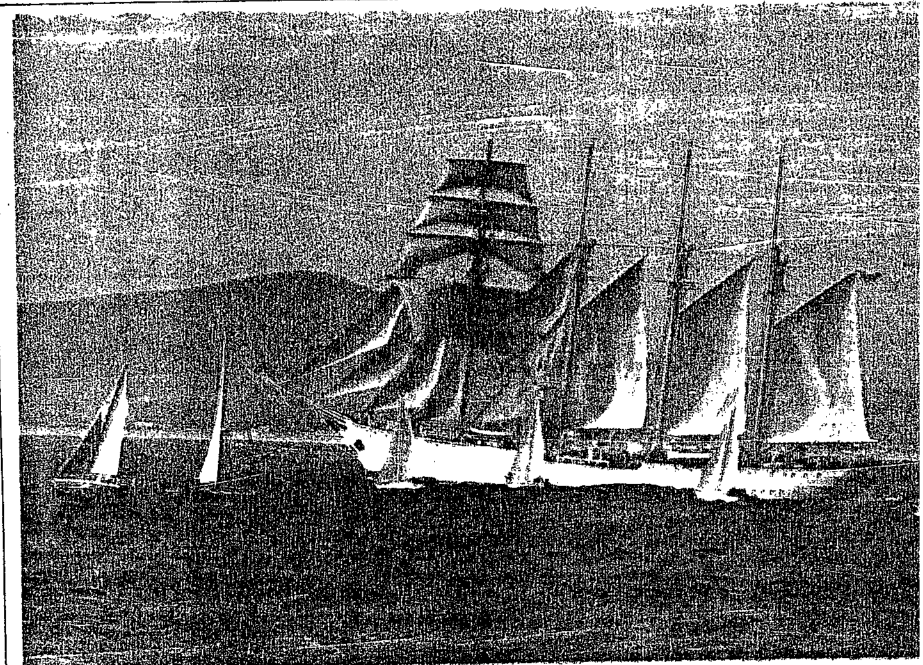
From July 1, a married woman with a taxable income of R1 500 pays R33,04 extra — or a total of R288,35 a month. A single person (no children) on the same income of R1 500 should be paying R238,08 a month, less the five percent discount. (The five percent concession has not been built into PAYE tables for other taxpayers but, following the Budget, employers were sent circulars asking them to reduce the PAYE deductions for groups other than married women).

Prior to March 1 (when the seven percent surcharge fell away) a single taxpayer on R1 500 a month paid R250,37 a month.

Overall, for example, a family where the husband earns R25 000 a year and the wife R12 000 a year will save a substantial R1 287 a year in tax.

Mr J Massyn, chief director of Inland Revenue in Pretoria, said yesterday that tax tables were a highly complex and controversial subject.

"One of our problems has been the level of progressive tax rates for married women. The July 1 tables have been designed partly to redress that problem."



The Esmeralda photographed off Cape Town during one of her visits

Cape Times 17/6/86 (320)

Speculation on GST-cut

Political Staff

THERE is growing speculation in political circles that general sales tax will be reduced soon as part of the government's financial package to boost the economy.

Indications are that the government is waiting for the right moment to make the announcement to achieve the strongest psychological impact.

The Minister of Finance, Mr Barend du Plessis, could announce his package in the next two days during third reading of the budget.

Speculation of a cut in sales tax was spurred on yesterday when Mr Charles Redcliffe, chief Labour Party spokesman on finance, withdrew his objection to the Sales Tax Bill which he said last week the House of Representatives would refuse to pass unless the government cut GST by two percent.

Explaining his move he said that he and Mr Du Plessis had "found" each other concerning the macro-economic situation during private discussions.

He gave no firm indication that he had been promised any cut but said he was confident that government action would show that he had not "backed down".

Speculation is that Mr Du Plessis is waiting till the hullabaloo over the state of emergency has died down because he does not want his announcement to be overshadowed and the impact lost.

A reduction in GST will give much needed relief all round but particularly to the poorer sections of the population. A cut in income tax would only benefit the people who have money.

More tax relief in sight for sponsors

BUS DAY 17/6/86 320

CHRIS CAIRNCROSS

SPECIAL additional tax relief is to be granted to sponsors of international events held in SA.

According to draft legislation tabled in Parliament yesterday this relief will amount to a maximum of 80% of the actual expenditure incurred.

Combined with existing deductions already provided for, a qualifying sponsor can effectively claim tax deductions of 180% of the expenditure incurred.

If passed, the legislation will be applied retroactively for the years of assessment ending on or after July 1 this year.

The Income Tax Bill 1986 provides that this allowance is to be granted in respect of "sponsorship expenditure", defined to include expenditure incurred in sponsoring the event and on advertising directly connected with the event.

The allowance granted will be equal to 80% of as much of the sponsorship expenditure actually incurred as the Minister of Finance directs.

This indicates the Minister has the discretion to direct that the tax relief be granted only on a specified maximum expenditure.

centage on ticket sales.

National Panasonic, who sponsored the Champion of Champions soccer tournament, the 1984 Grand Prix, and the cricket tests against the Australians, welcomed the move despite expectations the relief would be 90%.

MD Terry Millar said it was a definite improvement from the existing 50% rebate and they would continue to sponsor both local and international sport in SA.

Dennis Maister, MD of Yellow Pages, was not available for comment yesterday.

17/6/86. BUS DAY.

320

Problems for many firms but . . .

Lifo tax change could start new merger activity

Economics Reporter

A MAJOR change in the treatment of the Lifo (Last-in, First-out) tax reserve, introduced in Parliament last Friday as part of the 1986 Income Tax Bill, could encourage a new wave of corporate merger and acquisition activity.

In addition, a new definition of that reserve would require hundreds of companies to file amended tax returns for the latest tax year.

The new Bill would allow companies acquiring or merging with other companies to transfer any Lifo reserve previously accumulated to the new corporate entity.

The 1984 tax Bill, in abolishing the Lifo system of stock accounting, allowed companies to establish a reserve — based on the difference in valuation between the Lifo and non-Lifo methods — that qualified as a permanent tax reduction. The Bill did not provide, however, for the transfer of the reserve between companies involved in a merger or acquisition.

"As a consequence, corporate restructures have been severely hindered, as the consolidation of operations in single companies would, in many cases, result in enormous tax liabilities following the loss of the Lifo reserve in the newly-dormant company," said Arthur Andersen tax partner Marius van Blerck.

Corporate restructuring activity in 1984 and 1985, since the tax Bill was passed, declined from the levels of 1982 and 1983, according to Simon McGregor, whose father publishes *Acquisitions and Mergers Service.*

Van Blerck said the proposed change was "a welcome concession"

In terms of the proposed Bill, a company would be allowed to transfer the full amount of the existing Lifo tax reserve carried by an acquired operation, assuming both companies were managed and controlled by the same persons.

Any such transfer would be subject to conditions imposed by the Revenue Commissioner.

The new measure is retroactive, but Van Blerck and others said few mergers have been consummated since 1984 that would involve the transfer of a large tax reserve.

The new tax Bill also specifies companies must determine the size of their Lifo reserves by comparing the book-cost of stock on a Lifo basis to that on a non-Lifo basis.

Van Blerck said the Income Tax Act previously implied companies should compare the Lifo market value and the non-Lifo book-cost. Other companies, he said, had determined the reserve by comparing Lifo market value and non-Lifo market value.

As a result, companies which have not determined their reserves by the cost-to-cost comparison will be required to file amended tax returns unless the results are substantially the same.

Bus Day 18/6/86 320

Experts call for narrow code, but . . .

Proposed tax revisions reflect more discretion

Economics Reporter

REVISIONS to the 1986 Income Tax Bill proposed in Parliament on Friday reflect the increasing levels of commissioner's and ministerial discretion allowed in interpreting SA tax legislation.

Accountants and tax experts say the move towards greater discretion in administering tax law allows increased flexibility but introduces unwanted elements of ambiguity and political whimsy into tax decisions.

Most favour a more detailed, complex tax code which requires less interpretation.

The most recent instance of ministerial discretion involves the controversial international sponsorship allowance, which allows companies to deduct a total of 90% of the costs of sponsoring athletic, cultural and educational events which attract foreign participation.

The amount of qualifying costs deemed deductible is subject to the Finance Minister's decision.

Other new measures specify the power of the Inland Revenue Commissioner to exercise discretion on a case-by-case basis.

One proposal, for example, removes the R100 ceiling on tax-free foreign business travel expenses, but empowers the commissioner to determine an acceptable level of expense for any taxpayer.

Arthur Andersen's Pierre du Toit said the new measures "bring government into the boardroom, where we do not want it. We have, effectively, a politician deciding what Parliament wanted".

Entrepreneurs, he says, require as much certainty as possible, "and the moment tax legislation starts relying on discretion, it starts becoming uncertain".

The current tax code, Du Toit says, contains about 300 instances in which the commissioner can apply his discretion.

Such a system brings the tax Bill further from the highly codified US tax system, "which has gone to extraordinary lengths to avoid ministerial discretion. This makes for what appears to be a complicated system, but actually results in one that is clearer and simpler".

Costa Divaris, partner at Divaris Stein, criticised the increasing power of interpretation granted to bureaucratic and political authorities, but said the new proposals "are not going to make any difference to the system because the system is already so discriminatory".

Divaris, calling for a reduction in the level of discretionary administration, said it was not impossible to set up a system which applied in the same way to everyone.

Peat Marwick's Ian Wilson said more discretion would complicate the job of corporate accountants, forcing them to seek rulings on specific issues before they advised clients.

"Normally one does not welcome the broadening of instances of discretion," he said.

320 ~~401~~ ~~428~~

BUSINESS DAY, Wednesday, June 18 1986

Tax blow for TBVC institutions

BARRY SERGEANT

THIS week's SA Income Tax Bill's proposal to tax interest earned by South Africans from banks and building societies in the TBVC countries comes as a blow to institutions there.

But the SA authorities have been warning of moves to end tax breaks in the independent homelands for some time.

It is particularly the Venda, Bophuthatswana and Ciskei building societies that will be hurt.

The broad background of the development is that the SA Margo Commission on tax is thought to strongly favour the changing of SA's "source" tax rule to a tax on world-wide income. Currently income must be "sourced" in SA to be taxable here.

The TBVC countries offer particularly favourable tax rates. All impose sales tax rates less than SA's 12% GST rate — in Bophuthatswana sales are nil-rated. Compared with SA's 47,5% maximum personal tax rate, Ciskei offers a maximum 15% personal tax rate and a nil company tax rate for new ventures.

Tax consultants read the new SA development as an attempt to maintain the structure of SA's tax base so revenues do not fall imperceptibly. SA signed double tax treaties with the TBVC countries on devolution.

Observers say marking out of TBVC banks and building societies, only leaves room for tax planning. Large investments can still be made into low tax jurisdictions and investments in interest-bearing paper such as government stock, development and defence bonds appear unaffected.

But the TBVC countries are sometimes used for far more complicated tax-engineered schemes.

A difficulty for Margo and SA politicians is that SA annually pays hundreds of millions of rands to the TBVC and non-independent homelands. Now it appears to be on the road to ending tax breaks offered to SA residents by the TBVC countries.

Your cash is on the way

ARGUS 18/6/86

320

Staff Reporters

YOUR money is on the way! Peninsula taxpayers could find loan levy repayment cheques in their post boxes this week.

There is also good news for the poor: more than R1-million a day is to be spent on building homes and creating new jobs between now and the end of the year.

Tens of thousands of jobs should be created and as many new homes built for the needy in all categories, from the aged to the destitute, as an immediate effect of the Government's R1 500-million package to boost the economy and restore political stability, official sources said today.

Cheques totalling R292,2-million are being posted to taxpayers and should arrive "within a few days".

Mr Schalk Albertyn, chief director of operations at the Department of Inland Revenue in Pretoria, confirmed that the first batches of cheques should be delivered by the weekend.

All cheques should be in taxpayers' post boxes by the end of next week at the latest.

The intention was to ensure delivery ahead of the winter school holidays.

"Let's clear away the blues for a spell and enjoy a holiday bonus," he said.

Similiar sum to 1979 levy

In total 1 055 383 breadwinners will share the pay-back of R154-million added to individual income tax bills in 1980 and which has increased to more than R206-million with interest.

Mr Albertyn said it was impossible to prepare a table of how much taxpayers would receive but the middle-income breadwinner should receive about R300.

"The cheques should be big enough to return smiles to a lot of glum faces."

The Cape Town Receiver of Revenue, Mr E L Conradie, said taxpayers could expect a sum "fairly similar" to the one they received in November when the 1979 loan levy was repaid.

The capital amount repayable — 10 percent of tax paid in 1980 — appears on certificates sent to taxpayers at the time.

Certificates do not include interest, so cheques will be for larger amounts than this figure.

Tax expert Mr Costa Divaris estimates that nearly a half the taxpayers being repaid were earning less than R500 a month in 1980, so their average cheques may be less than R20.

Breadwinners whose income was around R1 000 a month could expect cheques of R100 or more and taxpayers earning R2 000 a month should receive R300 or R400 or more.

The repayments were not due until next year, but the date was put forward by the Minister of Finance, Mr Barend du Plessis, in his economic package.

(Turn to Page 3, col 1)

Many taxpayers could cash in by weekend

B STAR 18/6/85

3 20

By Michael Chester

The first load of cheques repaying taxpayers for the 10 percent loan levies they paid in 1979/80 were on their way to the Post Office today.

Precisely 1 055 383 breadwinners will benefit from the pay-back of the R154 million that was added to individual income tax bills and which has been swollen to more than R206 million by the interest that has accrued in the past six years.

Technically, the repayments were not due until next year, but the date has been hurried forward by the Minister of Finance in the economic package he unveiled in Parliament yesterday in a bid to haul the economy out of the doldrums.

Mr Schalk Albertyn, chief director of operations at the Department of Inland Revenue, confirmed this morning that the first loads of cheques were already on their way to the Post Office and could be expected to be delivered by the weekend.

He gave an assurance that all one million or more cheques should arrive in the post boxes of taxpayers by the end of next week at the latest.

The intention was to ensure the completion of deliveries ahead of the start of the school winter holiday break in all provinces.

"Let's all clear away the blues for a spell and enjoy a holiday bonus," he said.

"It's impossible to prepare a detailed table of how much each taxpayer can expect, but we reckon that the middle-income breadwinner should receive around R300.

"One caution, however, is that taxpayers must remember that their wages or salaries were a lot lower six years ago, so there's little point in working out 10 percent of current tax payments.

"Still, the cheques should be big enough to return a smile to a lot of glum faces."

Tax expert Mr Costa Divaris estimates that nearly a half of the one million taxpayers in the repayment exercise were earning less than R500 a month in 1980, so their average cheques may be less than R20.

However, breadwinners whose income was running at around R1 000 a month should be able to expect cheques of R100 or more.

And taxpayers earning R2 000 a month should receive R300 or R400 or more.

The R86 million balance of the big loan levy repayment will go to 34 400 businesses which were paying company tax.

● See Pages 9 and 17.

Firms in tizzy on import cost cut

Economics Reporter

SA companies dependent on imported materials and components spent yesterday trying — unsuccessfully — to determine which imports would be subject to government's removal of a 10% surcharge.

Finance Minister Barend du Plessis has announced that government would eliminate the surcharge, imposed last September, on selected imports at a cost of R180m in 1986-87.

The list of imports affected, he said, would be published in a future *Government Gazette*. Details on the timing or the contents of the announcement, however, were not released, leaving many SA business executives scrambling to ascertain whether their companies would be affected.

"We've been trying all day to establish on which products the surcharge has been waived, and we don't know," said Tiger Oats liason executive Boris Kaplan, who called the proposed reduction "very vital" to Tiger Oats' large import-dependent business.

Kaplan said a reduction in the surcharge on raw materials for Tiger Oats' animal feed could save the company as much as R5,6m a year.

SA Foreign Trade Organisation's (Safto) Warren Smith said the removal of the surcharge would be "good for exports, in the sense that it would reduce the cost of imported capital equipment and so make exports cheaper".

BUS DAY 320 19/2/86

Hope for softer car perks tax

EXPERTS generally agreed yesterday that the final impact of government's expected proposal to amend the perks tax on the private use of company cars would be a concession to taxpayers and to the local motor-car industry.

Finance Minister Barend du Plessis said this week he would present a new table for calculating the taxable portion to an employee of a company car's value.

Among possible routes which economists and tax consultants said the minister could follow in producing the table were:

- An across-the-board softening of the values placed on vehicles, resulting in lower taxable amounts for any one car;
- Further definition of the existing "grey area" between the table's two columns, which now distinguish only between vehicles fully paid-for by employers and vehicles paid for in part by employees;
- An increase in the amount that any one car is judged to be used for business purposes and is, therefore, tax-exempt.
- An across-the-board discount on current rates.

Cape Times 19/6/86

Locals censor UK papers

Own Correspondent

DURBAN. — Workers are using felt-tipped pens to censor stories in British newspapers imported to South Africa which might contravene the emergency regulations.

This was disclosed last night by Mr Wal Dean of the distribution agency, Intermag, who also confirmed that the latest edition of Newsweek will not be on sale in South Africa.

Mr Dean said six British newspaper titles — amounting to "a few hundred copies" — were being censored locally by Intermag staff using felt-tipped pens.

The decision not to bring the 6 000 copies of Newsweek due for shipment to South Africa from Zurich had been taken under strict instructions from the Deputy Minister of Information, Mr Louis Nel.

Cape Times 19/6/86 320

Taxpayers to get a holiday bonus

By RIAAN SMIT

GOOD news for the Peninsula taxpayer: Your cheque is in the post.

The chief director of operations at the Department of Inland Revenue in Pretoria, Mr Schalk Albertyn, said yesterday that all cheques for the 1980 loan levy repayment had been posted and should be received by tomorrow or early next week at the latest.

An individual taxpayer earning a taxable annual income of R5 000 (not the same as annual income) six years ago can expect within days a cheque dated June 20 for about R50 plus interest.

However, the capital amount repayable — 10 percent of tax paid in 1980 — may be substantially more for higher income groups.

Mr Albertyn said cheques had been mailed to reach Cape taxpayers before the school holidays started.

Taxpayers who had not handed in 1985-86 tax returns would still receive loan levy repayments, he stressed.

● The repayment was due on February 28, 1987, but was brought forward as part of measures to stimulate the economy announced by the government on Tuesday.

The repayment of capital plus interest will total R206m to 1 055 383 individuals and R86m to 34 431 companies.

Cape Times 19/6/86 322

Levy cheques in post, boost welcomed

Dispatch Reporter

EAST LONDON — One aspect of the government's R1 205 million package aimed at stimulating the country's economy is that taxpayers can expect a cheque in the post before the end of the week in repayment of the 1980 loan levy.

East London's Receiver of Revenue, Mr E. R. B. von Hoesslin, said yesterday that taxpayers could expect their repayments any time between tomorrow and Monday.

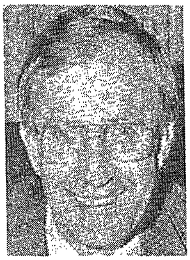
The Minister of Finance, Mr Barend du Plessis, announced on Tuesday that R206 million would be repaid to individual taxpayers and a further R86 million to companies.

The chairman of the East London and Border branch of the Motor Industries Federation, Mr Dave Forsyth, said the concessions for the motor industry announced by Mr Du Plessis would benefit the manufacturer rather than the man-in-the-street.

This was because the concessions on motor vehicle excise duty applied to the tax paid at the source of the industry, he said.

"I believe that the announcement is aimed more at immediate relief for the manufacturer and will not have a tremendous affect for the consumer in the short term. In the long term, the concessions will enable the manufacturer to hold his prices down, benefiting the consumer later," Mr Forsyth added.

The minister announced a R70 million discount on motor vehicle excise duties and



MR DU PLESSIS

significant changes in the table for calculating fringe benefits tax on the private use of company cars. Full details are expected shortly.

The MP for Uitenhage, Mr Dawie le Roux, expressed the hope yesterday that the concessions for the motor industry "could turn the tide" for the industry.

He said he was pleased that Mr Du Plessis had made reference to the important role played by the motor industry not only to the economy, but also to job creation.

Mr Le Roux said the changes in the perks tax table were "very important", as the extent to which this would affect new car sales had not been realised.

The director of the East London Municipality's Management Services, Mr Leon Deetlefs, said Mr Du Plessis's announcement that R50 million would be allocated for additional job creation and training was not a long-term solution to unemployment.

"Obviously we have realised that there remains a high number of people without work in this region and, therefore, welcome something like this ensuring further temporary employment.

"But it is not the long-term solution needed. The money allocated for creating temporary jobs will eventually dry up, and we will be back in the same situation unless a concerted effort is made to create permanent jobs through the further development of industry and commerce in the region," Mr Deetlefs said.

The president of the East London Chamber of Commerce, Mr Nico Cloete, said that the announcements would have a "very positive influence" on the building sector.

"I believe that because we have possibly the largest shortage of housing in the country, we would get the better part of the funds," he said.

Mr Du Plessis announced that R750 million would be spent on the provision of low-cost housing and that R50 million would be allocated to the Small Business Development Corporation.

"In the long term it will be of major importance to the building industry, which, in turn, would have a long-term effect on retail, with more money in circulation," Mr Cloete said.

"My only concern is that, with the government putting in all this money, it might stop other priority developments," he added.

Mr Cloete said that commerce was still waiting for a cut in taxation of the "upper echelon" of businessmen and said there was a dire need for added incentives for the entrepreneur wanting to get ahead in commerce.

2 BUSINESS DAY, Thursday, June 19 1986

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Assocom and FCI say powers too wide

RSC tax system comes under fire

BEULAH BROWN

COMMERCE and industry have rejected the wide range of Regional Service Council (RSC) taxes proposed in Parliament.

Reacting to amendments to the Bill in Parliament this week, the Associated Chamber of Commerce (Assocom) said the "withdrawing" clause relating to partnerships was especially inadequate.

"The drawings made by a partner could represent capital he had put into the enterprise and may not necessarily be profits made in business.

"This amendment should be reconsidered," said Assocom legal manager Ken Warren.

The wide base granted to Finance Minister Barend du Plessis enabled tax to be imposed at his discretion, without reference to the legislature.

Warren said a plea was made by Assocom in May that implementation of RSCs be delayed until economic difficulties in SA were clarified.

The benefits of the economic package to stimulate the economy could be negated by the introduction of taxes which would undoubtedly have an adverse effect on the private sector.

"The private sector has to bear the major brunt of government's new sources of extracting revenue."

Federated Chamber of Industries' (FCI) legal adviser Arthur Hammond-Tooke was concerned about the wide powers given to Du Plessis.

The FCI was also concerned about the fact that RSCs would be largely appointed, rather than elected.

The potential for levies to be expanded would harm the income and employment-generating capability of some regions — a worrying aspect for the industrial community.

However, it welcomed the enhanced role of the Commissioner of Inland Revenue in the administration of the new tax system and collection of levies.

Another positive aspect was the greater clarification of the functions and methods of RSCs, Hammond-Tooke said.

ECONOMIC PACKAGE FINMAIL 20/6/86 320

A weightless wait

Why did it take so long? The growth packet unveiled this week by Finance Minister Barend du Plessis certainly did not err on the side of extravagance, nor does it contain any radical measures that might have called for weighty, time-consuming consideration.

The first leg of the package is intended to boost non-inflationary economic growth. In a nutshell:

□ Capital plus interest on the 1980 loan levy will be repaid immediately (the cheques are dated June 20) at a cost of about R292m of which R206m will go to individuals and R86m to companies;

□ The 10% import surcharge is to be removed on "selected" items (basically imported materials used in local production) at a cost of R180m during the financial year;

Finance Minister Du Plessis ... serving a curate's egg?

□ A rebate is to be given on excise duty on motor cars, estimated to amount to R70m this financial year;

□ On the perks tax front, the table setting out the valuations attached to company cars will be made less onerous (strangely, no value is cited for this proposal);

□ Negotiations are under way for the privatisation of some R2 billion worth of toll roads;

□ Another R5m is to be added to the R1,5m in the Budget for development and transfer of technology; and

□ Scraping the barrel, apparently, the minister repeated his previously announced further assistance totalling R100m to drought-hit farmers.

A second leg of the package is intended to embrace the programme for social and economic upliftment via work creation and training:

□ Another R750m has been allocated to economic housing;

□ Job creation and training will be boosted by a further R50m; and

□ The Small Business Development Corporation gets another R50m on top of the R58m provided in the Budget.

All told the concessions and expenditures will cost about R1,5 billion, of which R1,2 billion is fresh appropriations (the loan levy repayment, due anyway in a few months, had already been provided in March); only R700m of the R1,2 billion will probably flow through this fiscal year, as it is unlikely that spending on black housing can be built up above R250m by year-end.

So, without too much difficulty, the size of the package can be brought down from R1,5 billion to only R700m. Now you see it ...

Financing will be largely through the cash-rich Central Energy Fund (also due to finance the Mossel Bay gas project), with provision appearing in the Additional Appropriation Bill in the usual way soon after parliament re-assembles next year. Another source of money is the IDC. "Certain legal requirements" preclude further details at this stage but they will be provided later by the Department of Finance in conjunction with Mineral and Energy Affairs.

This will relieve any pressure on the capital market or deficit before borrowing, which seems to have become a holy cow to Treasury, but smacks of accounting sleight-of-hand — and this at a time that many believe is ideal for deficit financing.

The package has been generally welcomed by business — which is so punch-drunk it would have welcomed *any* package — but there is some disappointment at its make-up. The failure to scrap totally the unfortunate import surcharge betrays a loss of nerve, while the loan levy repayment will only benefit those who actually paid tax six years ago.

A broader stimulus, which would have particularly helped the lower-income groups, could have been gained by a much-requested cut in GST. PFP finance spokesman Harry Schwarz sees this as the greatest omission in a "curate's egg with fewer good parts than bad."

This is typical of how the message lacks assertiveness at a time when economic deeds, not words, are needed. Despite the long delay in making the announcement, the proposals are still surprisingly vague. No details are given of what savings will be on the car perks tax, nor of the likely reduction in motor car prices from the excise duty rebate.

A less than ecstatic response was half expected at Finance, where there is still concern that measures announced in the Budget and subsequent monetary stimulants have not fully had a chance to bite.

Du Plessis describes the additional fiscal measures as part of his "moderately expansionary" strategy. He believes they will encourage investment and consumer spending, making possible real GDP growth of at least 3% for the year. Few will share this optimism.

Moreover, lurking round the corner are the proposed levies to finance the new Regional Service Councils, whose scope has been expanded (see next story). If the timetable is to be met, they lie only three months away. These new imposts could cancel out much of the benefit of this week's package. ■

FIN MAIL 20/6/86

REGIONAL SERVICES COUNCILS

Wider base

26TA

Fears that the financing of the new Regional Services Councils (RSCs) will be an unwelcome extra fiscal burden on the private sector will not be allayed by this week's Amendment Bill, which will give Barend du Plessis additional powers to determine how the levies will be calculated and paid, and by whom.

The Bill follows a decision that the original intention to use GST taxable values as the basis for RSC taxation was too narrow.

SPENDING TASK FORCE

Barend du Plessis also used the third reading of the Budget debate to announce the composition of the task force — heralded in March — to undertake a zero-base evaluation of State spending priorities.

Chairman is Jan Crawford, former senior partner of accountants Theron van der Poel. His deputy is former Wesco MD and Toyota director (among other companies) Danie du Preez.

Committee members include three Nat MPs, George Bartlett (Amanzimtoti), Kobus Meiring (Paarl), and Georg Marais (Waterkloof), as well as SA Breweries Executive Director Laurie van der Watt, the head of the National Institute for Personnel Research, Johanna van Rooyen, and the NPI's Jan Visser.

The group will be assisted by a small secretariat of officials from appropriate government departments.

TAXATION FIN MAIL 20/6/86 320

Barend gives a little

The 1986 Income Tax Bill is a good example of the curate's egg, but with more good than bad parts. It shows that somebody up there has been listening to the fulminations of tax reform advocates. But when will Margo give us the real thing?

The 1986 Income Tax Bill will stand as one of the most complicated and far-reaching ever. There are changes with both wide appeal (redundancy payments) and narrow (aircraft). And disappointments.

The Margo Commission on tax was due to report in terms of its mandate at the end of this month, but Finance Minister Barend du Plessis was almost as vague as he could be about when Margo will in fact report; whether the report will be made public; and when, or if, any changes can be expected. It is difficult to say what influence Margo had on the proposed amendments now on the table.

Nevertheless, the Bill proposes a number of welcome technical changes, especially in respect of perks and corporate tax. Conversely, Revenue continues its trend of cracking down on the delinquent taxpayer by opening the door to his professional accomplice.

The Bill proposes that Carl Schweppenhäuser, Commissioner for Inland Revenue, may waive the secrecy provisions in the Income Tax Act and report unprofessional conduct by tax advisers to their professional controlling bodies. Many CAs, for example Coopers & Lybrands' Paul Ferreira, have welcomed the move as likely to strengthen professional ethics generally.

There are the breaks. Among other perks tax changes, out-of-town allowances for foreign business travel can now exceed the current R100 tax-free limit; relocation costs may now also cover the costs of selling the employee's previous residence. Both are subject to the commissioner's discretion.

There is a fundamental change to the seven-year phasing-in of perks tax for approved housing schemes. Employees joining a company with an approved housing scheme in the 1986 tax year benefited from the phasing-in only to a maximum bond amount

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of R50 000. The Bill proposes that the limit be scrapped.

As predicted by the *FM*, the Bill ends to some extent the use of "tax havens" — particularly Ciskei — by beleaguered South African taxpayers. Fisher Hoffman Stride's Solly Gerber reads the proposal as casting (as far as the TBVC countries are concerned) only bank and building society interest into the South African tax net.

Gerber sees as anomalous the omission of interest earned, say, from TBVC government stock. But he argues that the move will be the first of many designed to maintain the integrity of SA's tax base.

A new exemption is proposed for retired employees who continue to work on a part-time basis. The concession applies only where a taxpayer's cash pay is R5 000 or less; if they retired after 60 or due to ill-health; and the benefits were granted while in full-time employ.

As expected, certain technical loopholes have been plugged. Of note are a number of tax schemes spawned on the belief that tax-free payments — beyond sickness and death benefits — could be made through registered benefit funds.

Additional payments typically included share incentives, housing loans, retirement benefits and educational assistance. The amendment will in effect be retrospective: certain future lump sum receipts will be taxable even if the fund was established in the past.

A welcome relief measure hinges on redundancy payments — perhaps more common now than ever. If Schweppenhäuser is satisfied that a concession is warranted, lump sums received at the end of service will be taxed at the taxpayer's average rate for other income rather than at his top marginal rate.

The benefit can have substantial tax advantages. For example, an unmarried taxpayer with taxable income of R36 000 pays an average tax rate of 29,78%, but a marginal rate of 47%.

Notice of the married women's earnings allowance in the 1986 Budget has been clarified. Up to the greater of R1 800 or 20% of a wife's net earnings can be deducted from joint income. The definition of *net earnings* has been given; happily it excludes investment income or income earned by a wife from a trade related to her husband's or his business.

The controversial lifo basis of stock valuation tax changes, as promised by Schweppenhäuser, appears in the Bill. Ernst & Whinney's Chris Hassall notes that the two lifo anomalies (indirect overheads and obsolescent stock) appear to have been rectified.

He advises:

☐ Taxpayers who took advantage of the anomalies can expect adjustments to returns of income; and

☐ Taxpayers should ignore the anomalies when computing any future provisional tax payments.

Hassall says the anomalous situation prevalent over the past two years — that group restructuring was severely hindered by the non-transferability of the lifo reserve — has been removed.

"But there is still the matter affecting not only group rationalisation but also third party asset acquisitions. This seems to have been overlooked. It concerns the phasing-in relief of overheads. No deduction of the overhead amount still remaining will be permitted in the transferee company."

Another welcome relief for corporate taxpayers removes anomalies in last year's hire-purchase allowance. That amendment sought to restrict the allowance to transactions with a credit period of *a minimum* of 12 months. For taxpayers whose claims became disallowable as a result of the 1985 amendment, the relief is now a phasing-in of the disallowances over a five-year period.

Yet further business relief refers to the 1984 amendment which limited the lessor's deduction of industrial and special aircraft allowances to the amount of taxable *rental* income. The result: even taxpayers who derived their income from normal operating leases were restricted in the deduction of the capital allowances.

The Bill provides that taxpayers who lease out movable industrial assets or aircraft under operating leases can continue to deduct the capital allowances against *all* income. An operating lease is defined; the amendment applies restrospectively to the 1984 amendment.

As promised by Du Plessis, the Bill provides for the controversial international sponsorship allowance. The result is that *certain sponsorship costs* can be deducted against taxable income. In the result, the "double deduction" will mean the effective cost of international sponsorships is reduced to a mere 10% of the actual expenditure.

And the costs appear to be related to both direct and indirect costs, making the new rule favourable in the extreme.

Arthur Andersen's Pierre du Toit says the sport allowance relates to international sporting events *and* to any South African cultural or educational event — if approved by Du Plessis after consultation with the Minister of National Education.

It may be, says Du Toit, that this extension of the tax break could be aimed at smoothing the possibly difficult passage of an exclusive concession for sporting events through parliament. The amount of the qualifying costs are entirely within Du Plessis' discretion and apply to costs incurred in tax years ending on or after July 1 1986.

The 1986 Income Tax Bill gives taxpayers much to chew on. But in summary it must be said that one of its main characteristics (assuming all proposals are enacted) is the introduction of a host of further provisions made subject to the incontestable discretion of the commissioner.

Increasing discretionary powers are traditionally seen as abusive in tax and other law and the new Bill does nothing to allay such fears. A number of important amendments, notably on film tax finance, were overlooked. Overall tax planning will be just as difficult as in the past, if not more so.

For the sake of sanity, taxpayers should be told what happened to Margo. ■

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TAXATION 320

Joining the stats

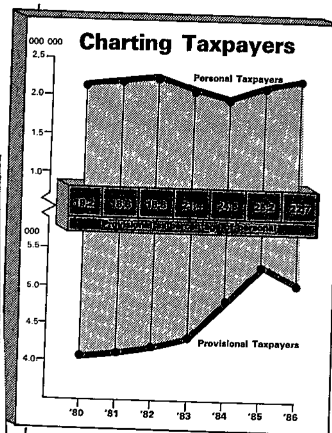
Contrary to some speculation, the number of provisional taxpayers has not exploded in recent years, as might have been expected since the R1 000 cut-off was last increased from R500 in 1980.

Inland Revenue statistics show, however, that the number of provisional taxpayers actually fell in the most recent tax year to 508 000 from a high of 531 000 last year (see graph). The Income Tax Act provides that people with income other than remuneration exceeding R1 000 a year qualify as provisional taxpayers.

Classification as a provisional taxpayer brings a number of obligations. There are more forms to complete; a greater number of tax payments to be made.

The number of personal taxpayers fell markedly from 1982 to 1984, reflecting introduction of the final deduction system. This exempted many lower-income taxpayers from the need to make tax returns.

Even though the number of provisional taxpayers has decreased, it is no reason not to increase the R1 000 cut-off point. Numerous extraordinary factors helped trim the number of provisional taxpayers. A large category of over-65s were exempted last year, even if their income outside remuneration exceeds R1 000.



Moreover, the economic climate has pushed to the wall many businesses, whose directors were typically provisional taxpayers. And straitened economic circumstances have forced many taxpayers to eat into savings, removing some from the provisional taxpayers list.

A further factor is that there exists much ignorance on a taxpayer's onus to register as a provisional taxpayer. In many cases, the initiative is taken by Inland Revenue when it becomes aware that a taxpayer qualifies.

On technical points, there have been changes in the past year on who files what forms. The IT 12 must be used by provisional taxpayers; the IT 12S by all taxpayers, bar provisional taxpayers and companies, including over-65s exempted as provisional taxpayers. ■

FACE TO

FINMAIL 20/6/85 (320)

TELLING TALES

Plans to depart from traditional confidentiality on tax matters between taxpayers, their representatives and the Commissioner for Inland Revenue have had a mixed reception.

The message for business and tax advisers, however, is clear: the downside on unacceptable accounting practice will be deeper. In the past, legislation has prohibited the commissioner from revealing anything about individual tax cases to anyone other than the taxpayer and his lawful advisers.

Introducing the second reading of the Income Tax Bill, Finance Minister Barend du Plessis noted, however, that this meant actions that would normally be reprimanded by professional bodies could not be reported to them. Hence, the proposed amendment to the Act.

The president of the SA Institute of Chartered Accountants, Stan Symington, tells the *FM* his organisation is happy with the proposed change, which arose at its behest.

"The minister was making critical remarks about the way some of our members did business, but when we asked him for specifics we were told legislation made this impossible."

Symington maintains that taxpayers' secrets will remain inviolable after the change, but the institute will be in a better position to act against delinquents. "We want to know about financial statements that have been signed off without the proper checks," he says.

The Progressive Federal Party's spokesman on finance, Harry Schwarz, has several reservations about the Bill. He intends to move amendments which, among other things, will call for the client to sanction any disclosure of his accounts to another party. He wants a stiff penal provision should anybody in the controlling body divulge information elsewhere.

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PERKS TAX

Yet more anomalies

Two major areas of uncertainty have emerged from the still-teething perks tax — and are unlikely to be cleared up soon. In common with most areas of tax, the difficulties are rooted in clashes between law and Inland Revenue practice.

As Tony Addison of Deloitte Haskins & Sells notes, perks tax problems are accentuated by contradictions, too. Take just one disputed area: travelling allowances. Explicit in the Fourth Schedule of the Income Tax Act is that PAYE be deducted from all remuneration paid to employees. Remuneration is defined to include any allowance.

But practice has taken a different turn on travelling allowances. Anticipating problems, the Department of Finance, via the Directorate of Inland Revenue, issued a booklet *Fringe Benefits and Allowances — A Guide for Employers*. The latest edition, released in November 1985, is clearly the target of the critics.

On travelling allowances, it states that "in the case of genuine travelling allowances for business purposes, employees tax (PAYE) should not be deducted." In strict theory this is counter to the Fourth Schedule.

What should employers do? Addison suggests two options:

- ☐ Comply strictly with the Act and deduct PAYE on the allowance — thereby imposing great hardship on employees; or
- ☐ Use the Directorate of Inland Revenue's interpretation of the Act; thereby not prejudicing the employee. The net effect is that employers are left in an invidious situation.

Another anomalous area concerns the phasing-in of bond subsidies. On the law the (seven-year) phasing-in of taxation of employee benefits under a bond subsidy is recognised only if the housing scheme is "approved." For approval the scheme must have been in operation before March 28 1984.

But the booklet states that an employee granted a subsidy under a *loan* granted before February 13 1985 will be entitled to a five-year phasing-in — though the housing scheme has *not* been approved. Here, the anomaly plays off between two different dates; a loan and a "scheme;" and five- or seven-year phasing-in.

Addison notes three areas of difficulty for the employer:

- ☐ What is the taxable benefit to the employee?
- ☐ What PAYE should be deducted? and
- ☐ Should an unapproved housing scheme be started to obtain the benefit of five-year phasing-in?

A characteristic of all good law is certainty, no less tax law. With certainty, taxpayers can plan their affairs sensibly. Where anomalies arise, one alternative is invariably more beneficial to the taxpayer than the other.

When taxpayers opt for the more favourable interpretation Inland Revenue sees abuse and often reacts violently. Such action sees the authorities falling into a trap created by their own devices. Taxpayers are made the scapegoats.

The two latest examples of perks tax anomalies could in theory be clarified. But if action is not taken soon on these and other areas the authorities may be forced to resort to retrospective legislation, the most offensive action of all. ■

Argus 25/6/86

NATIONAL/INTERNATIONAL

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PAYE for married women up July 1

The Argus Correspondent

JOHANNESBURG. — Married women were reminded by the Department of Inland Revenue today that their pay packets may be thinner from next month as the taxman puts them on the PAYE system.

The move — announced by Finance Minister Mr Barend du Plessis in the Budget — is intended to help absorb the shock of hefty demands at the end of every tax year when the income of working wives is added to the earnings of their husbands for tax assessment.

"Wives in jobs may at first resent the monthly tax deductions," said an official at the Department of Inland Revenue.

"But they will be rejoicing a year from now when there will not be the usual thump of a big tax bill.

"In the past it has been all too easy for married couples to underestimate the size of the overall taxation on joint incomes and the final assessment made from tax returns has been an awful blow.

"The new system will be a shock-absorber."

The system, which will be launched on July 1, will work out monthly deductions on scales in line with the full-year tax payable on joint incomes.

Married women were also reminded that in the current tax year they will benefit from bigger exemptions.

Last year, the amount of their annual earnings that was allowed as tax-free was R1 600. The deduction has now been lifted to 20 percent of their income, with a minimum set at R1 800.

Thus a working wife on a salary of R20 000 will now find the tax-free proportion raised from R1 600 to about R4 000.

Meanwhile, working couples were reassured that the whole issue of taxation of joint incomes — the centre of a prolonged controversy — is being researched by the Margo Commission.

The Star Thursday June 26 1986 9

Now its the wife's turn to PAYE

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By Michael Chester

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"The new system will be a shock absorber."

MARGO STILL WORKING

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PERKS TAX

Another lobby win

Tax experts have met with incredulity Finance Minister Barend du Plessis' decision to accept Naamsa's proposal to change the basis of company car perks tax. Although the measure means savings for taxpayers, and probably increased car sales, it has created tax planning uncertainty.

The main objection is that the lead time before perks tax implementation spanned 15 years. Surely that was enough to refine an iron-clad system?

Naamsa wants to change the basis of calculating company car perks from car value to car value *and* engine size. There may be one column on the new table for car value, multiplied by a weighting for engine size.

The new table is expected in August. Another Naamsa proposal, that the phase-in of car perks tax be frozen at the current 40% level, may be recognised too. Ernst & Whinney's Darryl Sahli thinks that the *car allowance* table, recently upgraded to reflect inflationary pressures, will be untouched.

Observers see the move as yet another *ad hoc* discriminatory tax measure where the authorities yield to a vested interest group. The car industry has already received two concessions: extension of phasing-in from two to five years, and an upgraded car allowance table.

Many professionals are irked by the destructive effect of the new measure on tax planning. Whether an individual is better off with a car allowance or a company car depends on his personal tax profile. After perks tax, most were better off with an allowance.

The new proposal may change all that; nobody knows for certain. Sahli argues, for example, that it would be illogical not also to freeze the phase-in on car allowances at 40%. But then it is speculated that Revenue officials perceive that under car allowances many abuse the 10 000 km deemed to be travelled privately — and want the figure increased to 16 000 km.

Many companies who undertook extensive projects to switch from company cars to allowances will be aghast by the new measure. Perks tax computer software programmes will be thrown out of kilter. And it is thought that for the car industry, this relief, plus R85m benefit from other tax concessions, will only stave off further price increases for two months.

Kessel Feinstein's Raymond Fine questions the implications of the measure: "Perks tax was intended to create a uniform basis for taxing benefits. Why should cars now be given another concession, and other perks left untouched?"

Speculation on the outcome of the Naamsa proposal is varied, to say the least. As cars would be relatively undertaxed, given the choice on an increased remuneration package, taxpayers would plump for cars rather than more sensible benefits.

The tax commission led by Judge Cecil Margo may be distraught by the new measure. But at least Du Plessis has until August to decide on the issue. ■

CAPE TIMES 28/6/86

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New perks tax seen as boost for car sales

A PROPOSED new table on which "perks" tax payable for the personal use of company cars will be based on engine capacity.

It was welcomed yesterday by the President of the National Association of Automobile Manufacturers of SA (Naamsa), Peter Searle, and by the MD of the McCarthy group, Theo Swart, who said it would give a better deal to people using company cars and stimulate sales.

Giving details yesterday, Louis Louw of the office of the Minister of Finance said the new table, which Parliament will be asked to approve in August, is "much more favourable to private users of company cars" and more in line with that used in Britain."

Engine capacity

He explained: "In the previous table the engine capacity of cars was not taken into account, but with the new table the man with the less expensive car will be taxed less, while the man with the luxury car will pay more."

According to the table a man with a company car to the value of R20 000 with a cubic centimetre capacity under 1 600cc will, for tax purposes, be considered to receive a benefit of R130 a month.

A man with a car of the same value, but with a cubic centimetre capacity over 3 001cc will be considered to enjoy a taxable benefit of R220 a month.

This amount is not the sum payable in tax, but is the basic amount a month, which would be taken into account in ascertaining the user's fringe benefit for tax purposes.

A private user driving a car valued at more than R100 000 with an engine capacity over 3 001cc will be taxed on a benefit of R560 a month — the maximum amount.

The president of Naamsa said the new basis of valuation would help the SA motor industry.

The proposed new table:
Scale of values in respect of motor vehicles:

Determined value of vehicle in rands	Engine Capacity in cc 0—1600cc	1601—2000cc	2001—3000cc	Over 3001cc
0—20 000	130	160	190	220
20 001—25 000	150	180	210	240
25 001—30 000	170	200	230	260
30 001—35 000	190	220	250	280
35 001—40 000	210	240	270	300
40 001—45 000	230	260	290	320
45 001—50 000	250	280	310	340
50 001—55 000	270	300	330	360
55 001—60 000	290	320	350	380
60 001—65 000	310	340	370	400
65 001—70 000	330	360	390	420
70 001—75 000	350	380	410	440
75 001—80 000	370	400	430	460
80 001—85 000	390	420	450	480
85 001—90 000	410	440	470	500
90 001—95 000	430	460	490	520
95 001—100 000	450	480	510	540
Over 100 000	470	500	530	560

Where the employee bears the cost of all fuel used for the purposes of the private use of vehicles (including travelling between the employee's place of residence and his place of employment) the deemed monthly values shall be reduced by an amount of R50, and if the employee bears the full cost of maintaining the vehicle (including the cost of repairs, servicing, lubrication and tyres) the deemed monthly values shall be reduced by an amount of R50.

Although it would come into effect only from September 1, the announcement gave prospect of relief and would help to stimulate sales.

He explained said the new table provided a mild and reasonable progression which would reduce the relevance of fringe benefit taxation in company car purchasing decisions.

Theo Swart said the new table was the type of move needed to bolster confidence in the SA economy.

"Besides stimulating vehicle sales in the short term, it may even start creating jobs within the retail sector of the industry in the medium term," he said.

"Clearly the new scales, especially those pertaining to the amount which the taxpayer will have to fork out for the use of a company car, are now being pitched at very acceptable levels".

"There is no doubt that, with the removal of 'phasing in' announced by the government, the uncertainty which has until now hung over this issue has been removed."

W/C Argus 28/6/86

Only 202 taxpayers earn above R250 000

320

THE latest figures for tax collections issued by Inland Revenue can be regarded partly as a tribute to the efficiency of the tax accountants and partly a reflection of the sorry state of the South Africa economy.

They show that in 1984-85 there were only 202 people in South Africa with a taxable income of more than R250 000 a year and only 2 088 with a taxable income of more than R100 000 a year.

This is extremely surprising when one considers that there are more than 500 companies listed on the Johannesburg Stock Exchange whose top executives must receive at least R100 000 a year, and that there are thousands of farmers, small businessmen, doctors, lawyers, accountants and other professional men earning well above this figure.

The figures show that in 1984-85 a total of 1 575 399 people paid income tax. These comprised 1 218 975 whites, 160 613 coloured, 84 838 Indian and 110 973 black taxpayers.

Half the white taxpayers had a taxable income of less than R17 000 while a quarter a taxable income of less than R11 000 a year. Ten percent of all whites had an income of less than R5 000.

The figures showed that about 198 000 white taxpayers earned between R5 000 and R10 000 a year, 209 000 between R10 000 and R15 000, 208 000 between R15 000 and R20 000, 178 000 between R20 00 and R25 000,128 000 between R25 000 and R30 000, and 76 000 between R35 000 and R40 000.

Half the black income tax payers had a taxable income of less than R9 000 a year, and three-quarters less than R11 000 a year.

30/6/86 BUSDAY

320

New motor tax deal praised by industry

CHRIS CAIRNCROSS
and MICK COLLINS

TAXABLE MONTHLY BENEFITS FROM PRIVATE USE OF COMPANY CARS

DETERMINED VALUE OF VEHICLE IN RANDS	ENGINE CAPACITY IN CUBIC CENTIMETRES			
	0 — 1 600 cc	1 601 — 2 000 cc	2 001 — 3 000 cc	OVER 3 000 cc
0 — 20 000	130	160	190	220
20 001 — 25 000	150	180	210	240
25 001 — 30 000	170	200	230	260
30 001 — 35 000	190	220	250	280
35 001 — 40 000	210	240	270	300
40 001 — 45 000	230	260	290	320
45 001 — 50 000	250	280	310	340
50 001 — 55 000	270	300	330	360
55 001 — 60 000	290	320	350	380
60 001 — 65 000	310	340	370	400
65 001 — 70 000	330	360	390	420
70 001 — 75 000	350	380	410	440
75 001 — 80 000	370	400	430	460
80 001 — 85 000	390	420	450	480
85 001 — 90 000	410	440	470	500
90 001 — 95 000	430	460	490	520
95 001 — 100 000	450	480	510	540
OVER — 100 000	470	500	530	560

★ Where the employee bears the cost of all fuel used for private use of the vehicle deemed monthly values shall be reduced by R50.

MOTOR industry spokesmen predict a sharp upturn in sales and employment levels after Friday's announcement of new evaluation rules for private use of company-owned cars.

The change was announced by Finance Minister Barend du Plessis.

"The concessions are the type needed to boost confidence in the SA economy," McCarthy group MD Theo Swart said.

"Besides stimulating sales in the short term, they may even start creating jobs in the retail sector in the medium term."

A VW spokesman said: "This should encourage company car-users to replace vehicles more regularly."

National Association of Automobile Manufacturers of SA (Naamsa) president Peter Searle said: "Combined with the other stimulatory measures offered the industry a week ago, this new basis of valuation is expected to have a beneficial effect on new vehicle sales in coming months."

In terms of the scale of values (see table) released by Du Plessis, a company vehicle with a classified value of R30 000 and an engine capacity of 1 600cc would be regarded as having a fringe benefit valuation of R190 a month.

A vehicle valued at R80 000 with an engine capacity of 3 000cc would qualify for a monthly fringe benefit valuation of R430.

The new ruling also specifies where an employee bears the cost of all fuel used during the private use of the vehicle — including travelling between his place of residence and employment — the monthly fringe benefit value can be reduced by R50.

If the employee bears the full cost of maintaining the vehicle, the fringe benefit is reduced by a further R30.

JOINT TAXATION

FIN MAIL 4/7/86 320 358

Not a bed of roses

A new set of income tax tables for married women, effective July 1, which jack up their PAYE with immediate effect, is likely to cause more than just a rumpus in the kitchen.

After the March Budget, which included a tax reduction for women through a new 20% income-tax free rule with a minimum of R1 800, married women could be forgiven for expecting their tax liability to fall. But such are the wiles of revenue seekers that the re-arrangements mean more, not less tax.

One effect of the new tables will be that many wives with incomes identical to their husband's will pay more than their partners.

Each joint tax case is unique, but there are many problems that the new tables do not solve. There has always been a problem with PAYE in that a married woman is mostly taxed without reference to her husband's income. In other words, she has paid a lower tax rate than she should, when allowance is made for her income being added to her husband's and taxed at the marginal rate. So when a couple file their joint tax return, they invariably have to pay in. The amount is often material.

The new tables were announced in principle by Barend Du Plessis in the March Budget. Now that the figures are out (see table), their method of calculation is open to endless guesswork. The best guess is that some form of averaging was applied — the classic shotgun approach.

Logically the tables should address three issues: husband's, wife's, and joint income. A husband is taxed by the normal PAYE tables, so what he pays can be deducted from joint tax payable. The balance would be what his wife owes.

The new married women's table does nothing like this. It simply lays down PAYE deductible at her income level.

How information on a husband's earnings could be had and how willing he may be to volunteer it, are questions aside from equity. Perhaps this was the major stumbling block in producing a more satisfactory table.

The 5% discount on tax payable is available immediately to a married man and unmarried taxpayer; it is only applicable on assessment for a married woman. Then, the new tables apparently do not recognise the 20% tax-free rule, so it too can only be won on assessment.

These two points prejudice married household cash-flows, as PAYE is payable monthly, not on assessment.

The new tables discriminate in the extreme against higher income earners. A married woman with monthly earnings of R3 000 now pays 30,6% more PAYE; one earning R3 500 a month 37,4% more. The only explicable logic is the assumption that if a married woman is a high-earner, her husband must be as well.

Finally, the new tables, unlike the normal PAYE tables, ignore how many, if any, children the woman has.

Under the new married women's PAYE tables taxable income of R1 500 a month attracts PAYE of R289. On the standard tables taxable income of R1 500 a month incurs tax of R113 a month — after all relevant deductions. The difference of R176 is the extra tax a married woman must pay.

On taxable income of R1 500 a month a married woman's PAYE adds up to R3 468 a year. If her husband earns the same, his PAYE is some R2 280, a total of R5 748. They would be assessed for R6 813 after all deductions and rebates (assuming they have no children), giving a shortfall of R1 065 to be paid in.

Take another couple each earning R3 000 a month. His annual PAYE is R8 652, hers R8 940, to total R17 592. They would be assessed for R21 147 — a shortfall of R3 555. In reality, most wives earn less than their husbands and the pay-in amounts would not be as large.

Taxpayers who manage their cash flows can avoid the danger of paying too little tax by saving for the payment on assessment. And there is some remedy for married women who are the sole income earners. Where the husband is, for example, a student or in the army, Inland Revenue can be approached for a directive for a married woman to pay less tax than specified on the new table.

Costa Divaris of Silke Divaris Stein argues that to devise married women's PAYE tables is extremely difficult. He notes the great difficulty that can be associated with revealing a husband's income to his wife's employer, never mind to his wife.

Divaris argues that an option could have been given for a husband to reveal his income so that accurate PAYE could be deducted from the couple's monthly incomes. Although total tax liability will not be affected, the main overall effect of the married women's PAYE tables is that Revenue's coffers will swell faster. This is in line with Pretoria's hardline attempts to garner every cent owed it as quickly as possible. ■

MARRIED WOMEN'S PAYE

Pay now, pay more

Remuneration	Annual	New	Old	Difference
R1 000	R12 000	R1 991	R1 846	+R145
1 200	14 400	2 567	2 326	+241
1 500	18 000	3 471	3 077	+394
1 800	21 600	4 440	3 832	+608
2 000	24 000	5 112	4 337	+775
2 500	30 000	6 952	5 597	+1 355
3 000	36 000	8 953	6 856	+2 097
3 500	42 000	11 153	8 116	+3 037

BUILDING SOCIETIES 88 FIN MAIL

Provision puzzle?

Is the United Building Society (UBS) suffering from an embarrassment of riches?

Ahead of new legislation and of an almost certain listing, the UBS reports a 35% increase in net income before taxation for the 1985-1986 financial year. This does not, however, reveal the full extent of its success. Had provisions against loss been in line with other building societies, its profit increase would have been more than 60%.

The R44m loss provision is 176% of the amount owing on properties in possession, and 0,6% of total exposure on mortgage advances. This is in addition to a specific provision of R1,7m. The table shows that this sum is far in excess of amounts allocated by other societies, both in absolute and comparative terms.

Says UBS CE Piet Badenhorst: "This item is a general provision against the book. It is made for potential losses in line with prudent banking practices. In a climate like this, it is best to be conservative."

However, cynics believe the UBS prefers not to draw too much attention to its exceedingly healthy profitability. There has been much criticism of building societies' 3%-4% gross margins — the difference between average cost of funds and average return on mortgages and other interest-earning assets. Historically, this margin has been closer to 2,5%-3%.

Certainly, the large amount allocated for potential losses was not the result of bad debt experiences. Although the amount owing on properties in possession climbed steeply from R4,5m in 1984-1985 to R25m, it is dwarfed by the provision.

The other four major societies, although not on the same lavish scale, are also substantially increasing their provisions for bad debt. Executives are reluctant to admit to

July 1986

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SA tax changes 'will hit Ciskei housing'

Own Correspondent

CHANGES to SA tax laws would have a detrimental effect on the Ciskei Building Society's (CBS) intake of funds from SA investors, the annual meeting of the CBS was told in Bisho yesterday.

A move by SA to regard earnings on investments in banks and building societies in the TBVC states as sourced in SA was attacked by Ciskei's Minister of Finance Chief Malefane and CBS chairman C B Jennings.

Shareholders were told funds from outside Ciskei borders — attracted by competitive rates and Ciskei's unique tax advantages — had played a major role in providing funds for housing developments.

"It is difficult to understand the reasoning behind the SA Minister of Finance's announcement that hundreds of millions of rands would be made available for low-cost housing, and then have legislation against Ciskei which — through its own building society — is attracting funds and providing housing for Ciskei citizens without taking money from SA taxpayers' pockets," Jennings said.

Malefane said it was "a poor show that we have to have legislation passed against private enterprise".

He described the growth of the CBS in its 18 months of existence as phenomenal and said it illustrated the important role private enterprise could play in a developing state like Ciskei.

Jennings said in the annual report that total assets during the first full year of operation had grown from R12,1m to R32m. Investments had grown by R13,2m. The CBS supplied mortgage loans totalling R17,6m to 477 Ciskeians.

CUSHION AGAINST FUTURE LOSSES

Building Society Debt Provision

Millions	UBS	Perm	Allied	NBS	Saambou
Total exposure on mortgages	R6 973,3	R4 394	R3 528	R1 781,5	R1 508,9
Amount owing on properties in possession	R25	R19,1	R16	R4,4	R5,5
As a ratio of total exposure	0,36%	0,44%	0,45%	0,25%	0,37%
Provision for loss	R44	R2,6	R7	R0,4	not reported
As a ratio of total exposure	0,6%	0,06%	0,2%	0,02%	
As a ratio of properties in possession	176%	13,6%	43,75%	9%	

anxiety, but try to give the impression that they are merely observing the Boy Scouts' motto: be prepared.

Whatever the reason, they have allocated more than R10m between them. The SA Perm and the Allied record the amounts in their reports for the year ended March. The NBS does not disclose the amount in its income statement, but assistant GM loans, Trevor Olivier, provided the figure. Saambou's income statement also does not reveal the exact amount; nor will GM (finance) Hennie Prinsloo. Market sources believe it may be in the region of R1m.

All the disclosed amounts are well up on last year: UBS from R6m to R44m; SA Perm from R180 000 to R2,6m; Natal Building Society (NBS) from R200 000 to R400 000; and Allied from zero to R7m.

Why are these amounts so much smaller than that allocated by the UBS? The SA Perm, for instance, has allowed only 0,06% of the R19,1m owing on properties in repossession.

Says Peter Von Broembsen, Perm AGM marketing: "Our previous provision proved adequate. Based on this experience and conditions in the market, we consider this year's provision prudent."

None of the societies are exuding confidence; their representatives all speak of the deteriorating bad/debt situation.

"One would like to be optimistic, but you have to be realistic," says NBS's Olivier. Although the NBS made a profit of R14 000 in the last financial year on properties in possession, this is unlikely to be repeated.

"The difficulty lies in the high cost of repossession. By the time you have a public auction, tens of thousands of rands have been lost in interest and liquidation costs. If sufficient isn't bid, you need a property surrender and that means 5% transfer duty. By then, the debt has risen substantially and it's very difficult to recover, and there's still commission to the agent of 5%. So your margin of 20% is eaten away in no time."

Says Allied's senior GM Geoff Bowker: "This is worse than the downturn of 1976 because it has lasted longer. Try as we will to help people, some are beyond help." ■

PERKS TAX

Car changes

Reflecting the volatility of the tax system, this week's *FM* perks tax survey has, to some extent, been overtaken by events. However, changes emanating from the 1986 Income Tax Bill and Finance Minister Barend du Plessis' economic package are covered.

The survey's company car table has been replaced by a new-principle table published last week. Following Naamsa pleas, the new table is based on car value *and* engine size. The phasing-in of the tax has been frozen at the current 40% level.

Most points discussed in principle in the survey have not been affected by the new developments. One point of speculation, after change of the company car table, is what will happen to car allowances. Arthur Andersen's Kevin Wiles argues that an anomaly will arise unless these are also changed.

It appears that the normal five-year phasing-in will continue to apply to car allowances. Before the company car change, many employers had switched employees to car allowances as they were more favourable.

For users of the survey, a re-cap of the most significant changes:

☐ Daily out-of-town allowances for business travel may exceed the current R100 tax-free limit — at the Commissioner's discretion;

☐ Relocation costs paid by employers may now also cover the cost of selling the employee's previous residence. However, both the kind of costs and the amount of the settling-in allowance will be at the Commissioner's discretion;

☐ An additional exemption from tax is proposed for benefits granted to retired employees who continue to work part-time for their employer;

☐ Qualifications for the seven-year phasing-in of housing perks have been altered; and

☐ The table for private use of company cars has been changed.

What happens next in the perks tax circus is anyone's guess. Says Wiles: "One may legitimately ask where the Margo Commission on tax stands on all this. Principles such as the objective of taxing perks on the same basis as cash remuneration have apparently been thrown overboard. This leaves a number of awkward anomalies — presumably to be subject to further amendments." ■

LLOYD'S LITIGATION

Lloyd's of London is expected next week to announce the next step towards settling the affair of the Peter Cameron-Webb (PCW) syndicates, whose 1 525 underwriting members face losses of up to £250m.

Negotiations are going on between Lloyd's and representatives of the PCW "names" to help those worst affected to pass the market's internal solvency test.

Last week, Lloyd's chairman Peter Miller announced that the June 30 deadline for proving solvency was being put back to July 7. He said Lloyd's believes "it will be possible to arrange for PCW names to pass the solvency test on a basis which will leave open the possibility of a settlement before the end of this year."

While Miller refused to say how, it is widely believed Lloyd's will offer the PCW names security against which to raise bridging loans — as was done for members involved in the Sasse syndicates.

The offer is conditional on the names dropping their claims against Lloyd's in the US courts under the Racketeer Influenced and Corrupt Organisations Act. In addition to the £80m of members' money misused by former managers, it is claimed that insurance losses are also linked to improper practices which Lloyd's failed to catch in its self-regulatory net.

Miller said Lloyd's wants to avoid five or more years of expensive litigation, which would be "of no assistance to our good name and might cast doubts on our ability to deal with our problems."

At the same time, he emphasised, there is no question of the PCW names being bailed out of losses. However, Lloyd's wants a fair settlement and, he said, it is the Council's duty to "ensure that those who have contributed in any way to the misfortunes of these syndicates, or who have had a moral or legal responsibility in their management, should make a just contribution."

Representatives of the syndicates say it will not be easy to sort out the position of the names. Last year, Lloyd's earmarked £54m to cover liabilities of defaulting PCW names.

The latest loss position is not known. It will be another two weeks before accounts are finalised. Meanwhile, it is argued that as the question of solvency is intertwined with settlement of the losses, Lloyd's may again have to extend Monday's deadline. A spokesman told the *FM*: "We can't say anything about the negotiations, but another statement is not expected before Monday."

FIN MAIL 4/7/86

Although financing agreements still have to be signed, this week's announcement by the Credit Guarantee Insurance Corporation (CGIC), that it has underwritten the contract, removes one of the last stumbling-blocks before the project finally gets off the ground.

The Industrial Development Corporation (IDC) will provide the export credit on capital goods and services, based on CGIC's underwriting of the R23,5m contract, but the balance of a total contract — said to be worth some R30m — will have to come from other sources.

Developing company is Johannesburg-based Tekton Building Systems, which formed the consortium of architects, quantity surveyors, consulting engineers, interior designers and marketing consultants that put the project together.

Holding company Nouvelle Socotel is jointly owned by London-based Landmark Holdings, the Comoran government, the French Unispar group, and Tekton, says Tekton MD Abe Cassim. Landmark will operate the hotels.

LTA will start this month with groundwork operations on the large 150-room beach hotel at Galawa, on the north coast of the main island, Grand Comore — one of the three islands of the Comores Republic. Completion date is set for November 1987.

The project also includes a 20-room hotel on Anjounan — known as the perfume island — at the site of an old Arab town, Domoni; and a small hotel for scuba divers on Moheli, which will be developed in conjunction with a new marine life park. The 25-room Itsandra hotel near the capital, Moroni, will also be refurbished, while the provision of general tourism infrastructure is included in the project.

With the Comores possessing little infrastructure, virtually all building inputs — with the exception of labour and a limited amount of material — will be shipped from SA. It is estimated that about 50% of the contract value will be in the form of supplies from SA.

The Comoran currency is linked to the French franc. But, says LTA Construction MD Ian Robinson, both LTA and the suppliers will be paid in SA in rands to eliminate possible foreign exchange risks.

Robinson describes the contract as a major fillip for the depressed local building industry and says he sees the possibility of further work on the islands.

The logistics of the operation will tax LTA's ingenuity. Apart from the shipping of all inputs from SA, building blocks will have to be manufactured on the islands. Construction will take place on three separate islands, with telex the only means of communication.

"As there is no natural harbour, all equipment must be transhipped to barges and run up on the beach," says Robinson. "We had the same problem when we extended the Ilha do Sol runway in West Africa several years ago — so we're used to it."

Although there are regular monthly sailings from SA to the Comores, LTA will have to ensure that its first consignments include everything needed to start building. "There's no phoning down the road for replacement equipment if we leave anything behind," Robinson notes.

LTA Construction (Natal) has been assigned to handle the project. Robinson says that as LTA negotiated the contract, and put certain guarantees to cover the financial package, "profitability will be geared to the success of the venture." ■

4/7/86

RADIOS FIN MAIL

Big switch-on

In spite of a depressed economy, South African business has seen rising sales of at least two products. Hot on the heels of defence weapons sales (*Business* June 20) comes an increasing demand from a news-hungry public for shortwave radios.

Radio stores tell the *FM* that the sales increase started about six months ago, but since the State of Emergency sales began rising rapidly. Also boosting purchases was an April BBC advertisement which appeared in five South African newspapers.

The advertisement encouraged the public to "switch to shortwave for BBC news." The campaign, organised in London, was part of the BBC's drive to stimulate listenership. "We decided to advertise in SA because the R/£ situation allowed us a lot of space at very little payment," says a BBC external services spokesman, Richard McCarthy.

Although similar advertisements have been placed in other countries where the BBC feels there are potential listeners, this was its first try in SA. "The campaign was a huge success," McCarthy says. "We had 5 000 letters requiring additional information and 600 from *FM* readers alone," he adds.

Responses are still pouring into the BBC's London offices. Says Tedelex Sony salesman Brian Irwin: "Many South Africans listen to the BBC to get alternative news coverage about their own country. Over the past six months our sales have doubled."

National Panasonic manager of audio and consumer products Stan Maserow says the demand to hear international news broadcasts was complemented by the many sports fans wanting to tune in to the World Cup and Wimbledon matches.

Stax appliance store has also noted a definite increase in buyers of shortwave radios. "Two days ago we received 20 shortwave radios — there are only two left," says a salesman.

Although prices of the 11-odd different makes of imported shortwave radios have risen dramatically — in some cases about 55% — customers are not put off. The most popular choice size is the 29-band (for the best sound), which sells in the R600-R5 000 range. Most customers prefer the cheaper versions. ■

CAR INDUSTRY

Breathing time

New perks tax scales coming into operation from September 1 could push up new car sales by as much as 1 000 a month, say industry sources.

This will bring much-needed relief to the beleaguered motor industry. Some sources estimate that current perks tax scales have already cost the industry about 10 000 jobs, while yielding only R10m in additional tax revenue. So it's hardly surprising that the sector welcomes the change.

Generally, the industry believes that the new system will prove a stabilising factor on the "buy down" trend, with Leyland, for instance, hoping for significantly increased sales in its upmarket Jaguar range.

The downmarket shift is underlined by market analyst Econometrix's Tony Twine. "In the medium-sized to top executive car ranges, market share fell from 46% in early 1985 to 36% now. There will probably be a shift back upmarket with the new rules," he says, pointing out that a R65 000 car in 1988 would have a deemed tax value of R800/month, which is now reduced to R320/month.

Toyota marketing director Brand Pretorius says company car fleet sales — making up some 60% of new passenger vehicle sales — faltered significantly over the past six months.

From January to May, total car sales were 16,12% down on the 83 187 sold in the same period last year.

"Companies and employees resisted replacing cars, not so much because of perks tax in operation till now, but because of increases due over the next three years," Pretorius adds.

Under the current system, perks tax payable between now and 1989 would have increased by 150%, as the taxable amount rose from 40% to 100%.

Faced with this threat, many companies changed their car replacement policies, lifting the distance travelled by cars before replacement from 80 000 km to as high as 150 000 km, while car use before replacement was extended from two or three years to five years.

"The new rules will lead to adjustments in company repurchasing policies," says Pretorius.

Theo Swart, MD of the McCarthy Group's motor trading operations, SA's largest vehicle retail group, says: "Besides stimulating vehicle sales in the short term, the new schedules may even start creating jobs within the retail sector of the industry in the medium term."

He reckons the concessions are the most significant granted to the hard-hit motor industry in more than three years. And although the legislation will be effective only from September 1, Swart expects the certainty introduced by the move to increase car sales almost immediately. ■

New SA tax laws bad for CBS chief

8/7/86 DAILY DISP 320

Business Editor

BISHO — Changes to the South African tax laws would have a detrimental effect on the Ciskei Building Society's intake of funds from South African investors, the annual meeting of the CBS was told yesterday.

A move by South Africa to regard earnings on investments in banks and building societies in the TBVC states as sourced in South Africa was attacked by Ciskei's Minister of Finance, Chief E. P. Malefane, and the CBS chairman, Mr C. B. Jennings.

Shareholders were told that funds from outside Ciskei's borders — attracted by competitive rates and Ciskei's tax advantages — had played a major role in providing funds for housing developments.

"It is difficult to understand the reasoning behind the South African Minister of Finance's announcement that hundreds of millions of rands would be made available for low-cost housing and then have legislation against Ciskei which, through its own building society, was attracting funds and providing housing for Ciskei citizens without taking money from South African taxpayers' pockets," Mr Jennings said.

MR JENNINGS

Chief Malefane said it was "a poor show that we have to have legislation passed against private enterprise."

He described the growth of the CBS in its 18 months of existence as phenomenal and said it illustrated the important role that private enterprise could play in a developing state like Ciskei.

Mr Jennings said in the annual report that total assets during the first full year of operation had grown from R12,1 million to R32 million. Investments had grown by R13,2 million.

The CBS supplied mortgage loans totalling R17,6 million to 477 Ciskeians.

(320)
DD 16/7/86

Ways around perks tax outlined

Dispatch Correspondent

JOHANNESBURG — Most employers have found ways of getting around the new fringe benefits tax, a conference on tax in Johannesburg was told.

"At present, an increase of up to 38 per cent is needed to retain the same after-tax income as prior to the introduction of perks tax," Mr Keith Clubb, managing director of International Compensation management consultants, said.

"Tax benefits are maximised by implementing approved benefits schemes that will offer the employee the freedom of choice to get the best possible fringe tax deal," Mr Clubb said.

Employers could grant tax-free educational bursaries to employees and give sensible long-service awards of R2 000, such as shares that increase in value for the first 15 years and every 10 years thereafter.

On the matter of car benefits tax, the NAAMSA proposals to boost new car sales resulted in a definite tax advantage for the car allowance method rather than a company car, Mr Clubb said.

Employers also choose to buy two cheaper cars — one for the wife — rather than one expensive car.

Another way is to buy a cheaper car and receive the difference in cash.

Mr Clubb said that in a survey of 204 leading companies, 77 per cent restructured their fringe benefits packages prior to the introduction of perks tax.

Of the 204 companies surveyed, 14 per cent intended to compensate in cash and only 9 per cent intended to do nothing.

The present trend indicates that by the end of 1987, 83 per cent of employers will have restructured their fringe benefits programme with 41 per cent offering freedom of benefit selection, in other words a flexible remuneration system, Mr Clubb said.

A substantial benefit could be passed on to the employee if he rents his house to the employer as the 40 per cent phasing-in period can be applied to the rental received.

Mr Clubb warned employers not to await the report of the Margo Commission before taking action on fringe benefits as it could take as long as 15 years to be implemented, like the Franzen Commission.

3203 10/7/86

N/M

Married women get PAYE shock

Mercury Correspondent

JOHANNESBURG—Many married women have been hit by a massive PAYE deduction this month as computerised payroll systems have recovered shortfalls in deductions made before implementation of higher PAYE rates.

A number of companies have discovered that shortfalls in deductions from the beginning of the tax year to June have been automatically recovered this month, leaving married women employees with a massive additional burden.

In an attempt to iron out this anomaly, the Department of Inland Revenue has advised companies which use the 'cumulative' method of calculating employees' tax to make deductions according to the manual tax tables on a month-to-month basis.

If the calculation is done in this way, the shortfall will not be recovered.

However, the department has also suggested that companies continue using the cumulative method unless employees object. But instead of deducting the shortfall in one month, they should spread it evenly over the remainder of the tax year to February next year.

The PAYE deductions for married women have been increased to bring their share of the joint tax liability more in line with the tax which will be attracted when the married couples' joint income tax is assessed at the end of the tax year.

Previously the rate of PAYE for higher salaried married women was far less than the actual tax liability which meant the married couple ended up paying large amounts of tax at the end of the year.

Married women earning annual salaries in excess of R20 000 will be hardest hit by the changes in the PAYE rates, but will gain by not having to pay in large sums at the end of the year.

On the old PAYE tax tables, the highest rate of tax was 21% for annual salaries exceeding R15 000.

According to the new tables, married women will pay a marginal 26% each month on annual income exceeding R15 000. Those earning more than R20 000 annually will pay 28%, while married women earning more than R40 000 annually will pay as much as 38%.

Dispatch Correspondent

Big tax shock for women

JOHANNESBURG — Many married women have been hit by a large PAYE deduction this month as computerised payroll systems have recovered shortfalls in deductions made before the implementation of higher rates.

A number of companies have discovered that shortfalls in deductions from the beginning of the tax year to June have been automatically recovered this month, leaving married women employees with a large additional burden.

In an attempt to iron out this anomaly, the Department of Inland Revenue has advised companies which use the "cumulative" method of calculating employees' tax to make deductions according to the manual tax tables on a month-to-month basis.

If the calculation is done in this way, the shortfall will not be recovered.

However, the department has also suggested that companies continue using the cumulative method unless employees object. But instead of deducting the shortfall in one month, they should spread it evenly over the remainder of the tax year to February next year.

The Commissioner of Inland Revenue says the department does not intend to deduct additional employees' tax from March to June.

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DD 10/7/86

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Tax relief for retrenched

By LESLEY LAMBERT

JOHANNESBURG. — People who have been retrenched will qualify for significant tax relief once an amendment to the Income Tax Act has been promulgated in the Government Gazette.

The much-needed tax concession which has previously been applied only in special cases, including retirement over a certain age, has now been extended to anyone who is retrenched from work.

The concession applies in the following way.

Take Mr X, for example, a married man with no children whose annual income is R30 000. Assume that he receives a R10 000 retrenchment payout and pension contributions amounting to R4 000. This leaves him with R44 000 taxable income.

Deduct the R1 800 exemption which is normally allowed on withdrawal of pension contributions when a person retires, resigns or is retrenched. This leaves him with taxable income of R42 200.

In terms of the new concession, his retrenchment package, including pension contributions, will be taxed at the average rate of tax calculated on the R30 000 annual income rather than the marginal rate on the full amount of R42 200.

Assuming a standard deduction and a minimum insurance and funds rebate, Mr X would save about R2 500 or more in tax.

The concession has been introduced to provide some relief for the thousands of people who have been retrenched as companies rationalize operations to survive the recession in SA.

And, according to a spokesman for the Department of Inland Revenue, "there are no strings attached".

The amendment was recently approved by Parliament but has not yet been promulgated.

Once it has been promulgated in the Government Gazette, "people who qualify should apply to the Receiver of Revenue.

The relief applies retrospectively for the tax year ended February 1986 and qualifiers who have already submitted tax returns are still able to apply to the Receiver.

Applications should be accompanied by an employer's confirmation of retrenchment.

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Tax relief soon for retrenched

Dispatch Correspondent

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Clive Kingon to take over as the new tax supremo

STAR 320 11/7/86

By Trevor Walker

It's all eyes on the incoming Commissioner for Inland Revenue, Mr Clive Kingon, who believes that the tax allowance scheme on company cars is too generous.

Government sources said Mr Kingon would take over the next Commssioner for Inland Revenue when Mr Carl Schweppenhauser retires at the end of the month.

Mr Kingon, who is on leave at the moment, has been with the Department of Inland Revenue for 45 years and has been closely involved with the recent changes made to the perks tax on company cars.

Asked whether the present car allowance scheme would also be altered so that it would tend to reflect the watering down in the company car tax tables, Mr Kingon said: "We are urgently investigating this, but I believe the present allowance scheme is too generous."

Schweppenhauser

The two schemes were totally different in concept and benefit, and the allowance scheme appeared to be used as an additional form of remuneration to employees and not for transport as such.

The car allowance scheme which has not been altered in line with the changes to the car perks tax tables tends to favour people who do a great deal of travelling.

Leasing company officials said certain fairly onerous anomalies had surfaced as a result of the perks tax changes, and it had been hoped that the phasing-in procedure for the allowance schemes would be conducted on a similar basis as that of the perks tax tables.

The perks tax tables have been altered to reflect the value and engine size of a motor car, and the actual impost on the deemed personal benefit reduced so that the overall effect of the tax was watered down.

It was assumed that the allowance scheme which tended to hit the recipient of such a benefit at the end of the tax year and not monthly as the perks tax would be adjusted before the next Budget in March 1987.

The whole question of companies subsidising employees' transport has been thrown wide open by Mr Kingon's suggestion that this benefit, because it is becoming so widely used as remuneration, should be looked at again and possibly tightened.

It would appear that the allowance or scheme car is not the route to follow.

If a company believes that an employee requires a car to increase business then it will have to buy the car direct and leave it up to the employee to pay tax on the deemed value of the "private use".

● Leasing sources say the current thinking on allowance schemes would mean that people with car allowances would be unfairly penalised.

FIN MAIL 11/7/86 (320)

ZIMBABWE

US aid gaffe

One of the ongoing ironies of the Zimbabwean situation is the failure of the Foreign Ministry to appreciate economic realities.

Last week, the Finance Ministry published a detailed statement of aid inflows since independence in 1980. The "status report" shows that US$2,6 billion of aid has been pledged since independence in April 1980, of which $1,6 billion had been disbursed by the end of last year.

The largest single bilateral donor has been the US, with commitments of some $343m or more than 13% of the total, followed by Britain with $221m.

Yet these two countries (the US in particular) were the prime target of an ill-timed attack by Foreign Minister Witness Mangwende at last Friday's Independence Day celebrations in Harare.

One US diplomat at the gathering said the Mangwende attack was the final nail in the US aid coffin, predicting that the $US6m set aside for commodity aid assistance was now unlikely to materialise.

The status report underlines the importance of foreign assistance. Zimbabwe has an investment target over the next five years of some US$4 billion, of which 40% ($1,6 billion) is to be raised abroad. With aid to Zimbabwe declining precipitously — former president Jimmy Carter led the walkout, but was joined by representatives of major Western countries — it is doubtful whether Zimbabwe can raise foreign investment of this magnitude without running the risk of seriously worsening its external debt profile.

The bulk of post-independence aid has been devoted to balance of payments support (21%), agriculture (13%) and education (12%); industry's share is 11,5%.

Two major worrying aspects are evident from the report. The first is that in the past two years aid disbursements have exceeded aid commitments. In banking jargon, this means that Zimbabwe has been spending more than has been coming in the form of new assistance. Commitments in 1984-1985 totalled US$625m, against disbursements of $719m.

The second problem relates to the fact that Zimbabwe's aid honeymoon is over. The big handouts that followed independence are not being repeated. By least developed country standards, Zimbabwe is far less a deserving cause than 30 other countries in sub-Saharan Africa. As long as the Mugabe government condemns its main aid donors, it seems destined to experience sharply declining aid assistance from the West, especially the US.

The socialist bloc's aid assistance is minimal. A total of US$140m has been committed by socialist countries, of which roughly half has come from China and another 25% from Yugoslavia. Zimbabwe's allies in North Korea, Algeria, Bulgaria, Cuba and Libya have little to show for themselves. ■

FIN MAIL 11/7/86.

TAX REFORM (320)

Margo makes it

Although there was no official announcement, the Margo Commission on tax completed its draft final report of 36 chapters on deadline at the end of last month. However, what will happen to the report of SA's largest commission — its quickest relative to size, and probably its most expensive — remains the object of speculation.

The draft report is now with all commissioners for their final comments. These will be incorporated and there is a meeting scheduled at the end of this month for final approval. Then there will be a number of technical hitches. The report must be translated and will take six weeks at the government printers.

Its appearance in mid-September will allow it to be tabled in parliament, which should then be sitting. Answers to a number of queries directed at tax authorities from the private sector suggest yet another tax package after parliament goes back to work in August.

And a number of "loose ends" are left after June's Income Tax Bill.

Taxation has become so entwined with such a wide range of official policy on other matters (sport sponsorship, export incentives, inflation, bad debts, and so on) that its role is now blurred. So the chances of the tax system being affected by one of the frequent "economic packages" increase all the time.

A prime example was the recent package which overhauled the company car table and relaxed a number of other imposts. But several technical tax matters need their floors swept, either by Finance Minister Barend du Plessis or Margo or both.

The initial allowance for machinery and industrial buildings effectively runs out on December 31 — unless extended by then. Observers expect more measures against the tax haven characteristics of the independent homelands.

The 1986 Bill took only one anti-tax avoidance measure: on income earned by South African residents from building society and bank investments in the TBVC states. In addition, yet another change may affect the never-ending lifo stock saga. The latest changes are thought by some observers to be unworkable in practice. ■

Ciskei complaint

SM 12/7/86 320

By Winnie Graham

The Minister of Finance's decision to change the tax laws to prevent South African investors depositing savings in the Ciskei has been strongly criticised by Mr C B Jennings, chairman of the Ciskei Building Society (CBS).

The CBS, whose investments have grown to R13,2 million in the 18 months since its establishment, has financed the building of hundreds of homes for Ciskeians.

Speaking at the annual general meeting of the society in Bisho this week, he said it was difficult to understand the reasoning, particularly as Mr Barend du Plessis had just announced hundreds of millions of rands would be made available for low-cost housing in South Africa.

"How can he legislate against the State of Ciskei which is attracting funds through its own building society to provide housing for Ciskeian citizens without taking money from South African taxpayers pockets?" Mr Jennings asked.

In housing projects financed by CBS most of the new houses under construction were not "low cost" but were being sold at prices ranging from R30 000 to R100 000. There were hundreds of new homes springing up in the veld, giving Ciskei the appearance of any modern white town on the Reef.

Houses at Phakamisa, built on stands of between 400 and 500 m sq, sold at more than R100 000 each. Some were designed in western fashion, others had an ethnic look.

CBS continues tax fight

14/7/86 320 BUSDAY

Economics Reporter

THE 1986 tax bill is in the books, but the Ciskei Building Society (CBS) is still waging battle against a provision it says could impede the independent state's efforts to maintain economic growth without outside help.

● VAN DEVENTER

The measure also points to the likelihood of broader efforts by government to counter the success of Ciskei's status as a tax haven in attracting outside investment.

CBS, now 18 months old, built up funds in the past year by taking deposits from SA investors attracted by Ciskei's 15% personal income tax.

Finance Minister Barend du Plessis effectively shut off the loophole last month, when he ordered that income from investments in foreign building societies would be taxed at a rate that brought after-tax income in line with that available from comparable local investments.

Analysts say the move was meant more as insurance against the possibility of a large future drain of tax revenue into the tax havens than as a reaction to the present loss — seen as small by any standard.

CBS officials, for example, estimate the total tax loss to SA on income from its SA-based deposits totalled just R50 000 in the current year. They say deposits have come largely from a low-profile network of investors who are friends or acquaintances of the society's directors.

Approximately R4m of the society's R23,5m in deposits have come from SA investors attracted by the tax advantage, according to executives.

CBS executives continue to decry the measure — "it is difficult to understand the reasoning", said chairman Cecil Jennings — but are in a weak position to change government's thinking.

The man who could put some political weight behind the society's argument, Development Bank of Southern Africa chairman Simon Brand, is said to be unwilling to champion the society's cause in government circles.

The tax law change would force CBS to raise its deposit rates to as much as 1,5 percentage points above rates offered by SA societies in order to attract funds. Even then, said MD Edgar van Deventer, the society is unlikely to attract enough deposits to meet the growing financing needs for housing around Bisho, Ciskei's new capital city.

Observers say the larger question now is whether this relatively insignificant action will lead to further attacks on Ciskei's free market approach.

"It's been almost explicitly stated by Margo that the Ciskei system is one that will not be tolerated," said Arthur Andersen's Kevin Wiles. "And SA has the power to nullify any tax advantages of Ciskei."

COMPANIES

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Tax relief coming for jobless

LESLEY LAMBERT

PEOPLE, who have ben laid off, will qualify for significant tax relief once an amendment to the Income Tax Act has been promulgated in the *Government Gazette*.

The much-needed tax concession, which has previously applied only in special cases, including retirement over a certain age, has now been extended to anyone laid off.

The concession applies in the following way. Take Mr X, for example, a married man with no children whose annual income is R30 000.

Assume that he receives a R10 000 retrenchment payout and pension contributions amounting to R4 000. This leaves him with R44 000 taxable income.

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Assuming a standard deduction and a minimum insurance and funds rebate, Mr X would save about R2 500 or more in tax.

According to a spokesman for the Directorate of Inland Revenue, "there are no strings attached".

The amendment was recently approved by Parliament but has not yet been promulgated.

Once it has been promulgated in the *Government Gazette*, people who qualify should apply to the Receiver of Revenue.

The relief applies retrospectively for the tax year ended February 1986 and qualifiers, who have already submitted tax returns, are still able to apply to the Receiver.

Applications should be accompanied by the former employer's confirmation of retrenchment.

GST change for small traders

15/7/86 BUSDAY 320

Economics Reporter

A PROVISION of the 1986 Sales Tax Amendment Bill will raise the turnover exemption for small businesses to R50 000 a year, from R10 000.

Businesses with annual turnover of less than R50 000 will now be unable to register as vendors, and will pay GST on all purchases. But they will not charge the tax to customers.

Ernst & Whinney partner Roger Bramwell said the change, meant to ease the administrative burden for Inland Revenue, would affect small businesses being operated out of individuals' homes.

Another provision of the amendment limits to five years the period for which the Commissioner of Inland Revenue can issue demands for delinquent sales tax and penalties.

Small business benefit from sales tax bill

BD 16/7/86

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JOHANNESBURG — A provision of the 1986 Sales Tax Amendment Bill will raise the turnover exemption for small businesses to R50 000 annually from R10 000.

Businesses with annual turnover of less than R50 000 now will be unable to register as a vendor, and will pay the GST directly on all purchases. These businesses, however, will not charge the tax to its customers.

Ernst & Whinney partner Roger Bramwell said the change, meant to ease the administrative burden for Inland Revenue, would affect small businesses operating out of individuals' homes.

"A lot of these businesses probably have not been registered anyway," Bramwell said.

The amendment bill also gives the Finance Minister new authority to override existing provisions of the Sales Tax Bill to deny vendor exemptions in countering abuses found in collecting the GST.

The provision extends the trend toward increasing ministerial discretion found in the 1986 Income Tax Bill. "This is just another area where Government is going outside Parliament," Bramwell said.

Another provision of the amendment limits to five years the period for which the Commissioner of Inland Revenue can issue demands for delinquent sales tax and penalties.

Previously, the commissioner could collect tax revenue from as far back as July 3, 1978 — the date the GST was introduced.—DDC

BUS DAY 16/7/86

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Talks to clear anomalies

Industrial Staff

THE Business Equipment Association (BEA) is to hold talks with government to review the question of surcharges and import duties on office equipment.

BEA executive director Les Wood says the talks will be held to clear certain anomalies in the present import-duty structure, particularly the definition of what constitutes computer accessories and spares.

"We recently submitted the results of a survey, which showed that although mainframe suppliers have not noticed any major drop since the imposition of the duties in March 1985, there has been a substantial drop in sales of units of smaller equipment."

The results of the survey showed all suppliers interviewed said industry and commerce was not now in a position to increase expenditure on office equipment.

"Any increase in the cost of units can only result in a reduction in the number of units sold," said Wood.

Wood said the survey results were presented to Deputy Finance Minister Kent Durr and officials of Customs and Excise.

"None of the facts was disputed by government."

He said the minister undertook to take the BEA's position into consideration as part of an overall review.

African leaders call for sanctions

14/7/86 BUS DAY

West gets warning

ARAP MOI

NAIROBI — Leaders of seven East and Central African nations said yesterday Africans would not forgive Western governments which failed to apply mandatory sanctions against SA.

They called for comprehensive sanctions in a joint communique at the close of a two-day summit meeting attended by Sudan's prime minister and the presidents of Kenya, Zaire, Tanzania, Uganda, Rwanda and Burundi.

"The people of Africa will never forget those that deliberately failed to join them at the crucial moment in their fight against . . . apartheid," the communique said.

It was signed by Daniel Arap Moi of Kenya, Yoweri Museveni of Uganda, Mobutu Sese Seko of Zaire, Ali Hassan Mwinyi of Tanzania, Juvenal Habyarimana of Rwanda, Jean-Baptiste Bagaza of Burundi and Sadiq el-Mahdi of Sudan.

They agreed to strengthen cooperation on security, crime detection, cultural and social programmes, disease control, trade, transport and communications.

They called for steps to prevent dissidents from conducting subversive activities against their home countries from bases in neighbouring states.

They agreed to meet again in November in Kigali, Rwanda.

Three of the participating nations — Zaire, Uganda and Kenya — border on Sudan, which is torn by a civil war.

The leaders were briefed on the conflict by El-Mahdi.

El-Mahdi said after the summit that Sudan's recent elections had been conducted democratically and had produced a government committed to human rights and negotiations.

"The people organising the violence have lost all credibility," he said, referring to the rebels fighting in southern Sudan. "There is no reason for anyone to bear arms against the government."

He said the government was willing to talk directly to rebel leader John Garang or to include his Sudan People's Liberation Army in a planned national conference. — Sapa-AP.

Sandton keen to be 'open'

HAMISH McINDOE

SANDTON should be opened to all races and used as the pilot scheme for a zone free of group areas, PFP MP for the area David Dalling said yesterday.

Speaking at a report-back meeting, Dalling called on President P W Botha to give the town council immediate authority to open Sandton to South Africans of all races.

"Sandton is willing to be a forerunner in the abolition of the Group Areas Act. The times are too urgent for government to wait for the report on the Act by the President's Council," he said.

Dalling said the town would be happy to open its doors to all people who wished to live there.

He urged the State President to use his powers to give Sandton immediate authority to open the town to South Africans of all races.

SOWETAN
Daily Mirror
THURSDAY, JULY 17, 1986 Sowetan 27c + 3c GST (PWV) Prices elsewhere on back page
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THROWN OUT

A THREE-judge panel yesterday declared void all or parts of five of the six definitions of "subversive statements" banned under the national emergency decree on grounds of vagueness.

However, the Natal Province Supreme Court rejected argument by the Metal and Allied Workers' Union (Mawu) that the entire state of emergency was illegal.

But state of emergency still remains

SAPA

Justice John Didcott told a crowded courtroom that several aspects of the definitions under the law were "hopelessly uncertain".

In his two-hour opinion on the case brought by the mainly-black union, Mr Justice Didcott said that just one of the six clauses defining a subversive statement was precise enough to be considered lawful.

That clause forbids incitement of people to participate in unlawful strikes, boycotts, processions, civil disobedience or to oppose compulsory military service.

He said two of the clauses were far too broad to be understandable.

One clause bars any statement that advances the object of any unlawful organisation.

"I consider that paragraph (A) is hopelessly uncertain, and that no ascertainable meaning can be derived from it," Mr Justice Didcott said.

The other provision considered too broad prohibited any statement that engenders hostility between one person or group and another.

"It is unintelligible," Mr Justice Didcott said.

Ruling

Mr Justice Didcott's ruling against the procedural challenges by the union mean that most aspects of the decree remain in force. The union had contended that the regulations were void because the State President, Mr P W Botha, announced them simultaneously with the emergency decree, rather than proclaiming the decree first.

Emergency powers still in force are detention without charge, curfews, sealing off areas and the power to shut down publications.

On the three other clauses Mr Justice Didcott found fault with certain phrases.

On the provision forbidding statements calling for disinvestment, sanctions or foreign action against South Africa, Mr Justice Didcott said disinvestment and sanctions were reasonably clear but "I do not know what 'foreign action' is. What is action, what is foreign? The words 'foreign action' must go."

He also ruled against a clause prohibiting statements that would tend to weaken public confidence in the Government's ability to maintain the public order or end the emergency.

Finally, Mr Justice Didcott approved the clause against inciting people to resist or oppose the Government in connection with the emergency, but ordered a clause about incitement against "the administration of justice" to be removed.

Mr Justice Didcott also said a ban on detainees' access to lawyers was improper, and that such access must be granted.

The union had also contended that the emergency was illegal because Parliament was not informed within 14 days of the June 12 proclamation.

Mr Justice Didcott accepted the State's argument that Parliament had recessed before the 14 days were up and that the regulations could still be presented to the chambers when the session resumes on August 18.

With the court's decision, the clauses it objected to became void immediately. Both sides can appeal.

Mr Justice Didcott noted that the court has no authority to rule against Acts of Parliament but does have the power to decide whether regulations issued under those acts are specific and reasonable.

Govt allows surcharge relief

17/7/86. (320)

Own Correspondent

THE Department of Finance has acceded to appeals for relief from the 10% surcharge by widening the list of imported goods that qualify for exemption.

Finance Minister Barend du Plessis said yesterday that in the case of goods entered for home consumption between June 20 and August 31, applications for exemption permits must reach the committee by September 30.

On June 18, Du Plessis exempted many imports on customs schedules 3 and 4 from the surcharge. This latest decision has extended the impact of relief beyond those original categories.

Du Plessis said: "Permits will be issued with retrospective effect if necessary."

Goods entering after September 1 would not qualify for the concession.

An inter-departmental surcharge committee considers applications for exemptions from the payment, but anomalies abound.

One of these was a situation where raw materials were subject to the surcharge, but not the finished project. Brush manufacturers found natural bristles qualified for the surcharge while synthetic fibres did not.

Fighting duties

FIN MAIL 18/7/86 (320)

Battle lines are being drawn against the import duties imposed in the March, 1985 Budget on computers and other hi-tech products.

Business Equipment Association (BEA) executive director Les Wood recently met with deputy Finance Minister Kent Durr and the commissioner for Customs and Excise to contest the duties.

"Should companies be unable to afford the dearer equipment and therefore operate less productively or profitably, the loss of tax revenue to the fiscus would probably cancel out the total import revenue," says Wood.

Working on 1984 import figures, Wood points out that the FOB value of equipment imported during that year — and now subject to the new duty — was R837m. "If we deduct the estimated FOB value of equipment supplied to government departments that qualify for full rebate of duty — about 40% of the total — this boils down to about R334m," says Wood.

On the balance of R503m the duty at the new 11,5% rate would amount to R57m. "When the R28m income tax paid by these importers or end users — at the average 50% company tax rate — is deducted, a nett revenue of only R29m remains," he says. Ultimately, Wood reckons, the loss to companies through lack of productivity will cancel out this R29m as less tax will be paid on profits.

Another problem arises with the 2% duty imposed on parts, as there are many different interpretations of what constitutes a part.

"Some importers import parts and assemble these in SA to evade the higher 11,5% duty. For instance, should one import a board to upgrade the power of a computer, it would be difficult to establish whether the board constitutes a spare part or an accessory. The latter carries the higher duty," he says.

Wood contends that apart from the unfavourable exchange rate, the new duties have had a direct effect on the number of hi-tech equipment units being installed in offices and production lines in SA.

"This means the loss of a certain level of efficiency and of production — especially in the case of smaller and medium sized equipment users with limited budgets," he says.

Wood admits that suppliers of mainframe computers as well as the bigger installers of retail electronic equipment have not noted any drop in sales since the import duty was imposed. "But many of the large installations now being put into operation were planned and ordered before the March Budget."

Wood says none of his contentions have been disputed by government. "The minister says he will take the BEA's position into account as part of the overall review of surcharges and import duties," he adds.

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ːabinet costing a small fortune in cour

By SHAUNA WESTCOTT
Supreme Court Reporter

Cabinet, with the Minister of Law and Order in a 'ng role, is costing the public a small fortune in bills.

; impossible to give exact figures, partly because 'ers of the legal profession are reluctant to le details and because press reports of court is are often incomplete.

. given an idea of fees charged by advocates and 'eys, and the number of civil suits citing minis- r their underlings, it is possible to arrive at an 'g of the bill facing taxpayers.

So far in 1986, members of the Cabinet have been cited in at least 20 civil actions where courts have ruled against the government or may yet do so. On Wednesday, although the Durban Supreme Court rejected a trade union's application for an order declaring the state of emergency invalid, the government was ordered to pay half the union's costs.

To be able to do some sums the following facts are relevant:

- In complicated cases, where a senior and junior counsel are briefed, their fees may be as high as R10 000 for the first day in court, because preparation is involved, and R5 000 for each subsequent day.
- When only one advocate is briefed, the fee will drop by about 50 percent, depending on the seniority of the advocate and the complexity of the case.
- The preparation of documents in complicated cases — drawing up affidavits, for instance — may cost as much as R20 000. The cost is higher if the job is done by advocates.
- Over and above this are fees charged by instructing attorneys calculated on an hourly basis at a maximum of R72,60 an hour. However, this maximum applies only to the amount recoverable from the losing side. An attorney may also charge an "attorney and client fee" in addition.
- The State Attorney's Office, which invari instructs counsel in actions citing government fu tionaries, draws up bills in the same way as pri attorneys although staffed by salaried employee

Assuming that trials ran for only one day whe is not known that they ran longer, and assuming t only one counsel was briefed when it is not kn that a silk was also briefed, this can safely be s

Civil suits the government has lost, or partially — as in the Mawu application, have so far cost taxpayer over R275 000 in 1986. When responsibi for costs in pending cases is determined, that fig could easily double to well over half-a-million r

FIN MAIL

TBVC TAX WARNING

18/7/86 (320)

As predicted at the time of last month's Income Tax Bill, the tax clampdown on the Transkei-Bophuthatswana-Venda-Ciskei (TBVC) group of countries is likely to be the first of many. Treasury is said to be warning the homelands to be wary of (further) attempts to offer benefits associated with tax haven status.

When the Bill was issued, observers found it anomalous that only interest earned from TBVC banks and building societies was affected. In practice, many schemes can take advantage of lower homeland rates — particularly in the Ciskei.

It is also widely thought that the Margo Commission will recommend a switch from SA's "source of income" rule to one of residence. This would bring SA on par with much of the West, which taxes worldwide income as if all earned in the country of residence (subject to double tax treaties).

Such a move would undermine the TBVC tax systems. But the issue is complicated by double tax agreements with these countries, and substantial payments to them under the Customs Union.

FIN MAIL 18/7/86

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SALES TAX

Exemption twist

Recent detailed and far-reaching changes to income tax have overshadowed a fundamental development in GST, the dread of consumer and businessman alike. The Sales Tax Amendment Bill — sections 48(2) and 48(3) — enables Finance Minister Barend du Plessis to cancel any exemption a vendor may be entitled to in law.

He need only be satisfied that "malpractices or difficulties" have arisen. Says Ernst & Whinney's Ken Walton: "This is imprecise. It is not clear whether the minister has something general or specific in mind."

The new insertion has its relatives in the 1986 Income Tax Bill, which was characterised by a host of new provisions subject without appeal to the discretion of the Commissioner for Inland Revenue. Like the new GST provisions, the discretions introduce further uncertainty into tax law and create potential inequity among taxpayers.

Experts are undecided as to the motive, if any, for the new GST measure. They point to the celebrated Sats deal, a GST avoidance plan now being marketed, and Escom's current conflict with Revenue.

The amendment Act, does, however, contain changes calculated to benefit taxpayers. The "minimum turnover" of R10 000 needed before a business becomes liable for GST has been raised materially to R50 000.

A welcome amendment clears the longstanding problem associated with discounts granted *after* the conclusion of a sale. Until now, such discounts have not reduced the GST payable. In future (provided satisfactory evidence can be shown), GST will be payable on sale net of discount.

The prescription rules (that is, a certain time after which arrears can no longer be recovered) have been changed by allowing the commissioner to go back five years. Previously, a claim could be made back to the inception of the Act on July 3 1978.

Farmers can add another tax break to their armoury. Farm and farm service enterprises can buy free of GST, fuel and kerosene and illuminating paraffin for use in aircraft — as long as they are designed, adapted or modified exclusively for operations of a farming or forestry type.

Further amendments are proposed for rental considerations, imports, foodstuffs, administration, unprofessional conduct, refunds, containers and some definitions. But the onerous parts of the new GST measures seem again to underline the authorities' difficulty in separating tax avoidance from tax evasion.

Says Walton: "Anything less than certainty in tax law may lead to the courts being regarded not as cathedrals, but as casinos. The element of chance that the minister may cancel an exemption available in law should not feature in our legal system."

Through legal history, man has faced the difficulty of drafting legislation in clear and unambiguous language to combat what is perceived as unacceptable practice. Notwithstanding success, another hurdle stands to be cleared.

As noted by the distinguished English judge, Lord Cave, at the end of the last century: "No form of words has yet been framed with regard to which some ingenious counsel could not suggest a difficulty." ■

Aviation industry welcomes tax relief

SOWETAN 23/7/86

Transport Reporter

Tax relief granted to owners of business aircraft and agricultural operators in terms of the Income Tax and Sales Tax Amendments Act has been welcomed by the aviation industry.

Mr Cor Beek, executive director of the Commercial Aviation Association (CAA), said the concessions followed years of pressure by organised aviation.

Aviation fuel, aviation kerosene and illuminating paraffin used by aircraft carrying out aerial operations concerned with farming or forestry have been exempted from GST. Previously the GST exemption applied only to fuels used in surface equipment.

The concession means an annual saving of about R375 000 and should reduce the cost of aerial seeding and spraying to the farming community.

The second concession concerns the capital allowances aircraft owners can claim when they lease their aircraft.

Previously, capital allowances were limited to the amount received as rent.

This restriction had severely affected aircraft sales and the economic operation of aircraft owned by corporations, said Mr Beek.

(320)
Natal Mercury, Wednesday, July 23, 1986

Many ask for tax extensions

Mercury Correspondent

JOHANNESBURG—Heavy demands are being made on receivers of revenue throughout the country for tax payment extensions, the chief director of the Directorate of Inland Revenue, Schalk Albertyn, said in Pretoria yesterday.

From Johannesburg alone, 60 834 requests for extensions had been received in the past six months.

'This is a reflection of the recession,' Mr Albertyn said.

Unemployment, inflation higher than normal salary and wage increases, and shrinking disposable incomes all added up to making the tax collection operation more difficult.

However, the directorate's tax audit teams and its inspectorate were steadily gathering millions from tax-shy salary- and wage-earners and companies.

Since October 1984, Mr Albertyn said, R170 million in unpaid GST had been discovered.

Unpaid GST collections were averaging about R8 000 000 a month.

In the first six months of the year R49 million was netted compared with R43 million in the same period last year.

Inspectorate staff working on income tax and estate duty investigations found R16,5 million owed to the State in the first six months of the year.

Audit teams have discovered additional untaxed company and individual income amounting to R517 million so far in 1986.

BUS DAY 23/7/86 -320

Taxpayers in bid for delays

GERALD REILLY

HEAVY demands are being made on receivers of revenue throughout the country for tax payment extensions, Directorate of Inland Revenue chief director Schalk Albertyn told *Business Day* in Pretoria yesterday.

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BUS DAY 23/7/86

Maputo refugees pose a problem

● EDWARDS

GERALD REILLY

THE activities of the joint SA-Mozambique Security Commission had been paralysed since August last year, Vice-Admiral R Edwards, secretary of the ministerial sub-committee on the Nkomati Accord, said yesterday.

He told a Press conference in Pretoria: "We have, therefore, not been in a position to discuss the problem of the future of refugees with the Mozambican government for the past year." Illegal workers had been repatriated at a rate of about 1 500 a month for the past 18 months.

This total included 250 caught monthly trying to pass through the Kruger National Park on their way to Gazankulu.

Edwards said there were also Mozambican refugees in Swaziland, Zambia, Zimbabwe, Malawi and Tanzania.

In Gazankulu, KaNgwane, Swaziland and KwaZulu the refugees were treated as guests who were welcome to stay until conditions in Mozambique allowed them to return.

None were being repatriated from the national states.

The SA government provided refugees with short-term relief, including shelter, food and clothing and medical attention.

Edwards said of the more than 300 000 Mozambicans in SA and the national states, only 86 000 were legally-registered workers. He estimated actual refugees at 60 000.

It was known that Mozambique had planted land mines on its side of the boarder, Edwards said. "We have not asked for them to be removed because there has been no communication for the past 12 months."

Guinness pours oil on troubled waters

LONDON — Guinness is trying to soothe shareholders and counter criticism of its rejection of plans to name an outsider as chairman.

It is holding talks with major shareholders, the *Wall Street Journal/Europe* reports.

Over the past few days, Guinness has met some of Britain's biggest investment institutions. "We always meet regularly with major shareholders," says a Guinness spokesman. But he concedes the company is aiming at defusing a volatile situation. — AP-DJ.

Norton backs national savings proposal with a tax incentive

STAR 25/7/86

By Frank Jeans

In a bid to revitalise the South African investment scene at a time when the foreign capital freeze is stunting growth, a group of South Africans has plans for a national savings drive with a built-in tax deductible drawcard.

Spelling out the proposal was Mr Tony Norton, executive presi dent of the Johannesburg Stock Exchange, when he seconded the report and accounts of the United Building Society at the annual general meeting last night.

Tony Norton

Referring to the coming listing of the United and the society's role in competing for savings, Mr Norton, said: "One of the most crucial issues facing South Africa is the low rate of interest. We have had negative fixed investment since 1982 in a country desperately needing growth to meet the rising tide of work seekers along with the rising tide of expectations of all South Africans."

Mr Norton said the national savings issue had become critical, and depreciation and corporate savings accounted for about 91 percent of national savings.

Government savings are negative at minus 3 percent, while personal savings, more positive at 12 percent, are nonetheless weak in view of negative real interest rates and taxation giving rise to depressingly negative real returns available to investors.

Referring to the "twin attack" of inflation and taxation on the savings structure, Mr Norton said that while from a savings and investment point of view, tax reform on the basis of a pure expenditure tax system would seem the most desirable, he suggested as more realistic a proposal by a group of concerned South Africans which includes:

- A system of individual, planned savings accounts;
- Regarding individuals' contributions to such accounts as deductions from taxable income up to a limit, which would be a proportion of taxable income, and regarding all withdrawals from the accounts as an increment to taxable income;
- Assets qualifying for holdings in such accounts should be broadly defined to include deposits or investments with all financial intermediaries, including banks, building societies, insurance companies, mutual funds, Government securities, short-term and long-term, the shares of listed companies;
- Regarding all corporate savings as deductions from taxable income of corporations, thus making distributed profits the company tax base.

Mr Norton said: "Tax losses to the Receiver of Revenue, which would depend largely on the extra savings generated, would be recovered through a very broad-based 'business activity' or value-added tax which would be levied on all business activity, including that of public corporations and financial institutions."

He said he believed that such a savings proposal would open the way for savings and investments on a fair basis, with the financial institutions competing for funds on a neutral basis. "The corporate sector would arise from its present moribund state like a giant."

Mines hand taxman 47 percent more

320

By PHILLIP VAN NIEKERK

THE South African mining industry increased its earnings by 36 percent in 1985 to reach a total of R26-billion, Chamber of Mines president Clive Knobbs said in his presidential address this week.

And, Knobbs said, the greatest beneficiary was the state — which increased its share of earnings from the mines by 47 percent last year.

Black miners — who already receive less than the state from the revenue of the mines — received increases ranging from 16 percent to 20 percent last year, which were granted only after a long, drawn-out battle which ended in limited strike action.

Knobbs was speaking on the same day that the chamber made its final wage offer to the National Union of Mineworkers (NUM) of increases for black miners ranging from 16,4 percent to 20 percent.

The NUM has until July 2 to decide whether to accept the offer — one day after the increases will be implemented for South Africa's more than 600 000 black coal and gold miners.

Knobbs said the "excellent performance" of the mining sector — aided by a 34 percent decline in the average exchange value of the rand against the dollar — had made a vital contribution to the country's foreign exchange earnings and helped keep the internal economy afloat.

Mining investment increased by 11 percent at a time when investment by the private sector as a whole, including mining, fell by more than six percent.

Knobbs said rand earnings for gold last year increased by 32 percent to more than R15-billion. There were "enormous" increases in rand revenues for all sections of the metals and minerals industry.

He said: "The greatest beneficiary of the rising gold price and the increased profitability of the gold mining industry has been the state."

Knobbs said the "relationship between the employers and the National Union of Mineworkers has not fully matured. However, the working relationship which has resulted in a number of agreements being reached and day-to-day problems being resolved is not fully appreciated.

"Perceptions of the nature of the relationship are shaped instead by the considerable media coverage given to the annual wage negotiations between the Chamber and the NUM."

Knobbs said the overall effect of labour unrest in the goldmining industry had been exaggerated and that "not more than" five tons of gold production were lost because of industrial action during the year.

While conceding that the State of Emergency had caused "certain difficulties" in this year's negotiations, Knobbs said President P W Botha deserved "support and encouragement for the lengthening roll-call of reforms, either promised or already under way".

He said: "It is difficult to escape the conclusion that had some meaningful acknowledgement been given President Botha's reforms, the effects would have been to encourage broader internal acceptance of the reforms and further liberalisation, which is the path to reconciliation.

"But as other observers have noted, the South African government has earned neither the respect of the outside world nor the thanks of its political opponents.

"Positive action is needed among Western nations to support those people of goodwill of all races in South Africa in ensuring that one of

...ragic continent becomes a success story and not an epitaph."

Knobbs spoke as a number of NUM officials and office-bearers — including general secretary Cyril Ramaphosa — were in hiding because they feared being detained. A total of eight NUM representatives are known to have been detained since the beginning of the State of Emergency.

The detentions have delayed the negotiations, but the NUM has said it will go back to its members in the next week to sound out their feelings on declaring a dispute and fighting a battle over wages this year.

The NUM is still demanding a 30 percent increase across the board for all workers.

Increases for surface workers on gold mines will range from 17 percent for the most skilled category to 20 percent for the least skilled. For underground workers the increases range from 15 percent to 18 percent.

On the collieries the increases will be from 16,4 percent to 19 percent for less skilled workers.

In addition, the chamber has improved a number of fringe benefits, including death benefits, a reduction in the working fortnight from 100 hours to 98 hours and a job security guarantee.

One of the most significant parts of the chamber's offer to the NUM is an agreement to approach the commission of inquiry on public holidays with the recommendation that May 1 and June 16 be declared public holidays.

If by February 1 the government has not declared these days public holidays, the chamber has agreed to negotiate them with the NUM.

This offer marks a significant shift and the chamber has now fallen into line with other major employers

2. EMPLOYMENT

2.122 REGIONAL EMPLOYMENT BY INDUSTRY : 1980

(As at 6 May. Based on Population Census data.)

...TIVE	TOTAL		AFRICAN		ASIAN		COLOURED		WHITE	
	1 021 057		153 415		490 184		56 587		320 871	
	616 681		56 205		339 578		37 871		183 027	
	404 376	100.0%	97 210	100.0%	150 606	100.0%	18 716	100.0%	137 844	100.0%
	8 874	2.2%	5 255	5.4%	2 345	1.6%	56	0.3%	1 218	0.9%
	1 773	0.4%	459	0.5%	480	0.3%	43	0.2%	791	0.6%
	119 767	29.6%	15 614	16.1%	68 114	45.2%	6 152	32.9%	29 887	21.7%
	3 008	0.7%	345	0.4%	891	0.6%	20	0.1%	1 752	1.3%
	20 309	5.0%	3 196	3.3%	6 362	4.2%	2 420	12.9%	8 331	6.0%
	60 577	15.0%	8 138	8.4%	27 016	17.9%	3 432	18.3%	21 991	16.0%
	38 992	9.6%	7 992	8.2%	9 807	6.5%	676	3.6%	20 517	14.9%
	25 218	6.2%	1 543	1.6%	5 064	3.4%	323	1.7%	18 288	13.3%
	103 855	25.7%	49 112	50.5%	20 646	13.7%	3 084	16.5%	31 013	22.5%
	22 003	5.4%	5 556	5.7%	9 881	6.6%	2 510	13.4%	4 056	2.9%

...ion Census 1980, Report No. 02-80-08.

Staff training a vital company issue

BUSDAY 28/7/86

TRAINING

Attitudes to training changed after tax concessions in this field were reduced significantly in last year's budget. CLAIRE PICKARD-CAMBRIDGE reports.

THE training of employees is recognised as a vital cog in most expanding business ventures.

However, tax concessions for training were reduced significantly following the announcement of the 1984-1985 budget, and certain changes in attitudes to training have taken place.

According to tax consultants, the employees' training allowance was restricted with effect from September 1984 and now only covers training for those earning up to R15 000/year.

This means employers training unskilled and semi-skilled (mostly black) workers are the only ones still obtaining a double tax benefit.

Concessions

But there are still tax concessions for others who are trained because this is still seen as part of running costs.

One who welcomed the scrapping of these concessions is John Harvell, MD of Professional Learning Systems, a Johannesburg-based company which markets training programmes in the sales, management/supervisor and customer-relations fields.

Harvell, who has been in the training industry for 15 years, said: "I am glad certain training benefits were scrapped by the Manpower Department because a lot of bad training was coming on to the market and many companies were only doing training because they could get a tax benefit out of it."

"Now that the subsidy has been reduced, business houses are looking at the benefits they can get out of training before doing it. The fact that there are still tax benefits on training for lower-level employees is the right way to go about it because those people do need the skills," Harvell said.

The scrapping of certain concessions was also welcomed in the magazine, *Income Tax Reporter* (Volume 23, 1984), which said: "At last the absurdity and unnecessary generosity of the employees' training allowance is overcoming its political attractions, and it has been savagely cut back.

"Since it has the effect of dishing out taxpayers' money for the most unlikely activities, it is hoped that it will soon be altogether abolished. In any event, employers do not need any 'encouragement' to train employees. They will do so whenever that is the cheapest and most efficient way of achieving their ends ..."

Harvell said government subsidies on training had encouraged many people to go into training. But he felt the problem was it had been done without understanding that training required an ongoing process to follow-up developments, as well as the right environment.

Harvell said there had been a slowing down in training since 1985 — not only due to the change in tax benefits, but because the economic situation had declined.

Training was often the first item to be chopped when companies budgeted — and multinationals had become more selective in training.

Divisional secretary of the Motor Industries Federation (Southern Transvaal), Conway Burton-Durham, said the change to tax concessions on training had not stopped the MIF from training because it had its own development fund.

He said the MIF trained several thousand people a year — ranging from artisans and non-artisans to management in the service section of the industry. However, the MIF's training had recently dropped by 60% because instead of hiring new staff, most companies were being forced to retrench employees.

Training practicioners say it is difficult to estimate what the SA training market is worth, as so much training is generated from within companies.

Companies with employees who provide immediate returns after sales training in fairly high-tech products — like computers and pharmaceuticals — are normally commited to training. (They can spend as much as R30 000/year in this field).

Skills

Bigger financial houses can spend between R100 000 and R200 000/year on training, but it seems that the lower one goes in management training, the less is spent on developing and improving skills.

Harvell said he had found the most effective form of training was to train 'trainers' for companies and then sell them training programmes. This assisted companies in providing their own training, as well as securing the reinforcement and follow-up this required.

Harvell also suggested that SA followed the French example whereby every company with employees contributed to a government-administered training levy. When companies wanted to train, they could draw from the fund.

ARGUS 31/7/86

Tardy taxpayers face heavy fines

(320)

The Argus Correspondent

PRETORIA. — Today is D-Day for taxpayers who have not yet submitted their returns — and latecomers could face heavy fines.

"We have already extended the deadline twice this year — and we are not going to do so again," warned Mr Schalk Albertyn, chief director: operations of the Department of Inland Revenue.

This means that taxpayers who hand in their returns from tomorrow onwards, could face fines of R100 for first offences and R200 or even more for second or more offences.

Taxpayers who refrain entirely from submitting their returns could be taken to court, where they could face even heavier fines with the alternative of imprisonment, Mr Albertyn said.

"City taxpayers have made excellent use of the two periods of grace granted them by the Department of Inland Revenue, said the Receiver of Revenue, Mr Andries Viljoen.

"At this stage I would say approximately 60 percent of all returns are already in our hands. This is most gratifying.

"I appeal, however, to latecomers not to merely write to us asking for further postponements, but to come in and discuss their problems with us. In this way the necessity for fines and other unpleasantness could be disposed of quickly and efficiently," Mr Viljoen said.

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Fight for tax exemption on fuel won

MICK COLLINS

THE Commercial Aviation Association (CAA) has won an eight-year battle for general sales tax exemption on aviation fuel used for operations connected directly with farming production.

Up to yesterday, the exemption applied only to fuels used in surface equipment.

The concession will mean a saving of more than R500 000 a year and will reduce the cost of aerial seeding and spraying.

The Sales Amendment Act exempts aviation fuel, aviation kerosene and illuminating paraffin used in an aircraft designed or modified for operations connected directly with farming or forestry.

Further good news for aerial operators was announced yesterday by CAA executive director Cor Beek, who said a new income tax amendment, gazetted this month, would offer relief for the aviation industry.

"These concessions follow several years of pressure by organised aviation, spearheaded by the CAA," he said.

In March 1984, aircraft owners were restricted on how much they could claim in terms of Sections 11 and 14 of the Income Tax Act.

If they leased their aircraft, even for short periods, capital allowances claimed were limited to the amounts received as rent.

These restrictions restricted the sale of aircraft and the economic operation of aircraft in that the capital allowances enjoyed previously were restricted to the amount of rental paid.