TAXATION – GENERAL

1985.

Trade shows: how the taxman helps the SA exporter

Star 5/1/85

Michael Menof on the company beat

The domestic market may be shrinking, leaving many manufacturers with surplus production capacity.

And with the substantial decline in the rand-dollar exchange rate the call is for increased local production (rather than importing) or for more exporting to increase foreign earnings for the country.

The quality of SA goods abroad is always acceptable, but price was the drawback, and high freight rates a further problem. But the shrinking rand has overcome this, and now for the first time South Africa enjoys a tremendous price advantage over its international competitors.

Overseas markets need to be made aware of South African manufactured products, and trips abroad will give SA businessman fresh ideas on boosting local production.

Trade fairs provides the most expedient way to test export opportunities and get first-hand knowledge of what is being produced abroad.

South African businessmen return from short visits to trade shows abroad with an abundance of new ideas. It is also motivating for staff to realise that their companies are keeping up to date, that they are leaders rather than laggards.

Where a company exhibits at an overseas trade show there is the potential for exports and the awareness that the product(s) exhibited can successfully compete with those in the rest of the world.

TAX BENEFITS

Questions that come to mind are:

● What financial assistance does the state provide for overseas exhibitions?

● What are the tax benefits and savings?

● Is the cost of the overseas trip deductible?

The Department of Commerce Trade and Industry provides financial assistance in two cases:

● Official group participation in which South Africa participates officially by means of a national pavilion.

The Department makes all arrangements and pays the cost of space rental, construction and maintenance of stands, electricity, telephone and water charges as well as freight costs.

So the SA exhibitor only needs to supply exhibition and publicity material, buy insurance cover and arrange for a decision-making representative to man the exhibit.

● For private participation, financial assistance is given for specific costs, and exporters should keep all receipts and documents relating to such costs. A maximum of R5 000 is made available.

Only products of South African origin may be exhibited, and applicants receive assistance for only three exhibitions abroad annually.

ALLOWANCE

The prime objective in exhibiting must be to stimulate overseas interest in South African products to obtain export orders and so increase foreign earnings.

The SA Tax Act allows expenses incurred by the exporter during the year of assessment to be deducted from income earned, as it is expenditure incurred in the production of such income.

The expenditure once deducted can be claimed once again as a "marketing allowance" (previously the exporter's allowance) at either 75 or 100 percent of such amount already claimed in arriving at the taxable income.

Such expenses include advertising, securing publicity in an export country or soliciting orders and costs of participation in trade fairs. Any grant or assistance received from the Department of Commerce is deducted from the expense incurred in the first instance, leaving only the net amount available. The idea behind the gift is to stimulate foreign earnings.

The cost of the overseas trip, if it is properly enumerated and passes the scrutiny of the Receiver, will qualify as a deduction. As such expenditure is incurred outside South Africa the taxpayer runs the gauntlet of the tax authorities, as the Receiver's decision it is not subject to objection or appeal.

However, with short business trips overseas it is hardly likely that the Receiver will disallow the cost of the trip on the grounds that it included a weekend, say, in the south of France or a visit to the isle of Corsica for the businessman to unwind before visiting or participating at the trade show.

How does the South African businessman prepare for a visit to or participate in an overseas trade show? In Europe today Paris is recognised as the city where the highest number of international trade shows are held.

REDUCED FARES

France is the only country that has an officially recognized non-profit organization that has as its sole purpose the promotion of its trade fairs.

In South Africa the branch is Promosalons which provides dates (annually in advance), venues of exhibitions, details of exhibits, other countries exhibiting and other necessary related services such as supplying entrance cards, registrations, and organising group travel programmes.

Ruth van der Heyden, their manager for South Africa, told me that she puts visitors and participants into groups of at least eight with Paris as a destination. Businessmen can benefit from special reduced airfares with no minimum stay.

A minimum stay of 14 days is normally necessary to qualify for reduced fares. The total inclusive cost of air, accommodation and transfers is usually about R1 500 for 10 to 12 days. Other international trade shows in European cities can be tagged on.

With South Africa ever seeking to increase export sales, an aggressive approach is needed. With financial assistance available and tax advantages up to a 200 percent deduction of qualifying expenses it would cost nothing to visit an international trade show.

All that is needed is some export turnover history or advance planning to qualify.

The advantages are obvious.

ARGUS 7/2/85 (320)

Tax cuts from March 1

TAX cuts will bring relief to hard-pressed South Africans from the end of this month.

For most people the cuts will range between 12 percent and 16 percent of previous tax payments.

A married man with two children and a taxable income of about R1 200 a month will pay R17 a month less. A married man earning R1 800 a month will pay about R34 less.

However, people who receive fringe benefits will pay more.

The new "perks tax" comes into effect from March 1. People with company cars, subsidised housing and other benefits will now be taxed on them.

The Government has estimated that the perks tax will bring in more than R700-m. This suggests certain groups of employees have been receiving untaxed benefits worth about R3 500-m a year.

However, as a result of complaints, the Government may soften the introduction of the perks tax. A statement on this is expected on February 14.

The following table shows the new PAYE deductions for a married man with two children. The middle column shows the actual tax deductions and the right hand column the amount by which the deductions will have been reduced.

Savings for other taxpayers will be roughly in proportion.

Monthly taxable income Rands	Monthly tax deductions Rands	Tax saving Rands
300	—	—
400	—	—
500	—	—
600	11,25	nil
700	23,25	13c
800	35,25	2,12
900	48,04	6,06
1 000	62,71	10,46
1 100	80,98	13,59
1 200	101,77	16,60
1 300	125,29	19,48
1 400	151,26	22,24
1 500	178,56	24,24
1 600	207,33	27,57
1 700	236,80	30,17
1 800	266,73	34,24
1 900	298,89	36,81
2 000	332,49	39,21
2 100	367,46	41,64
2 200	403,16	44,01
2 300	440,92	46,25
2 400	479,39	48,51
2 600	560,55	52,75
2 800	646,62	56,75
3 000	736,20	60,53
3 200	828,23	64,20
3 400	923,05	67,78
3 600	1 019,65	71,18
3 800	1 116,25	74,50
4 000	1 212,85	79,40

Perks tax blow is softened for some

RDM 14/2/85

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Mail Correspondent
CAPE TOWN.

THE Minister of Finance, Mr Barend du Plessis, yesterday softened some of the blows of the proposed fringe benefits tax.

His concessions lengthen the period before which low-interest or interest-free loans and the private use of company cars become fully taxable from two to five years.

In addition, new members of housing subsidy schemes that existed before March 28, 1984, will now qualify for the seven-year phasing-out benefit.

The new phasing-in period also applies to the taxable portion of car allowances.

The concessions, Mr Du Plessis said, would "result in a further sacrifice of revenue for the State amounting to approximately R310-million in the coming year, in addition to the R160-million previously conceded".

Mr Du Plessis said that in view of present economic circumstances, a "more gradual progression towards full taxation" was desirable and therefore the Government had accepted the Margo Commission's interim recommendations on amendments to the fringe benefits tax legislation.

Mr Du Plessis said that although the Government remained "firmly committed" to a fair and equitable distribution of the tax burden, this had to take account of "the initial impact of additional taxation on individual taxpayers".

He added that lower rates of tax announced in December 1984 would "mitigate to a significant extent" the effects of extra taxation.

Mr Du Plessis also said that amendments to the legislation to remove "anomalies" or close loopholes would be introduced from March 1.

He warned that "any further efforts to erode the tax base by instituting income substitution schemes or avoidance methods such as pool car schemes will be kept under very close surveillance".

Housing

NEW entrants to "approved" housing schemes receiving benefits in the form of low-interest or interest free loans or subsidies will qualify for the phasing-out benefit. This benefit is phased out over seven years.

The benefit is good for that portion of the bond that does not exceed R50 000.

Full-time employees earning less than R8 000 pa (excluding housing subsidy) will get marginal relief.

The exemption will be reduced by R1 for each R1 by by which his earnings exceed

☐ To Page 2

Ease on perks tax

☐ From Page 1

R8 000.

Cars

THE phasing-out concession for the private use of motor cars has been extended from two to five years.

Thus, 25% of the benefit will be taxable in the 1985/86 years of assessment; 40% in 86/87; 60% in 87/88; 80% in 1988/89; 100% in 1989/90.

Soft loans

AS with cars, the concession has been extended from two to five years, reaching 100% in 1989/90.

This applies to loans "used for a variety of purposes, including those granted under share incentive schemes".

The concession is confined to loans granted "on or before February 13, 1985".

PARLIAMENT

ARGUS 14/2/85 320

Fringe tax concessions

The Argus Parliamentary Staff report on the fringe benefit tax measures announced by the Minister of Finance, Mr Barend du Plessis.

FINANCE Minister Mr Barend du Plessis has softened some of the fringe benefit tax measures to be introduced next month.

But at the same time he has warned that legislation to eliminate a number of obvious anomalies and close patent loopholes in the existing fringe benefit proposals will be introduced with effect from March 1.

The most important concessions announced by Mr du Plessis in the House of Assembly yesterday were an extension of the phasing-in periods of taxes on company cars and soft loans from two to five years.

The additional relief will cost the State R310-m in the coming year.

Mr du Plessis said the Cabinet had decided that people in full-time employment earning R8 000 or less a year (excluding housing benefit) would be exempt from paying tax on a housing scheme.

Employees whose earnings exceeded R8 000 would qualify for an exemption which would be reduced by R1 for each R1 by which his earnings exceeded R8 000.

New entrants to approved housing schemes receiving benefits in the form of interest-free or low-interest loans or bond subsidies will as the law now reads qualify for the phasing-out benefit provided for in paragraph 14 of the Seventh Schedule to the Income Tax Act, such schemes being confined to those in operation on March 28 1984.

These conditions would continue to apply, Mr du Plessis said.

Abuse

However, in view of the potential abuse in the form of income substitution, the phasing-out benefit in the case of a new entrant (that is a person who enters a scheme on or after March 1 1985) will be restricted to so much of the benefit as relates to that portion of his bond that does not exceed R50 000.

Mr du Plessis said the Cabinet had further accepted that the phasing-out period in respect of the taxable benefit relating to an interest-free or low-interest loan (other than a housing loan which qualifies for the seven-year phasing-out concession) be extended from two to five years.

The concession is confined to loans granted on or before February 13 1985.

It is to be phased out on the basis that 25 percent of the benefit is to be taxable in 1985/1986, 40 percent in 1986/1987, 60 percent in 1987/1988, 80 percent in 1988/1989 and 100 percent in 1989/1990.

Loans

The concession includes loans used for a variety of purposes, including those granted under share incentive schemes.

With regard to the private use of motor cars, the Government has decided to accept the recommendation of the Margo Commission to extend the phasing-out concession of two years to five years, in such a manner that 25 percent of the benefit will be taxable in 1985/1986, 40 percent in 1986/1987, 60 percent in 1987/1988, 80 percent in 1988/1989 and 100 percent in 1989/1990.

The concession will apply both to the benefit attaching to a motor car provided by an employer and the benefit derived in the form of an allowance given to an employee for using his private motor car.

Where an allowance is granted by an employer to his employee as compensation for the use on the employer's business of the employee's private motor car, the portion of the allowance not so used is includable in the employee's taxable income.

In determining the taxable portion of the allowance the amount spent on the employer's business may be determined by applying a rate per kilometre fixed by the Minister of Finance by notice in the Government Gazette to the distance travelled during the year of assessment for business (excluding private travelling).

Distance

In determining the rate per kilometre, a distinction will have to be made between the fixed-cost component (including depreciation, loss of interest, insurance premiums and licence and registration fees) on the one hand and the fuel and maintenance elements on the other.

The fixed-cost element to be allowed in any year will, in the rates prescribed by the Minister, be a fixed amount determinable for the car according to its determined value.

The rate per kilometre will then be the fixed amount divided by the total number of kilometres travelled whether for business or private purposes.

A separate rate per kilometre will be provided in respect of the other elements. An example of the method of calculation to be used is:

- The fixed cost element (according to a table to be provided) is R4 000.
- Kilometres travelled on business: 6 000.
- Kilometres travelled privately: 10 000.
- Total kilometres travelled: 16 000.
- Fixed cost element rate is R4 000 over 16 000 which equals 25c a km.
- The other cost elements are 20c a km.
- The deduction to be allowed against an allowance of, say R4 000 is: Fixed cost element : 6 000 x 25c = R1 500.
- Other elements : 6 000 x 20c = 1 200 making 2 700.
- Amount included in taxable income, R1 200.

'erks tax on cars may be toned down — De Loor

D/C ARGUS
2/2/85
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By DEREK TOMMEY,
Financial Editor

MOTORISTS with company cars and fearing the worst when the new perks tax comes into operation on March 1 should not give up heart yet. There is a possibility that the tax might be lightened during the period it is being initially implemented.

Dr J H de Loor, Director-General: Finance, said in an interview today that when the perks tax was applied it might look different from the present proposals.

He said the Margo Commission, which was appointed recently to inquire into the Government's tax policies, had been asked to consider the perks tax proposals.

After the commission had reported back the matter would go to the Cabinet for its decision and this would be announced in Parliament by the Minister of Finance, Mr Barend du Plessis, on February 13 or soon thereafter.

Too harsh

Dr de Loor said the main complaints about the car perks tax were that the phasing in over two years was too harsh, so it was not very probable that the commission would make it more onerous. More probably the Margo Commission would go the other way and propose to lighten the tax.

However, the Government was not obliged to accept the commission's recommendations but would seriously consider these in the light of the present economic situation and loss of expected loss of revenue that would result.

Dr de Loor said the commission would be monitoring the whole question of fringe benefits during the next 18 to 20 months it would be in session. It would then perhaps propose further changes in the levels and applications of perks taxes.

Referring to the statement by the State President, Mr P W Botha, that the privatisation of certain State organisations and operations was being considered, Dr de Loor said the Government had some interesting options open to it.

Obvious targets

Some argue that it is possible to privatise everything from State enterprises to Government and local government services — possibly even the water supply, which was in private hands in France.

"Your Iscors were obvious targets for privatisation. But there are other State corporations that could prove suitable."

The British had shown that even monopolies such as the telecommunications services and the airways could be privatised.

But before any decisions could be taken a professional investigation would be required and this was now being discussed. The investigation would need to survey which services could be privatised, and perhaps determine priorities and work out a time schedule.

To Page 2.

Perks tax

From Page 1.

Privatisation of state services could bring several benefits including "the obvious one of selling some of the family silver and utilising the proceeds for other essential capital projects thus avoiding the need to raise extra funds in the private market.

"It would also reduce central Government spending and must result in the more efficient provision of services to the public."

Dr de Loor said the Government was continually looking at ways to stimulate long-term exports and the formation of trading houses and free trade zones were only two possibilities. The Government was studying why the Japanese Ministry of International Trade and Industry had been so successful.

Mercedes silent on perks tax rumour

320 ~~192~~ ~~63~~ Star 24/1/85

By Harvey Thomas

Mercedes-Benz South Africa would not comment yesterday on reports rife in the motor industry that unless the application of the recently announced perks tax on cars was amended, the company would withdraw from the South African market.

But senior executives in other motor companies said Mercedes-Benz had made strong representations to the Minister of Finance, Mr Barend du Plessis, to extend the two-year phase-in period of the perks tax.

Company cars account for about 85 percent of the sales in South Africa by Mercedes-Benz which had a record year in 1984.

The implications of the perks tax are that from March 1, when the tax becomes effective, users of company cars will pay heavily for the privilege.

The Commissioner for Inland Revenue, Mr Carl Schweppenhauser, has been reported as saying that there would be no delay in the implementation of the tax.

He was reacting to reports that there was seething dissatisfaction in the motor industry because the perks tax on cars could result in a strong swing towards the prestige upper lines of less expensive marques.

Motor men seek relief

(320) E. Post 19/1/85

THE release this week of the final car sales figures for 1984 coincides with an equally foreboding set of statistics on the finances of motor car dealers.

However, faced with the prospect of further declines in sales and increases in costs, motor industry executives are strenuously lobbying Government for sorely-needed relief.

On January 5 Toyota managing director Mr Colin Adcock expressed the hope that the Margo Commission of Inquiry into the tax structure would recommend the phasing in of perks tax on company-funded car purchases.

And in comments last week Finance Minister Mr Barend du Plessis pointedly left room for amendments to the proposals he announced in December.

December sales figures released yesterday brought the total market for passenger cars for the year to 268 751 — 1,5% below the comparable figure for 1983 — and forecasts from spokesmen such as General Motors managing director

By Louis Beckerling
Business Editor

Mr Lou Wilking are for a 1985 market of 230 000.

This means that against a background of increasing costs and competition, motor manufacturers have suffered three successive years of decline (283 427 in 1982, 272 822 in 1983, 268 751 last year), and now face a further major loss of turnover in 1985.

Among the direct and indirect burdens borne by the industry during the year and yet to fully work their way through reduced consumption expenditure in the year ahead were:

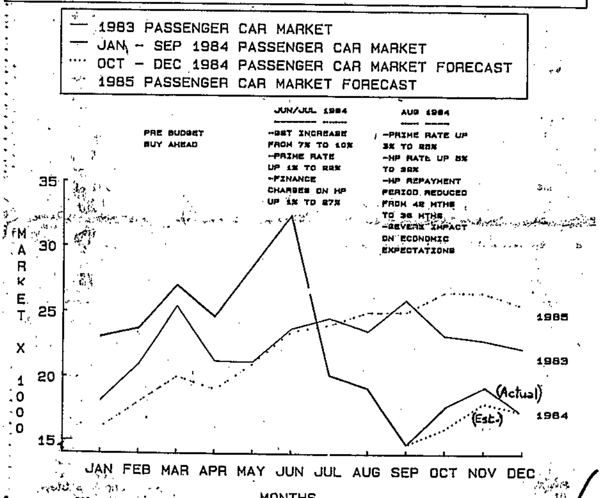
- February: GST raised from 6% to 7%.
- March/April: Government expenditure emerged at 5,2% above Budget estimates; company tax levels raised; 1% to 2% ad valorem excise duty levied on motor vehicles; increases announced in other excise duties; prime rate raised 1% to 21%.
- June/July: GST increased from 7% to 10%; gold price and rand exchange rate decline; prime rate raised 1% to 22% and finance charges on HP contracts increased by 1% to 27%.
- August: Prime rate raised 3% to 25%; HP rate up 5% to 32%; HP repayment period reduced from 42 months to 36 months; and weakening rand (which eventually lost almost 80% of its dollar value over the full year) placed profit margins under severe pressure.
- December: Perks tax proposals on motor cars announced.

The impact of these events is vividly illustrated in statistics detailing the financial situation of motor retailers in the first two months following the introduction of the "August austerity" package.

The statistics show how the mid-year GST hike trimmed 18,3% off seasonally-adjusted trading revenue of motor retailers in July (down from June's abnormally-boosted total of R1 295 million to R1 058 million), a further 2,6% off these depressed levels in August (down to R1 030,4 million), and a further 7,7% from this low point to R951 million in September.

The effect on sales is graphically illustrated on this page (graph prepared by the Volkswagen sales planning department).

MONTHLY PASSENGER CAR MARKET DEVELOPMENT 1983, 1984 AND 1985



VWSA — SALES PLANNING DEPARTMENT

ARGUS 17/1/85 (320)

Cabinet to review perks tax soon, says Minister

Political Correspondent

THE application of the new fringe benefit tax would be reviewed thoroughly by the Cabinet soon, the Minister of Finance, Mr Barend du Plessis, said today.

He said this would be done after the Cabinet had received comment and possible new proposals from various quarters.

He said the Government was aware that the tax had to he handled circumspectly because it could otherwise have disadvantageous results.

Mr du Plessis confirmed his earlier statement that the perks tax measures announced so far were far from final. He said they would be revised regularly to avoid placing too great a burden on any group of individuals or industries.

He said today that a sympathetic approach was especially necessary in the present stringent economic circumstances.

The Government's attitude had always been that the application of the new tax must not be unnecessarily disruptive to taxpayers or specific business sectors.

This was why it was being phased in over seven years.

Reaction received to the tax on motor benefits showed there was concern that the two year phasing-in period could have a harmful effect on the user as well as the motor industry.

There was also concern about the effect of the tax on low interest loans and share incentive schemes.

Apart from the many thousands of middle and lower income group taxpayers, businessmen and top executives of big companies received a large portion of their incomes through fringe benefits. They were especially vulnerable.

Mr du Plessis said a fair phasing-in period had been allowed for because the Government did not want to harm the indispensable contribution of these people.

(320) ~~262~~ Star 8/1/85

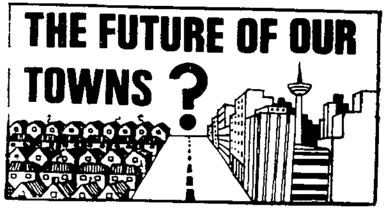
From taxes to traffic . . . how the new system will work

Last month when most politicians and journalists were relaxing after a bumpy, tumultuous year, the Government made a major announcement about the new system for local government.

Curiously the architect of the new constitution, Minister of Constitutional Development and Planning Mr Chris Heunis, chose the quietest time of the year to announce the new company taxes which will finance local authorities.

Businessmen and opposition politicians quickly recovered from their surprise and many warned that the new plan was inflationary and dangerous.

It is clear that the system will cost billions of rands to implement and ultimately it is the man in the street who will have to foot the bill.



Local government experts and community leaders differ widely on whether the new constitution will bring greater stablility to South Africa.

But they all agree that vast sums are needed to upgrade neglected black, coloured and Indian areas.

How will the new system work?

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.

At least two new company taxes will be implemented, but several analysts have warned that this will not be enough and have predicted a further increase in GST.

The new taxes proposed by the Government are:

- All employers and businesses, including the Government and municipalities, will pay a service levy based on their total salaries and wages bill.
- Traders whose goods are subject to GST 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.

The new taxes will be in the hands of the proposed regional councils and funds will be distributed to all authorities and municipalities in a geographical area controlled by a regional council.

Legislation for the establishment of regional councils is likely to be finalised during the next session of Parliament.

Initially the Government planned to exclude blacks from the regional councils, but it has recently indicated that it will consider giving black authorities some kind of representation.

In terms of the Government's proposals, the regional councils will be made up of black, coloured, Indian and white authorities.

Each authority will nominate members to serve on the regional councils and so residents will have no direct say on the composition of the councils.

The regional councils 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 fire-fighting and ambulance services.

In spite of the changes, most residents will notice little difference in their day-to-day lives.

Local distribution of services will still be controlled by muncipalities and ratepayers will continue to pay rates to the authority in their area.

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 appoved.

In the new system administrators will act as the link between local authorities and Minister of Constitutional Development and Planning Mr Heunis.

They will follow his directions with regard to establishing or dissolving local authorities.

Although there are many details which are not yet clear, it is likely the first regional council in South Africa will be established on the Witwatersrand by the end of 1985.

A special municipal development board will begin work early this year to establish a programme for the Witwatersrand council.

Government gets R500-m a month from consumers

GST heading for 12 pc — economist

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w/k ARGUS 19/1/85

By TOM HOOD

THE Government is raking in more than R500-million a month from general sales — but it is still desperate for revenue and the tax may jump to 12 percent in the next Budget, an economist forecasts.

In November GST raised R518-million, up 54 percent on the R329-million paid in November 1983.

The total for the eight months to November was R3 743-million, up 48 percent on the R2 535-million in the same period of 1983.

Collections for the eight months were almost as much as the R3 874-million raised in the whole of the previous tax year.

These figures indicate the haul for this year could exceed the Budget estimate of R5 820-million by at least R100-million in spite of the recession and slower retail sales.

Increased spending

Consumers next year can expect to fork out considerably more as a rise of two percentage points to 12 percent is possible in the Budget on March 18, according to Old Mutual's chief economist, Mr R L Lee.

He said this week that although the Government was making serious efforts to control spending, it still had a big spending problem and expenditure would be much higher next year.

Vastly higher revenues from the gold mines would offset some of the increased spending and the Government was expected to go for a high borrowing requirement rather than increase individual and company taxes.

"If they do not increase taxes at all they are going to find their borrowing requirement is very high.

"Now that food has been taken out of GST it is the obvious tax to increase. It would also have to be raised by more than one percentage point to get the same revenue as when food was included."

A rise in GST would fit in with a structural plan to make indirect taxes a high percentage of the tax take, Mr Lee said.

The latest Treasury report shows income tax collections in November were R857-million, up 21 percent on the R705-million paid a year ago.

The eight-month total was R7 470-million or 13 percent more than the R6 612-million collected in the same period of 1983.

From dividends

Taxes from interest and dividends showed a R2-million drop to R37-million in November and the eight-month collection of R319-million was only R63 000 more than a year ago. This means that, with company profits falling, the budgeted R503-million might be hard to achieve.

Only R94-million was recouped from gold mining leases for November, R47-million less than the year-ago figure. The eight-month total of R276-million was 74 percent lower than the R374-million paid a year earlier.

Amounts raised from other taxes in the eight months were:

Non-resident shareholders tax, R162-million, down R22-million.

Transfer duties, R167-million, up R37-million.

Non-residents tax on interest, R22-million, up R10-million.

Estate duties, R67-million, up R12-million.

Stamp duties and fees, R167-million, up R38-million.

Total revenue of R14 743-million for the eight months was almost 15 percent ahead of the R12 834-million raised in the year-ago period.

Property sales drop sharply

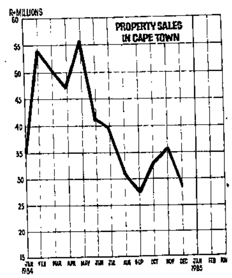
Property Editor

SALES of property in Cape Town dropped to R28,5-million last month, down R7-million from November's sales.

This was R6,4-million below December 1983 and only about half of the record sales of R55,8-million in May, at the end of the mini-boom.

These figures are disclosed in the City Council's monthly analysis of property transactions. Land, commercial buildings, factories and all kinds of property except sectional title sales are included in the survey.

Fewer deals are also being done. The number of sales in December — 419 — was below November's 660 and the year-ago 558.



They represent only 48 percent of the 875 deals recorded in the record month of May, 63 percent of November's deals and 75 percent of the sales of December 1983.

More than R480-million of property was sold last year, only 5 percent or R28-million less than the record R509-million sold in the boom year of 1983. There were 7 319 sales, 12 percent fewer than the 8 365 sales recorded for 1983.

Average price for the year was R65 702, up 8 percent on the 1963 average of R60 839.

The December average of R68 254 was inflated by the inclusion of a R1,9-million Paarden Eiland factory sale. If this is excluded, the average was R63 245, still one of the highest figures recorded, ahead of the R63 771 for the boom month of May.

November's sales disclose a drop to an average of R53 788, below even the R63 771 for December 1983.

ARGUS 10/1/85

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More tax increases 'almost inevitable'

Financial Staff

MORE tax increases are almost inevitable, says the Bureau for Economic Research at the University of Stellenbosch.

In its latest building survey report it says that this follows the difficulties of the public sector in changing to lower levels of current spending — although this might, however, be offset by possible cuts in spending on fixed investment.

But a plea to avoid further tax increases has been made by Barclays Bank in its latest monthly economic review, in which it says another rise might reduce the Government's total tax income if it unduly aggravated the recession and added to wage and cost-push pressures.

The Government's deficit before borrowing in the current fiscal year will overrun the Minister of Finance's estimate by about R500-million, to total R4,100-million, the bank predicts.

It foresees a deficit in 1985/86, before borrowing, of R4,700-million.

The bank urges the Minister, Mr Barend du Plessis, "to refrain from further tax impositions in the coming Budget, if at all possible, even if this should mean a fairly sizable increase in the deficit before borrowing".

Government revenue for the full current fiscal year is about R22,800-million. Its spending could be held down to about R26,900-million, or an increase of 17 to 18 percent.

On this basis, the bank says, the deficit before borrowing would be about R4,100-million, against Mr Du Plessis's revised deficit of R3,600-million.

SA tax moves alarm UK director

ARGUS 11/7/86

320

RECENT moves in perks tax and increased taxation in South Africa are viewed with alarm by Mr Derek Smith, managing director of Wiggins Teape, the British-owned paper merchants.

Mr Smith said in Cape Town yesterday he believed the increases in taxation brought in by successive British governments since the 1940s were responsible for what was described as the "British malaise" in the 1950s and '60s and Britain's demise as a major economic power.

He was speaking before the opening of a new Cape Town branch of Wiggins Teape in Parow yesterday by Dr Denis Worrall, South African Ambassador to Britain.

MUST BE REWARDED

Mr Smith warned that the new taxation might cause a "brain drain" of top businessmen from South Africa.

He said: "Human ambition in a business society must be rewarded in the proper and right terms.

"Thus I view with alarm the recent moves in perks tax and the increased taxation in South Africa, because if we combine the economic circumstances with which we are now faced, we will need all the entrepreneurial skills for which this country is so rightly famous.

"I believe that fundamental to a capitalistic and free society, there's the right to a reasonable reward for work that is put in for the creation of ideas and the creation of work for others.

"Much of Britain's manufacturing industries were laid to waste by the penal taxation which existed from 1940 onwards."

The new branch of the paper company, one of the biggest of its kind in South Africa, employs 32 people and is the ninth in this country.

FINANCE

ARGUS 22/1/85 (320)

A fairer way to slice the tax cake

BRUCE CAMERON of the Political Staff reports on proposals for dealing with competing fiscal claims under the new constitution

THE most important function of Government is taxation and the distribution of tax. The right to levy taxes and allocate the money was the major motivating factor behind early democracy and even in Britain today the importance is underlined by the Chancellor of the Exchequer being paid more than the Prime Minister.

In South Africa's peculiar political set-up finances have not played the part in daily politics that they do in other countries but aggravated by the current economic decline the situation is changing.

The Government is now in the position where it has to spread the pot of gold more evenly to give credibility to its commitment to reform but at the same time the contents of the pot are shrinking.

This in turn will mean that more people, particularly whites, are likely to be upset when they receive less for their taxes.

Mr Bill Sutton, newly elected leader of the New Republic Party, feels that finance is going to be one of the most important facets of the new tri-cameral Parliament.

He says the current system of allocating money is totally inadequate. There are not enough controls and the public cannot see that money is being fairly and properly divided.

Under the current system examination of the budget is more politically orientated than fincially based while Parliamentarians are unable to scrutinise the detail of Government spending, being presented with global amounts.

Mr Sutton says this system not only allows government departments to get away with overspending but also does nothing to counteract claims that money is not fairly allocated.

He would like to see a system similar to that in the United States where the allocation of funds is done under the public spotlight — with televised hearings at which Government officials would have to face cross-questioning on their budget requirements and would have to justify their envisaged exspenditure.

And with the new Parliamentary sytem based on standing commitees being started this year he feels that there should be no problem introducing it.

Mr Sutton says he would like to see the committee which is currently investigating taxation to look at the possibilities of doing this.

 Mercury 25/2/85 (320)

GST could rise to 12pc, says Sanlam

Finance Editor

THE ONLY area to increase taxes will be in general sales tax, which could be increased to 12 percent to give the Government an extra R1 300m in revenue.

This is the view of the monthly Economic Survey from Sanlam, which is devoted to prospects for the Budget which will be delivered on March 18.

The international background to be considered is that the rate of expansion in the industrialised countries is expected to slow down to about three percent as against an estimated five percent for last year.

The volume of world trade is also thought to increase at a much slower rate. The demand for and prices of commodities are not likely to see sharp rises.

Gold

Gold price prospects are not bright with inflation remaining low in the major industrialised countries.

Disinvestment may also be a factor on the capital account of the balance of payments.

'South Africa cannot hope for great windfalls from abroad in the next twelve months. Our exports will benefit from the sharper drop in the rand'

While the current account of the balance of payments will hinge largely on the reduction of imports.

Despite the improvement in the balance of payments the capital side remains a 'serious problem' with the foreign gold and other reserves at a low level as a consequence of raising large sums abroad to meet the short term commitments of the country which have risen sharply in the last few years.

Inflation remains high compared with South Africa's most important trading partners with the rate of increase expected to accelerate in the next few months — 14,5 percent would appear to be the 'floor' for the consumer price index this year.

There has been an alarming increase in unemployment, especially in the black labour force.

And 'the confidence of the business community in the economy is extremely low at present.'

'Great uncertainty about government action prevails. The general feeling is that there is too much ad hoc action in the absence of thorough planning and co-ordinated goals.'

Excessive State spending is one of the major problems and is largely responsible for balance of payment problems.

'We believe the first priority for the Minister of Finance is to cut State spending - especially current expenditure - to the bone.'

Such action would hold down, or prevent, tax increases,'Tax hikes at this stage will be most inopportune.'

Total government revenue is now estimated in the Survey at about R23,6 bision while spending should reach R27,25 billion with a budget deficit of R3,35 billion.

The actual amount raised in the first nine months of the year was R3,829 billion.

Loan levies of some R450m are being repaid and some of the R750m of Treasury Bills could be redeemed before the end of March the survey considers.

While the current financial year has seen the government pursue an expansionary policy a more restrictive policy is now essential.

The government will probably achieve this by cutting back on capital spending, which will not be good for the long-term situation.

Budget

The survey considers that the Budget will be able to be held at about R30,5 billion - a 12 percent increase - which with inflation expected to run at between 14 and 15 percent reflects a real decline in State spending.

Revenue should decline because of the downturn in the economy but general sales tax should rise by about 15 percent. Gold mine receipts should be healthy.

Total revenue should reach about R25,5 billion leaving a deficit of about R5 billion of which the government will have to find an extra R1,5 billion from additional sources of revenue.

This will most likely come from a rise to 12 percent in general sales tax as most other sources of revenue were increased in recent budgets or, in the case of company taxes likely to be affected by proposed taxes for the regional service councils.

The survey considers that while individual tax rates will fall as the result of fringe benefit tax he will be hit by a rise in GST.

Further Budget shocks will affect growth prospects and the survey expects that 'the brakes will be on the recovery of the economy.'

An upswing is not likely before the end of 1985 and only a small positive growth can be expected this year.

Inflation should be about 14,5 percent for 1985 — with a probable leap to 16 percent — with a two percent rise in February as a result of the 40 percent petrol price rise.

A GST rise would lift the expected inflation rate to 15,5pc for 1985, the survey comments.

were registered at each university falling under the control of his Department in 1984?

The MINISTER OF EDUCATION:

	(a)	(b)	(c)	(d)	(e)
Fort Hare	54	26	4	2 986	—
The North	37	4	4	4 878	—
Zululand	5	3	3	4 000	—
Medunsa	110	1	6	895	—
Vista	15	12	—	6 188	—

Figures as on 5 June 1984.

Hansard Q.61.231 25/2/85

Student teachers

150. Mr K M ANDREW asked the Minister of Education:

(a) How many bursaries were granted by his Department to Black student teachers in 1984 and (b) what was the total amount granted in that year?

The MINISTER OF EDUCATION:

(a) 6 361

(b) R2 820 328

320 Hansard Q.401.232 25/2/85

Taxpayers

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(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 1983-84 tax year and (b) what percentage of each group of taxpayers is Black?

The MINISTER OF FINANCE:

(a) (i) The statistics are not complete because ± 23 per cent and

(ii) of individual taxpayers have not yet been assessed.

Income category	Number of individual taxpayers in income category	Tax assessed in income category as percentage of total tax assessed
Loss	18 462	0,00
Nil	63 727	0,00
1— 1 000	48 517	0,00
1 001— 2 000	46 911	0,01
2 001— 3 000	60 292	0,02
3 001— 4 000	71 896	0,08
4 001— 5 000	82 641	0,20
5 001— 6 000	87 545	0,33
6 001— 7 000	91 657	0,52
7 001— 8 000	91 806	0,74
8 001— 9 000	88 138	0,96
9 001— 10 000	82 142	1,17
10 001— 11 000	75 569	1,36
11 001— 12 000	73 380	1,63
12 001— 13 000	70 369	1,88
13 001— 14 000	67 562	2,15
14 001— 15 000	67 074	2,50
15 001— 16 000	64 955	2,80
16 001— 17 000	61 944	3,07
17 001— 18 000	57 975	3,26
18 001— 19 000	54 293	3,42
19 001— 20 000	50 085	3,52

Income category	Number of individual taxpayers in income category	Tax assessed in income category as percentage of total tax assessed
20 001— 22 000	86 898	7,06
22 001— 24 000	70 263	6,81
24 001— 26 000	54 688	6,20
26 001— 28 000	42 147	5,51
28 001— 30 000	31 813	4,73
30 001— 32 000	23 747	3,99
32 001— 34 000	18 317	3,43
34 001— 36 000	13 867	2,88
36 001— 38 000	10 557	2,41
38 001— 40 000	8 313	2,07
40 001— 42 000	6 562	1,76
42 001— 44 000	5 271	1,53
44 001— 46 000	4 523	1,41
46 001— 48 000	3 606	1,20
48 001— 50 000	3 086	1,09
50 001— 80 000	17 107	9,12
80 001—100 000	3 516	2,60
100 001—150 000	3 007	2,89
150 000 +	2 734	3,69
Total:	1 886 962	100,00

(b) None. The statistics at my disposal relate only to tax levied under the Income Tax Act, 1962, which Act was not applicable to the income of Blacks in respect of the 1983/84 tax year.

Sales tax

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(a) How many cases of irregularities in respect of sales tax were discovered since 1 January 1984 up to the latest specified date for which figures are available and (b) what is the amount of tax involved?

The MINISTER OF FINANCE:

(a) 8 716 cases were discovered up to 31 December 1984.

(b) Tax R24 656 140
Penalty R11 070 949
Total R35 727 089

HoA

Income tax

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Whether any income tax was written off in the 1983-84 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:

Yes.

(a) (i) 3 604.

(ii) 215.

(b) (i) R2 281 530,12.

(ii) R2 011 990,94.

Airways: passengers

172. Mr D J N MALCOMESS asked the Minister of Transport Affairs:

NATIONAL

Tax-evaders unmasked in million-rand rip-off

ARGUS 25/2/85 320

Argus Correspondent

JOHANNESBURG. — Tax-evaders are being unmasked by the score in a nationwide blitz by special audit teams sent out by the Receiver of Revenue.

The purge, which is causing consternation in a large part of the business community, includes individual taxpayers.

Dozens of firms have already been found to have cooked their books.

The audit teams, which operate in all the main centres, began their on-the-spot probes last October. Since then more than R18-million in unpaid taxes has been recovered.

Officials at the Receiver's office see that figure as the tip of an iceberg and predict that many millions more will be recovered in coming months. By the end of this year the total could well have mounted to more than R70-million.

"We have only scratched the surface," says Mr Schalk Albertyn, chief director (operations) at the Receiver of Revenue's office in Pretoria.

"We hope to expand the operation considerably over the years. This is something that has come to stay."

The teams operate in various ways, depending on their quarry. Some move into a business, demanding to see the books. Sometimes they give the business advance warning; sometimes they arrive out of the blue.

No tax-evasion pattern yet

Others sit beside tills, totting up takings and comparing them to claimed earnings.

Until the teams started operating last October the Receiver's men did their probing from behind their desks.

That is still where investigations start, with a careful scrutiny of tax returns.

When an investigator becomes suspicious about something in the returns an audit team moves out into the field.

Mr Albertyn says it is too early to show whether any patterns of tax-evasion are emerging.

"We are correlating all the information. Our head office section will eventually be able to direct the attention of the teams to various areas."

Although the teams are concentrating at the moment on the "big fish", tax-evaders of all sizes arouse their interest.

All kinds of tax are coming under their scrutiny, including income tax and GST. One particularly fruitful area is unpaid stamp duties.

While tax-evaders worry about the teams, taxpayers with nothing to hide have welcomed them.

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[redacted] Hansard Q.61.231 25/2/85

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172. Mr D J N MALCOMESS asked the Minister of Transport Affairs:

No early end to 'outmoded' joint taxation

W/E ARGUS 23/2/85 (320)

Weekend Argus Correspondent

DURBAN. — Joint taxation will remain the burden of married couples for at least another two years, if not for the foreseeable future.

Married couples were told to be patient by the Minister of Finance, Dr Barend du Plessis, when he announced that the investigation of separate taxation was not yet complete.

On a radio programme last week he talked of problems in other countries with separate taxation, thereby implying that its acceptance here could not be taken for granted.

"Chauvinist, outmoded"

But the Southern African Women's Foundation, which formally represents more than one million supporters of separate taxation, believes it is too crucial an issue to stave off.

"It's a fossil of the past. It's a product of chauvinist, outmoded attitudes. It's a product of the time when the Government was legislating exclusively for the white community and when it wanted white women to stay at home and breed," is the retort of separate taxation campaigner Mrs Adele Van der Spuy, president of the foundation.

Joint taxation is one of the briefs of the Margo Commission set up in November last year to investigate the entire tax system. Its final report is due only in July 1986.

The foundation hoped for an interim report this month, but the chairman of the separate taxation committee, Professor Michael Katz, said its investigation was not yet completed.

Many millions of married couples will be bitterly disappointed if they hear of no respite in the budget speech on March 18.

If the commission moves on the issue and gets in its report before the 1986 budget there will still be another tax year before separate taxation could be implemented.

Last developed country

Mrs van der Spuy accuses South Africa of being the last developed country to retain joint taxation. She believes the foundation has swept away every feeble excuse for joint taxation and she cannot see the reason for yet another delay.

A specialist teacher, who cannot be named because she is employed by the State, submitted the following details of her tax burden to the Margo Commission:

- On a gross annual income of R19 435 she is taxed at her husband's top marginal rate of 50 percent.
- Her tax is R8 316, leaving her with an income of R828 a month. If she was separately taxed her bill would come to R3 431.

"This tax on my morality costs me R4 885 a year," is her angry assertion.

Loan levy refunds on way to Western Cape

Argus 19/2/88 320

Finance Editor

MANY people in the Peninsula should have a little more money in their pockets this week.

Altogether R60-million in loan levy refund cheques is on its way to 157 000 people and firms in the Cape Town-Bellville complex, a senior official in the Department of Inland Revenue in Pretoria said today.

SHOULD ARRIVE SATURDAY

Mr Schalk Albertyn, chief director, operations, said loan levy cheques were being posted throughout the week and people in the Cape Town area should receive them by Saturday.

As more than a million loan levy refund cheques were being sent out it had been necessary to stagger the operation so as not to overload the clearing banks and the Reserve Bank.

He said 87 000 cheques for a total of R40-million were being sent to Cape Town and 70 000 cheques for a total of R20-million to Bellville.

The total payout was R610-million.

counting records. One counsel interpreted this to mean that the accounting officer should follow the transaction from the financial statements to source, through tracing vouchers.

This, says counsel, makes the duty of an accounting officer more onerous than even that of an auditor. Another opinion was that it would be adequate for the accounting officer to carry out the same duties as an auditor.

The Act provides that the following may act as accounting officers of a CC: members of SAICA; accountants and auditors registered in terms of the Public Accountants and Auditor's Act; members of the SA Institute of Chartered Secretaries and Administrators; the Institute of Cost and Management Accountants, and the Association of Commercial and Financial Technicians of Southern Africa.

SAICA says that in the "determination" of whether the financial statements agree with records, the duty of the accounting of-

INSURING AGAINST CISKEI TAX CHANGES?

FM 15/2/85 (320)

Some taxpayers in SA say the tax system has become more unpredictable than the gold price. They will be interested to know that Ciskei is well advanced with a plan to give businessmen there an insurance policy that indemnifies them against changes in the tax system.

Ciskei has created a corporate tax haven, starting in March, among other tax reforms. This carrot has interested many foreigners although they are concerned that changes may be made to the tax system without notice.

So Ciskei has started negotiations with foreign insurers for a tax-change indemnification policy, something that as yet does not exist anywhere in the world. Some foreign insurers have found the idea quite novel and hope to market it to other clients once its finer details are finalised.

The Ciskei government will pay the insurance premium. But the interesting feature of the policy is that it will undertake to re-insure the insurer. This provides additional incentives for it to maintain discipline and a responsible tax policy.

Why not such a policy for SA? One obvious case where such a policy would be favoured are German motor manufacturers, Mercedes and BMW. Both feel, rightly, that they have been dealt a severe blow with the proposed car perks tax. They sell the most expensive cars, attracting the most tax.

Insurance can be taken out to guard against most risks, and for the consequential losses that might arise. The principle in Ciskei seems to be that if the government creates a risk, it should likewise pay the price of insuring that risk.

And the tax system in SA should be no exception. Indeed, one could argue that it provides a more serious risk in terms of constant changes than in other countries.

With Pretoria holding a quill that has seemingly gone crazy, never before has there been such strong justification for tax change indemnification.

It can also be argued that Pretoria should offer businessmen an insurance policy against continually moving the proverbial tax goalposts. There could be a problem for the SA taxpayer, however. It has always been Pretoria's habit to raise taxes when it spends too much.

Yet, if it violated the small print of a no-change tax insurance policy, it would have to raise taxes further to pay damages. It's something of a chicken-and-egg problem: which came first, the damages or the tax?

ficer would have been met where he compiled the financial statements; if he did not, it is sufficient if the accounting officer trace the amounts to the general ledger or similar record.

This duty of the accounting officer may be the main problem, but there are other glaring flaws that emanate from the counsel's findings:

□ An accounting officer is not bound by the Act to report to the Registrar of CC's a finding that a CC's liabilities exceeded its assets, unless the situation is clearly outlined in the financial statements. Counsel recommended that the Act be amended as soon as possible with retrospective effect to rectify this;

□ A chartered accountant who acts as an accounting officer should explicitly state that the financial statements have not been audited. This is, firstly, to avoid granting his report a status not justified by the duties carried out by an accounting officer; and, secondly, since accounting firms have acquired goodwill and reputation, a person reading the statements might conclude that an audit had been carried out;

□ Unless bound by contract, an accounting officer who found a contravention of the Act while investigating matters beyond the ambit of duties outlined the Act was not obliged to report such contravention to the CC's members. His duty to report such matters may, however, be governed by his appointment contract. In terms of such appointment, there may be an express or implied duty to report contraventions of the Act of which he becomes aware;

□ The Act requires that the accounts of a CC must "fairly present" the state of affairs and results of the corporation. Counsel said that if accounts were prepared on a cash basis, or for the specialised purpose of tax, they would not present the situation fairly.

face to face

TONY OCKENDEN

Controlling the banks

Tony Ockenden heads the Reserve Bank's new Banking Supervision Department, set up to monitor the foreign operations of SA banks. With banking going international on an increasing scale, the question of prudential control has never been more vital. He spoke to the *FM* about the implications for local banks.

***FM:* What is the current state of international banking control?**

Ockenden: When the question of control became an issue as far back as 1974, I was somewhat sceptical about what it could achieve. National politics can make international co-operation difficult at times, but there is tremendous co-operation between central bankers throughout the world now.

To what can this be attributed?

Through the Basle Concordat, guidelines covering the respective responsibilities of different supervisory authorities for banks operating in more than one national jurisdiction were set out. The main principle was that the primary responsibility for the supervision of liquidity of foreign banking establishments rested with the host authority. With the revision of the document in 1983, the principle that supervision of international banks' capital adequacy and risk exposure should be monitored on a consolidated basis was included.

Furthermore, it was the intention that no foreign banking establishment should escape supervision. The revised Concordat also addressed further ways in which any supervisory gaps can be prevented, particularly those arising from inadequate supervisory standards in certain countries or from the existence of holding companies and non-banking companies as parts of banking groups.

Is this legally binding for the member countries of the Concordat?

No, the agreement cannot have legal binding force as it relates to an international banking system which is itself not governed by a single legal framework. But this does not necessarily weaken potential commitment to the principles set down. What the Basle Committee hopes is that, in the long run, countries throughout the world will see it is in their own interests to make the legislative changes necessary to follow the guidelines.

What are some of the remaining stumbling blocks to effective international supervisory control of the banks?

One problem is the degree to which banking secrecy laws may impede the free passage of information required for effective supervision. In most cases the information to which access is blocked is that related to the liabilities of banks to individual customers. The committee's opinion is that national laws should permit supervisors, under appropriate conditions of confidentiality and reciprocity, to pass to authorities of other countries information of a supervisory nature otherwise restricted by banking secrecy constraints.

On a more general level, the principles need to be disseminated more widely and accepted by a wider group of countries. Some geographical groupings of supervisory authorities already exist and there is talk of establishing further groupings in different areas of the world.

Of course, there is a danger of going backwards and introducing more regulations at a time when the development of the financial services industry generally is necessitating continuous evolutionary de-regulation.

A very high proportion of banking is confidence which, of course, is an attitude. And once confidence is jarred to any degree, even by rumour, a bank can be affected; not that I am anticipating problems with any of the banks here. The foreign operations of SA banks are generally quite small in relation to the size of our banking sector.

So what do you view as the most important aspect of your job?

My responsibility essentially is to ensure there is a reasonable mix of profit and prudence. The banks seem to have welcomed the move towards more supervision of their operations. They know it is not possible to operate in isolation in today's world. But I do not believe in too much legislation and regulation. My experience has taught me that laws are only words and people can show ingenuity by inventing new words.

I personally prefer professional self-regulation and policing. Bankers know their own business best and must make their own decisions. The supervisor comes into play later when he feels the results of such decisions might require the making of some provisions.

Is the new supervision going to affect the bank's operations and profitability in any way?

I have no intention of building a large empire.

I want to see the banks becoming even more efficient, effective and profitable than at present, and if at the same time they can operate with the required amount of prudence, I am in for an easy job, which is always one of my main aims.

I think we also have the opportunity to look at the financial services sector as a whole and to construct a sure and safe way ahead for all participants in that sector.

Pick 'n Pay in GST deal with Ciskei

CAPE TIMES 15/2/85

320

Own Correspondent

JOHANNESBURG. — Mr Raymond Ackerman, chairman and co-managing director of Pick 'n Pay, confirmed this week that his company had negotiated a contract which exempted its supermarket in the Ciskei capital of Bisho from general sales tax.

Under Ciskei's pending new tax policy — which abolishes personal tax for people who earn under R8 000 a year and scraps company tax from March 1 — the Ciskei government will be heavily dependent on GST to fill its coffers.

Mr Ackerman said: "We did a deal on GST, but it has since created problems. We are now trying to solve those problems."

One problem was that after the agreement was signed, Ciskei announced its new tax policy, including the planned abolition of company tax, meaning that Ciskei would get no tax revenue from Pick 'n Pay either from GST or company tax.

But, Mr Ackerman said, Pick 'n Pay and Ciskei were involved in "amicable discussions" to solve the problem.

He added: "We have recognized that they have got to have revenue. It may well be that we owe them GST. We haven't physically handed over GST yet."

It is not clear how or why Ciskei got itself into a situation where a major company like Pick 'n Pay was granted an exemption of GST while qualifying for freedom from liability for company tax.

According to information available to our Johannesburg correspondent, floor space in the Bisho shopping complex was rented to Pick 'n Pay at about one-sixth of the rate paid by other tenants.

Mr Ackerman said."We don't discuss rentals. But it is not a subsidized rent. It is a good and fair rent."

It has also been learnt that President Lennox Sebe of Ciskei has cost Ciskei and South African taxpayers an additional R20 million on the contract for the construction of an international airport for his homeland.

Despite advice to contrary from his now-dismissed Planning and Advisory Council, Chief Sebe agreed that the contract price should be paid to the Panama-registered company in American dollars.

Given the sharp rise in the dollar since the contract with the G and M Construction Company was signed last year, and the corresponding fall in the rand, the original contract price of $25 million has risen by some R20 million.

At one stage Chief Sebe was persuaded by the Planning and Advisory Council to insist that entire contract be negotiated in rands, but he was later changed his mind and agreed that payment should be in dollars.

The contract is one of several which have aroused criticism because they were not put out to tender.

CAPE TIMES 12/2/8

Announcement on perks tax awaited

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THE keenly-awaited revised perks tax proposals should be announced soon following the disclosure by the Minister of Finance, Mr Barend du Plessis, that he had already received the interim report of the Margo Commission dealing with fringe benefits.

Introducing the second reading of the Part Appropriation Bill yesterday, Mr Du Plessis said the commission's proposals were to be submitted to the cabinet on Wednesday for a final decision.

"I therefore hope to be in a position to make a final announcement in my reply to this debate."

The commission has not recommended deferring the March 1, implementation date.

● **Mini budget, page 4**

Call for tax cuts on lay-off payout

W/t Argus 9/2/85

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By DEREK TOMMEY
Finance Editor

ORGANISED industry has called for a cut in the heavy tax on final payouts to workers sacked or retrenched.

The Government stands to make thousands of rands out of the final payouts to such workers.

Many men in their 40s and early 50s, retrenched after years' service, find they pay about half of their final redundancy cheques, including pension fund repayments, in tax.

This can dash any hopes they might have had of using their retrenchment payouts to start a business or of using them as investment nest eggs to keep them going.

Now organised industry is to ask the Government to give these people relief.

Mr Chris Newton, president of the Cape Chamber of Industries, said it was in the public interest to help the many likely to be retrenched this year.

Retrenchment payments are taxable at the top marginal rate. With income tax rates in South Africa among the highest in the world, some retrenched workers have to forfeit 40 percent and more of severance payments to the Government.

A tax consultant said today that only men aged 55 and above and women 50 and above received tax relief on their redundancy payments.

TAXATION

Argus 6/2/85 (320)

Soldier auditors make a killing

The Argus correspondent in Johannesburg reports on the high civilian kill rate of SADF auditors

TEAMS of auditors — young professionals exempted from national service — have been used to crack down on tax avoidance and have already saved the country millions of rands.

The men are being employed by the Department of Inland Revenue which has in the past suffered from shortages of skilled manpower. In return they are exempted from military service, except for three months' basic training.

Mr S Albertyn, the Inland Revenue's Chief Director of Operations, said: "In Johannesburg the public are sitting up and taking notice of these young men ... and the same goes for Cape Town, Durban and all the other major business centres. In one specific case a team consisting of some of these men pinned down a swindle involving many millions".

The scheme was started in October last year. Mr Albertyn said that early indications were "extremely pleasing".

The men are mainly qualified accountants, but Mr Albertyn said the department would be able to fill posts with B Comm and any legal graduates.

They have been formed into teams across the country and given the task of doing spot checks on businesses suspected of tax swindles.

At present the men work under the supervision of experienced men in the department, with the emphasis on tracking down offenders through "legwork" rather than sitting in an office comparing tax returns.

"Since October we have had about 50 young men join the department in a fairly steady stream. It takes them a little time to get their teeth into the cases, but they are getting results now."

Mr Albertyn said it was difficult to tell exactly what amount in taxes had been retrieved as some of the companies being investigated were expected to lodge appeals and objections.

"Some of the firms aren't going to take this lying down. We never had the right men with sufficient expertise to do field audits, going into the offices of a firm, inspecting the books and finding the answers immediately. Now we have," he said.

The men were regarded as full-time employees of the Department of Finance and were entitled to housing subsidies. Those who joined before doing national service were expected to sign a service contract for four years, he added.

Mr Albertyn explained that they would then be released for three months basic training in the military, while the department applied through the exemption boards for their release immediately thereafter.

The Manpower Board has given the department a blanket concession to apply directly to the military exemption board for exemption of "key personnel".

PFP leader Dr Frederik Van Zyl Slabbert has criticised this move, saying it was unfair that only state departments were given this type of access to the board, as "in terms of certain crucial skills and jobs, the Defence Force and the private sector will always be in competition".

FUEL GST

'STEALTHY BONANZA FOR GOVT'

CAPE TIMES 25/7/85

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THE huge fuel increases announced this week represent "a tax bonanza by stealth" for government coffers, the Progressive Federal Party has charged.

This was because the government's increased receipts from GST on fuel sales would range between R160-million and R200-million a year, a PFP spokesman on mineral and energy affairs, Mr Roger Hulley, said in a statement yesterday.

The government's total income from GST on fuel during the 1983/84 financial year when GST was 6 and 7 percent was R241,6-million.

This figure would have increased with the rise in GST to 10 percent, and with the latest price increases, the government's annual receipts would jump to about R500-million.

Mr Hulley said this massive increase would accrue to the government at the expense of the consumer.

"The point is that the fuel-price increase which has been announced will not all go towards offsetting the increased cost of importing crude oil — a substantial slice will simply be paid over to this government through the 10 percent GST mechanism.

"This is a further tax rip-off of the consumer."

Mr Hulley said the government should have applied this extra revenue towards reducing the huge extent of the latest price increase.

● Big rise in cost of boat fishing
● Govt must go, say angry callers
PAGE 11

● The Transvaal Indian Congress (TIC) has warned that the petrol-price rise created a situation with all the potential for further social and political upheaval.

It urged commerce and industry to be cautious about passing on the increase to the consumer.

In a statement issued yesterday, the TIC said it viewed the massive rise with "the greatest shock and dismay".

The TIC said the blame lay not merely with "the government's grave mishandling of the economy" but was also the result of its desperate attempts to bolster the homelands policy, to meet the ever-escalating costs of apartheid and to provide for the "ruthless suppression" of SWA/Nambia.

Further rises

Meanwhile, South Africans yesterday braced themselves for a bombardment of further rises — including foods, public services and transport.

While shockwaves swept through all sectors of business and industry, South Africans were told:

● Food prices across a broad spectrum would go up — some almost immediately.

● South African Transport Services tariffs, including rail passenger and air fares, were to be raised.

The PFP's finance spokesman, Mr Harry Schwarz, emphasized the need for extreme caution in raising urban commuter rail and bus fares.

Referring to the violent reaction in the past to higher transport fares for black commuters, he said: "This is a highly-sensitive and disturbing aspect of the higher fuel prices — the effect on black workers' transport costs."

Gas also up

● The price of gas, oil and other petroleum-related products increased yesterday.

Liquified petroleum gas (LPG) went up by 21 percent, and popular grades of lubrication oil by a similar percentage.

Mr Chris Phillips, general manager of Easigas, said consumers would pay 23c more per kilogram of gas.

and Swiss systems to bankers to allow them to do their sums and supply feedback.

Some bankers believe the Reserve Bank will follow an amalgam of British, Dutch, and to a lesser degree, Swiss systems in setting their ratios.

The certain capital ratio requirements could have a significant impact on the market place.

"Applying capital requirements to any one of the areas which are currently exempt could have some startling results," says one banker. "If, for example, a 10% requirement was placed on offshore loans, the forward market could be seriously affected."

"Also the ratios implemented could lead to drastic changes in the mix of assets held by banks," he adds.

However, the climate for negotiation seems good and it is believed the Reserve Bank and commercial banks have struck a compromise on one important aspect so far.

The talk is that capital requirements will no longer be phased in over five years on a rigid basis as envisaged in the draft Bill Rather, the requirements against assets and risk exposures will initially be set at modest levels and gradually increased over an unspecified period of time after consultation with the banks.

One important aspect that needs to be cleared up according to bankers is the need for uniform bank reporting because banks regard certain categories of assets differently.

Given that banks have to strenghen their capital base a number of instruments are available to them.

"Banks in SA do have surplus capital in the form of retained earnings," says one banker. However, if banks run short, the draft Bill has made allowance for the issue of subordinated debentures, within certain limits which have not yet been finalised.

There is also the possibility of a rights issue to raise capital, but this could raise interesting problems for Standard and Barclays, which are controlled by parent companies overseas. These parent companies would have to match any issue to retain control over their South African operations.

Some important issues remained unanswered. Of course the most important question is: will the market be able to absorb, not only increased capital needs from undercapitalised banks, but also building societies which will be offering rights issues, as early as next year?

However, one fact that cannot be avoided is that the banks' assets and liabilities have been growing and capital requirements have not kept pace.

Ultimately what the Reserve Bank must be hoping to do is slow down the rate growth of the banks' assets without hampering their profitability together with a gradually raising the capital base to the level eventually laid down.

TAX REFORM

The magic expenditure tax

The expenditure tax, widely acclaimed in the West, is arguably the world's fairest, simplest and best tax of all. The Margo Commission, which is investigating the tax system, could do a lot worse than recommend such a tax. It would mean fundamental reform, something every taxpayer wants, and the SA tax system could become a model for every nation to follow.

The expenditure tax is something of a misnomer. It implies levying tax indirectly on consumption, as is the case with general sales tax (gst). In fact, the expenditure tax defines all funds received by an individual as taxable.

Funds received include not only cash, such as salary, dividends, royalties and so on, but also imputed cash receipts, such as gifts and fringe benefits. Even loans are defined as taxable funds, but loan repayments (both capital and interest) are savings and are tax-deductible.

Nothing can be deducted from taxable funds except that cash which is placed in savings. So if an individual spends all his cash on booze, cigarettes and entertainment, his total income will be taxable. If he places every cent he receives in bank deposits, he will not pay a cent in tax.

The tax is exacted on expenditure on items that a taxpayer takes out of the economy (consumption), and not what he puts into it (savings). In a nutshell, a taxpayer under an expenditure tax system would be able to complete his tax return on the back of a postcard. Apart from savings, there are no exemptions, deductions, abatements, rebates, special cases, and so on.

In every sense, the expenditure tax complies with all the requirements of a good tax system. In short, these are: correct incentives and economic efficiency; equitable distributional effects; simplicity; minimal costs of administration and compliance; flexibility and stability.

The expenditure tax was recommended by Britain's Meade Committee, chaired by Nobel economics prize winner James Meade. It found that there were serious difficulties in defining an individual's income satisfactorily for tax purposes, particularly for treatment of windfall receipts and different kinds of capital gains. Other examples abound. A house that is paid off is worth the imputed rent that it would earn if it were leased to a third party, but this is not conceived as income.

Meade determined that taking expenditure on consumption instead of income as the taxbase involved far fewer definitional problems of income. Dubbing it the Universal Expenditure Tax (UET), Meade proposed that, of fundamental importance to its effective working, would be the registration of assets into which cash payments by a taxpayer would be exempted from tax.

Registered assets would include most of the traditional savings such as housing, bank and building society investments, Krugerrands and so on. What may be more difficult to classify as registered assets are items like a bank current account, cash, ordinary personal consumption goods, a Rembrandt painting or a Ming vase. Also, certain socio-economic expenses, such as medical expenses, may need to be classified as savings so they can be deducted from taxable funds received.

But the vast majority of traditional investments could be registered, and many assets, such as coins and banknotes, would simply have to be classified as de-registered assets for administrative reasons alone. In the same way, borrowings could be registered or deregistered, although it might be necessary to put some restriction on the use of deregistered borrowings which taxpayers would use to invest in registered assets, thereby securing a tax credit.

The UET does away with problems such as the vexed definition of income, capital gains, inflation and indexing. Its principle can be extended to business enterprises so that personal and corporate taxes mesh in one refined system.

A UET considerably widens the taxbase by including a much wider range of items in income than is the case now. The rate used could either be a flat rate or a table of progressive rates found in the present system. Of course, a UET does not preclude the existence of other taxes, and imposts such as gst, excise and customs duty could remain in place.

The UET would not displace the pay-as-you-earn system. Inland Revenue could publish estimates of what savings levels different gross income earners are likely to achieve, and extract a monthly tax from their employers. Individuals with more complex tax profiles could make self-assessments and pay on a provisional basis.

Any extension of the tax system for individuals must, of course, take account of the corporate tax system. But, by its very nature, the UET can be easily extended to the corporate tax system. From a company's outflows, whether spent on real items (land, machinery, inventories etc) or financial are brushing up on its figures to ensure the banks' willing co-operation.

"The last thing the Reserve Bank wants is an explosion on their hands," says one banker.

Sources say the capital ratios for more common types of assets will vary from between 2% to 6% and bad and doubtful debts and non-performing loans will probably require full capital coverage.

The exercise is fraught with difficulties. Not least of these is the extreme difficulty of categorising assets according to their risk and substantial variation will have to be allowed within categories.

"If Reserve Bank officials are not careful they could end up with an enormously complicated system that would only be manageable by supervisors who move in and have to pass judgement," says one senior bank source.

"And whatever is decided, someone will always be offended and inevitably some will ask for exemptions," he adds.

It appears as if the Reserve Bank has taken the only solution — to postpone matters and write into the draft Bill that the finer details will be laid down by regulation. Once the Bill is passed the Reserve Bank will negotiate with banks on an ongoing basis.

The phasing-in period and method is seen as the crucial issue.

The Reserve Bank has done various exercises with different ratios and last year circulated models based on the Dutch

LOU WILKING

Disinvestment issue critical

"The overall state of the economy and the extreme measures taken by the government cast doubt on the ability of the country to manage its own affairs." Tough words, particularly when they come from a foreigner, General Motors SA MD, Lou Wilking.

FM: **One of the extraordinary things about your recent speech was that you speak as a foreigner.**

Wilking: It's true. I am a foreigner. But I've lived here since 1977; I've buried my wife and my mother from here; I've raised my family here and married my second wife from here. I'm currently president of the Midland Chamber of Industries and a past president of the National Association of Automobile Manufacturers of SA (Naamsa). I think I am as much a South African as a lot of other people.

Are your views representative of other foreign companies operating in SA?

I can't speak on behalf of others, but I've certainly had support for my views from a lot of people, including managing directors of other multinationals.

What prompted the strong views you expressed in your speech to the Institute of Cost and Management Accountants?

The disinvestment issue is getting so critical that we need a clear statement by the SA government saying what they're going to do, when they're going to do it and, by God, they must do it.

The politicians have to quit making statements, such as on the opening of CBDs to all races, and then letting it drag out.

Even so you must feel the pressures are getting enormous.

Absolutely. General Motors has had shareholder resolutions on SA since 1971, none of which have been passed, and will face one again in May from the state of New York. A number of states as well as cities and universities, all big investors, are now prepared to risk potential returns on investments by doing away with their stocks in any company which does business here.

You must understand the total United States citizenry has very deep-seated feelings about racial prejudices. One can say there have been substantial changes here. For me the most meaningful change is that blacks are now allowed to own their homes in the cities because that says they belong where they are. Americans say that's all fine and dandy, but is it true you can't sleep with a black woman?

Now, you throw that in with economic mismanagement and you've got no pluses. In the past SA was considered a pretty solid sort of place. However, when you look at the final litany of results of recent economic management — interest rates up from 7% to 25% in four years, the value of the rand down by 60% in two years, a government that employs 62% of all whites and increases their salaries by 30% in a year of a major recession, gst up from 6% to 10% in less than half year — what do you say?

These are more recent events. One gets the impression your lack of faith goes deeper.

That's right. Let's go back to the first fundamental: gold is a figment of someone's imagination. Number two: because of apartheid we duplicate facilities, people have to live out in the boonies and ride trains and buses to work and we've got to subsidise Mr Schoeman's Transport Budget. And then to the grander plans: Atlantis Diesel Engines is an example. It cost R600m to build and in my opinion creates a R300m cost penalty every year and in the year 2000 we're going to be 20 years behind everybody in technology.

The Saldanha facility cost some R850m and they're incurring losses of about R150m which gets lost in Iscor's budget and pushes up the steel price when that railway line could have been built to Port Elizabeth, where we have a harbour for R80m.

What should our approach be?

We should be looking at the type of industries suited to the current capabilities of the mass of the people. I'm looking at the Taiwan and Korean type of approach, making T-shirts and tackies. And you've got to cull the public sector and put a choke-chain on every minister. If he overspends his budget, he's out.

And maybe we should look at the losses on some of these big projects and maybe we should shut them down. Take the savings and build the houses and the schools that are needed. That in itself will generate jobs and the demand for door frames and bricks and the things we can make.

Are you saying the disinvestment pressure combined with unfulfilled political promises and economic mismanagement means things are getting so bad it's no longer worth staying here?

Let's get this straight. We're staying here all right. For me SA has the most interesting set of opportunities in the world. There are some of the rarest minerals, a First World infrastructure and, its biggest asset, employable people. But there has to be change. We have to get this political thing sorted out. The sooner we do it, the sooner we'll show what this country's promise is.

You're on record saying you would be interested in a South African partner. Is that not a way of disinvesting?

Who would want to buy into the automobile business in SA when we've got the enormous excess capacity? There ain't any money to take home. However, by getting a partner you may get a better capital structure and, from a networking point of view, it would make sense to give South Africans a stake in the company.

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items (loans and dividends) are deducted all inflows (mainly sales).

If there is a cash excess at the end of any given period, it can go to only three places: reinvestment in the business (thereby escaping tax), shareholders, or the taxman. So individuals would not invest in companies unless cash can be extracted from them — a far cry from the current system.

As the cash crosses from the corporate sector to individuals, the taxman strikes. If both individuals and companies were to be taxed on the cash-flow UET basis, the tax rate on dividends would have to equate the personal tax rate levels. A rate slightly below personal tax rates could be justified to stimulate investment in economic enterprises.

In the final analysis, there would be a fairer share of the tax burden because of the bigger net. By its very definition, the UET makes inflation accounting for companies irrelevant.

People and companies pay tax because they have the cash. Post-tax and pre-tax returns on all investments are equalised, so one sector would not be favoured above another by the tax system.

And, significantly, all companies would pay the same tax rate — the official rate. Further, the much vexed area of capital gains is pushed to the wayside as all investment in "capital" assets can be deducted from income, and all sales are taxable.

The treatment of pensions, trusts and close corporations would be simplified by this handling of capital gains in eliminating the many distinctions between capital and income and in greatly simplifying the problems arising from inflation.

Problems with a UET include the transitional stages of implementing the tax, which opens the door to tax dodging. A taxpayer who has hoarded Krugerrands over the years could wipe out his tax liability by declaring that all his funds for the period have been invested in the coins. But then Inland Revenue could ask for receipts of payment and check purchase dates.

Other implementation problems include relationships with foreign countries and, perhaps the most important of all, the revenue effects. Estimates of how much a UET would raise compared with the present income tax would be nigh on impossible to make.

But if the UET estimate proves to be too low, gst is always there as a back-up, and the government could explain that the new tax system is likely to give teething problems.

But what has been noted as an essential for a UET system, full Inland Revenue computerisation, already exists in SA. So there is no reason for why the tax system should not be implemented here. If it is, it will be a world first and a milepost in man's economic history. For it is likely that one day, every country in the world will have the universal expenditure tax. Taxpayers should expect nothing less.

CASTING A WIDER NET

As illustrated below, the expenditure tax uses only cash flows as its tax base. Thus the formulas and rates to determine the taxable values of building society interest and dividends earned, used for the present tax system (not shown here), are superfluous.

Moreover, some of the most vexed questions of our current tax system are avoided. For example, Mr X is *probably* taxable on his share dealing because he did not hold the shares for very long. If he had held them for several years, the profit would *probably* not be taxable, being a capital gain.

The table also shows that the expenditure tax casts a much wider net, taxing capital gains and loans raised by the taxpayer.

The only way the taxpayer can avoid tax is by cutting expenditure on consumables and putting as much cash as possible into registered assets.

The taxpayer in this example needs to pay a flat rate of only 20% to pay the same tax payable under the present system. But under the present tax system, Mr X has to live with the perception that, above R40 000, half of every rand in extra income is going to the taxman.

For perceptions, 20% is a lot better than 50%, when the same revenues are raised. The Meade Committee reckoned, however, that the actual (that is, average, not marginal) tax rates required to raise the same revenues as before would probably have to be higher than under the present system.

EXPENDITURE TAX vs PRESENT TAX SYSTEM

	Effect: Expenditure Tax			Present Tax System
Mr X, married with two minor children, undertook the following transactions during the latest tax year.				
He sold shares bought last tax year for a profit of R3 281. This was	3 281	(i)		3 281(?)
invested in other shares.	3 281	(s)		
Dividend receipts for all shares were R4 261	4 261	(i)		2 841
NET TAXABLE AMOUNT	**4 261**		**(A)**	**6 122**
His building society account yielded	1 732	(i)		
interest of R1 732. This was reinvested.	1 732	(s)		1 632
NET TAXABLE AMOUNT	**0**		**(B)**	**1 632**
He paid R2 000 in life assurance premiums and R8 000 towards	2 000	(s)		
his retirement annuity fund.	8 000	(s)		—8 000
His bank deposit paid interest of R2 122.	2 122	(i)		2 122
NET TAXABLE AMOUNT	**−7 878**		**(C)**	**—5 878**
His salary for the year was R70 733	70 733	(i)		70 733
He sold his 10-year old house which cost R20 000 for R150 000.	150 000	(i)		
He bought a R100 000-townhouse.	100 000	(s)		
Standard deduction				—300
NET TAXABLE AMOUNT	**120 733**		**(D)**	**70 433**
He raised a R25 000 loan for his	25 000	(i)		
wife's business, and repaid R2 000	2 000	(s)		
NET TAXABLE AMOUNT	**23 000**		**(E)**	
He paid R12 832 (capital and interest) on the family's holiday cottage.	12 832	(s)		
NET TAXABLE AMOUNT	—12 832		**(F)**	
Total amount taxable (A to F)	**127 284**			**72 309**

Tax payable according to expenditure tax:
21,8% x R127 284 = R27 780.

Note: i is for income, s for savings

TAX PAYABLE ACCORDING TO PRESENT SYSTEM

On R40 000	R12 360
On R32 309 (at a 50% marginal rate)	16 155
72 309	**28 515**
Less rebates	
Primary	(460)
Child (2 x 100)	(200)
Insurance	(75)
TAX PAYABLE	**R27 780**

Source: Kessel Feinstein

Hansard Q. Col. 547 12/3/85

Work opportunities

77. Mr A SAVAGE asked the Minister of Co-operation and Development:

(a) How many new work opportunities were created for Blacks in each employment sector by each of the development corporations in 1983-84 and (b) what was the cost per opportunity in each sector?

The MINISTER OF CO-OPERATION, DEVELOPMENT AND EDUCATION:

(a)

	Commerce, Services and Housing	Industrial Settlement	Small industries	Mining	Agriculture	Transport
Mining Corporation	—	—	—	224	—	—
South African Development Trust Corporation	216	—	742	—	1 950	66
Shangaan/Tsonga Development Corporation	349	900	—	—	—	—
kwaZulu Development Corporation	253	3 805	—	—	236	—
Lebowa Development Corporation	105	1 366	207	—	290	—
Qwaqwa Development Corporation	316	1 713	—	—	134	—
KaNgwane Economic Development Corporation	197	289	49	—	878	—
kwaNdebele National Development Corporation	196	—	51	—	—	—
Total	1 632	8 073	1 101	224	3 488	66

(b)

	Commerce, Services and Housing R	Industrial Settlement R	Small industries R	Mining R	Agriculture R	Transport R
Mining Corporation	—	—	—	40 000	—	—
South African Development Trust Corporation	11 000	—	18 900	—	4 000	15 700
Shangaan/Tsonga Development Corporation	2 715	10 800	—	—	—	—
kwaZulu Development Corporation	7 676	6 751	—	—	4 240	—
Lebowa Development Corporation	12 941	3 999	732	—	3 572	—
Qwaqwa Development Corporation	15 820	7 600	—	—	12 556	—
KaNgwane Economic Development Corporation	2 504	2 200	2 500	—	6 249	—
kwaNdebele National Development Corporation	5 780	—	910	—	—	—

The kwaNdebele National Development Corporation Limited was established on 1 October 1983 and started functioning on 1 February 1984.

Hansard Q. Col. 549

Persons removed from Sandton area/Alexandra Township

12/3/85

83. Mr D J DALLING asked the Minister of Co-operation and Development:

(1) How many Black persons were removed to the (a) national states and (b) independent Black states from (i) the Sandton area and (ii) Alexandra Township in 1984;

(2) how many of these persons (a) moved voluntarily and (b) were removed (i) by decree, (ii) by court order and (iii) in terms of other legal provisions?

The MINISTER OF CO-OPERATION AND DEVELOPMENT:

(1) (a) One to KwaZulu.

(b) None.

(i) One.

(ii) None.

(2) (a) None.

(b) (i) None.

(ii) One.

(iii) None.

Hansard 12/3/85

Republic/National states: housing

Q. Col. 549

140. Mrs H SUZMAN asked the Minister of Co-operation and Development:

What was the total number of houses built for Blacks in the 1983-84 financial year in each of the (a) nine main urban areas and (b) (i) urban and (ii) non-urban areas of each national state?

The MINISTER OF CO-OPERATION AND DEVELOPMENT:

(a)

Pretoria	36
Witwatersrand	6 189
Bloemfontein	1 500
Pietermaritzburg	None
Cape Town	1 720
Durban	None
Kimberley	146
Port Elizabeth	2 085
Vereeniging/Vanderbijlpark/Sasolburg	1 788

(b) (i)

KwaZulu	347
KaNgwane	835
Qwaqwa	1 347
Lebowa	120
KwaNdebele	1 147
Gazankulu	230
South African Development Trust areas	212

(ii) Unknown.

Hansard

Taxpayers

320 Q. Col. 550 12/3/85

167. Mr H H SCHWARZ asked the Minister of Finance:

How many taxpayers in each income category in respect of the 1983-84 tax year were (a) White, (b) Coloured, (c) Indian and (d) Black?

The MINISTER OF FINANCE:

The statistics relate to the period 1 March 1984 to 31 December 1984 and are not complete because ± 23 per cent of individual taxpayers have not yet been assessed.

	(a)	(b)	(c)
Loss			
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R 1 — R 1 000	46 686	12 278	4 763
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R 2 001 — R 3 000	33 242	7 290	6 379
	35 722	12 690	11 880

	(a)	(b)	(c)
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TOTAL	1 556 438	182 624	147 900

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What amount in company tax was collected from (a) mining and (b) non-mining companies in (i)(aa) November and (bb) December of 1983 and (ii) each month of 1984?

The MINISTER OF FINANCE:

	(a) Mining R	(b) Non-mining R
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The MINISTER OF EDUCATION:

(a) and (b) None

It is not the policy of the Department to close any centre. There were centres which became inactive due to lack of interest.

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How many persons studying to become (a) pre-primary, (b) primary and (c) secondary school teachers (i) were enrolled in and (ii) qualified as teachers from each specified teacher training institution falling under the control of his Department in 1984?

The MINISTER OF EDUCATION:

Teacher Training College

Transvaal (a) (i) and (ii) None.

(b) (i) 157.

(ii) 69.

(c) (i) 656.

(ii) 232.

East Rand (a) (i) and (ii) None.

(b) (i) 125.

(ii) None.

(c) (i) 337.

(ii) 83.

Soweto (a) (i) 70.

(ii) 11

(b) (i) 253.

(ii) 41.

(c) (i) 458.

(ii) 166.

320

TAX REFORM

Margo talks turkey

A programme of sweeping tax reforms could start in the next fiscal year (1986-1987) if the Margo Commission has its way. This may be small consolation as taxpayers brace themselves for the forthcoming Budget, but it is quite clear the commission means business.

Speaking in Johannesburg this week at a SA Fiscal Association lecture, Judge Cecil Margo, chairman of the tax commission, indicated that interim recommendations would be presented to the Finance Ministry during the new fiscal year, though the final report was not due until mid-1986.

He voiced concern about tax avoidance, suggesting another R1 billion could be raised simply by employing higher quality staff costing, say, R15m/year in remuneration packages. Such revamping of the Department of Inland Revenue would go hand-in-hand with meaningful tax reform.

One of the prime objectives is the overall reduction of the tax burden, which may be achieved by casting a wider tax net, which could mean the introduction of some new taxes.

Talking for the first time of the options open to the commission, Judge Margo made it clear much was to be done before recommendations could be finalised. However, points discussed gave some clues of the tax reform programme he has in mind.

These include the indexation of income tax rates, separate taxation of married couples, the introduction of both value added tax (Vat) and capital gains tax.

The indexing of tax rates would eliminate the vicious effects of fiscal drag or "bracket creep." Simply put, tax would be reduced by the rate of inflation.

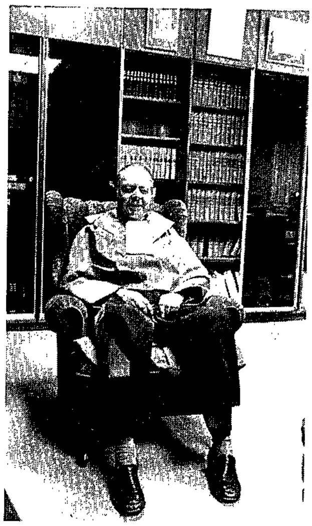
Pressures to abolish the joint taxation of married couples has put the issue near the top of the commission's agenda. "We should shift up and make way for women," says Judge Margo, even though this would lose the fiscus some R400m on current estimates.

Vat, which could replace, or work alongside gst, appears to have great attraction. As its collection is spread over several transactions between the manufacturer and the retailer — each time value is added — there is less likelihood of avoidance. Gst, in contrast, is collected only at retail level, often by small unsophisticated traders who are sometimes reluctant to hand all of it over.

The loss of revenues from gst evaders is massive. Finance Minister Barend du Plessis is on record as saying that if gst is working at an 80% efficiency, it is acceptable. This implies a revenue loss of R1,5 billion for the current tax year.

The commission may also recommend sharpening the teeth of the Income Tax Act's penal provisions. Increasing both the length of prison sentences and the maximum fines are being considered.

Another possible extension to the Act's penal sanctions concerns the penalties to be paid by a tax evader. The costs of the tax investigation may also be put on the offender, in addition to the higher fines. And auditors and accountants may face tougher disciplinary measures for understating taxable funds.



Judge Margo ... raising vital issues

A capital gains tax, which was recommended by the Franzsen Commission in 1970, and is found in almost all tax jurisdictions, is "inevitable," with certain exemptions, such as housing sales. But all tax sources are under investigation, including even seemingly innocuous taxes such as licensing fees and road tolls.

Other vital issues raised by Judge Margo were: deferred tax; the unitary tax system (which taxes a company on its world income); the problem of transfer pricing used by some multinational companies; the incidence of double taxation; and the effects of taxes on a combined First World-Third World economy.

The judge mentioned also the recovery of taxes that are not being paid by the "black economy" (such as a waiter who never declares his cash tips); a cross-reference system (such as for dividend payments and receipts) to allow higher recovery of taxes; and abolishing of allowances for both businesses and individuals, replacing them with direct subsidies that are easier to monitor.

Since its appointment last year, the 14-member commission has been beefed up by the appointment of five full-time and eight part-time advisers. It also has specialist researchers and writers. The commission will continue to make interim reports to the Minister of Finance, and will make suggestions for improvements to the Commissioner of Inland Revenue.

RDM 16/3/85 (320)

RAND

HUGE COST TO SA TAXPAYER TO PROP UP APARTHEID

By GERALD REILLY
Pretoria Bureau

THE cost to the South African taxpayer of the country's vast apartheid bureaucratic machine increased by a staggering 229% between 1978 and the end of last year.

And, between December 1983 and December last year the State's salary bill mushroomed by nearly R1 000-million to R3 737 572 000.

Soon after taking office as Prime Minister in September 1978, Mr P W Botha promised a leaner and more efficient public service.

Observers say whether the service has become more efficient is an open question, but certainly it has grown progressively fatter, and vastly more expensive in the past six years.

The number of State departments were slashed from more than 40 to 21 as one of the moves to eliminate overlapping and duplication and raise efficiency.

However, this failed to slow down the dynamic increase in personnel in departments.

In 1978, it cost the country R1 136 928 000 to pay 301 889 Central Government workers.

By last year the cost had exploded by 229% to a massive R3 737 572 000.

And, by the end of 1984, the number of Central Government employees had increased by nearly 100 000 to 400 423 — and increase of 32,64%.

The biggest single increase in the salary bill was in 1984.

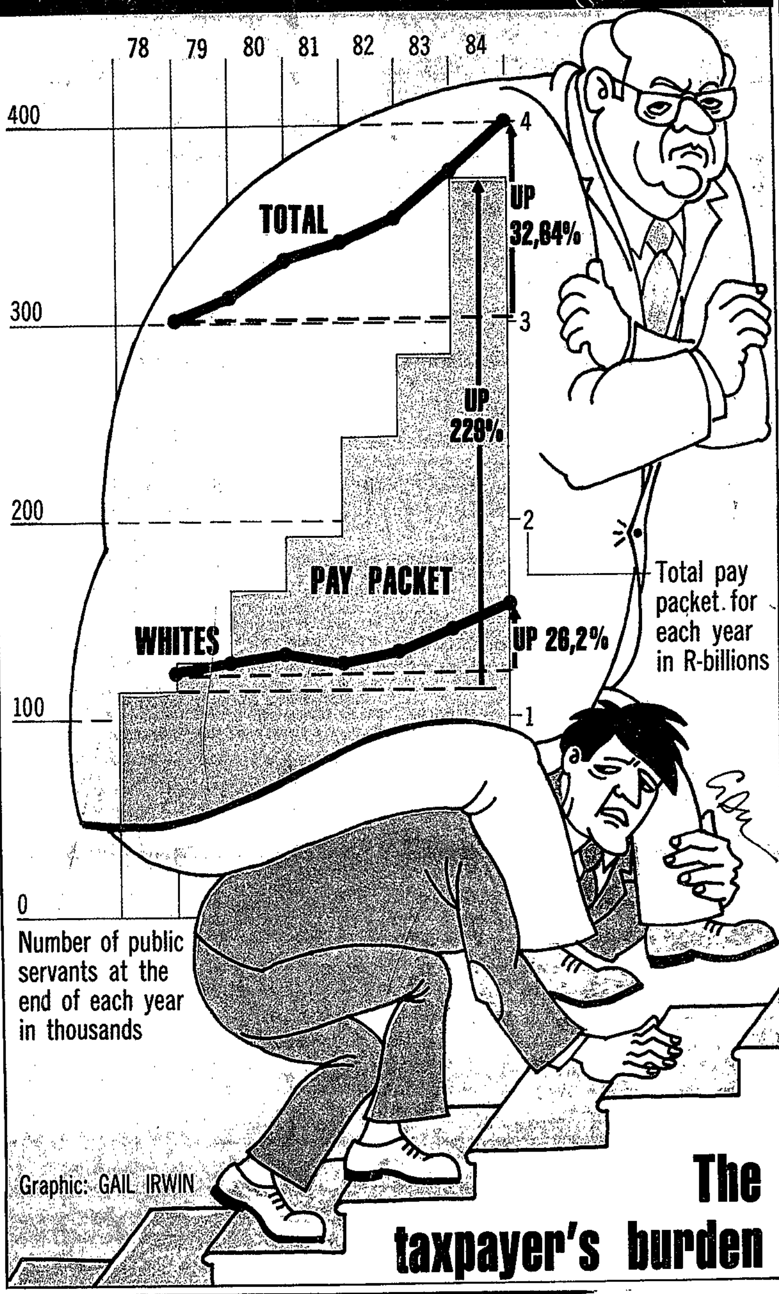
It was geared to make the service more competitive with the private sector.

Towards the end of last year it was announced that salaries in the public service would be frozen during the 1985/86 financial year.

At the time, the Public Servants' Association accepted the freeze provided it did not again mean an opening of the gap between pay in the service and the private sector.

According to the Central Statistical Service's figures "sundry statutory bodies" employed 23 508 in December, 1978, and paid them R113 592 000 for the year.

By 1984 there were 30 059 parastatal employees who earned R427 922 000 in that year.



The taxpayer's burden

Hansard Q. Col. 547 12/3/85

Work opportunities

77. Mr A SAVAGE asked the Minister of Co-operation and Development:

(a) How many new work opportunities were created for Blacks in each employment sector by each of the development corporations in 1983-84 and (b) what was the cost per opportunity in each sector?

The MINISTER OF CO-OPERATION, DEVELOPMENT AND EDUCATION:

(a)

	Commerce, Services and Housing	Industrial Settlement	Small industries	Mining	Agriculture	Transport
Mining Corporation	—	—	—	224	—	—
South African Development Trust Corporation	216	—	742	—	1 950	66
Shangaan/Tsonga Development Corporation	349	900	—	—	—	—
kwaZulu Development Corporation	253	3 805	—	—	236	—
Lebowa Development Corporation	105	1 366	207	—	290	—
Qwaqwa Development Corporation	316	1 713	—	—	134	—
KaNgwane Economic Development Corporation	197	289	49	—	878	—
kwaNdebele National Development Corporation	196	—	51	—	—	—
Total	1 632	8 073	1 101	224	3 488	66

(b)

	Commerce, Services and Housing R	Industrial Settlement R	Small industries R	Mining R	Agriculture R	Transport R
Mining Corporation	—	—	—	40 000	—	—
South African Development Trust Corporation	11 000	—	18 900	—	4 000	15 700
Shangaan/Tsonga Development Corporation	2 715	10 800	—	—	—	—
kwaZulu Development Corporation	7 676	6 751	—	—	4 240	—
Lebowa Development Corporation	12 941	3 999	732	—	3 572	—
Qwaqwa Development Corporation	15 820	7 600	—	—	12 556	—
KaNgwane Economic Development Corporation	2 504	2 200	2 500	—	6 249	—
kwaNdebele National Development Corporation	5 780	—	910	—	—	—

The kwaNdebele National Development Corporation Limited was established on 1 October 1983 and started functioning on 1 February 1984.

Hansard Q. Col. 549 12/3/85

Persons removed from Sandton area/Alexandra Township

83. Mr D J DALLING asked the Minister of Co-operation and Development:

(1) How many Black persons were removed to the (a) national states and (b) independent Black states from (i) the Sandton area and (ii) Alexandra Township in 1984;

(2) how many of these persons (a) moved voluntarily and (b) were removed (i) by decree, (ii) by court order and (iii) in terms of other legal provisions?

The MINISTER OF CO-OPERATION AND DEVELOPMENT:

(1) (a) One to KwaZulu.

(b) None.

(i) One.

(ii) None.

(2) (a) None.

(b) (i) None.

(ii) One.

(iii) None.

Hansard 12/3/85

Republic/National states: housing

Q. Col. 549

140. Mrs H SUZMAN asked the Minister of Co-operation and Development:

What was the total number of houses built for Blacks in the 1983-84 financial year in each of the (a) nine main urban areas and (b) (i) urban and (ii) non-urban areas of each national state?

The MINISTER OF CO-OPERATION AND DEVELOPMENT:

(a)

Pretoria	36
Witwatersrand	6 189
Bloemfontein	1 500
Pietermaritzburg	None
Cape Town	1 720
Durban	None
Kimberley	146
Port Elizabeth	2 085
Vereeniging/Vanderbijlpark/Sasolburg	1 788

(b) (i)

KwaZulu	347
KaNgwane	835
Qwaqwa	1 347
Lebowa	120
KwaNdebele	1 147
Gazankulu	230
South African Development Trust areas	212

(ii) Unknown.

Hansard 320 Q. Col. 550 12/3/85

Taxpayers

167. Mr H H SCHWARZ asked the Minister of Finance:

How many taxpayers in each income category in respect of the 1983-84 tax year were (a) White, (b) Coloured, (c) Indian and (d) Black?

The MINISTER OF FINANCE:

The statistics relate to the period 1 March 1984 to 31 December 1984 and are not complete because ± 23 per cent of individual taxpayers have not yet been assessed.

	(a)	(b)	(c)
Loss	18 008	144	310
Nil	46 686	12 278	4 763
R 1 — R 1 000	36 694	5 228	6 595
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Kantor sees no tax rises if State spending curbed

ARGUS 13/3/85

320

By DEREK TOMMEY
Financial Editor

THERE should be no tax increases in Monday's Budget if Government spending in the coming fiscal year can be kept at R30-billion and Government revenues are estimated realistically and not conservatively, says Professor Brian Kantor of the School of Economics at the University of Cape Town.

He told the university's Graduate School of Business Association the outlook for the Budget was not total gloom.

In view of the spending cuts already announced it seemed possible Government spending in 1985-86 would be around R30-billion, which was 10 percent higher than the current year's figure.

If the Government estimated its income realistically he believed it could expect revenues of R26,5-million.

Thus it would have to borrow R3,5-billion and would not have to put up taxes, which would be good news. There might even be some tax relief to allow for the effects of inflation.

TAX REFORM

"What would be even better would be a belief among the public that expenditure was under control, that opportunities for tax reform were being taken, and that opportunities to sell off the public corporations were also being taken.

"This would hold up the value of the rand and make interest rates in South Africa appear comparatively high, encouraging them to come off, leading to a recovery in the economy.

"If the rand holds up, inflation would also come down in a year's time."

MAJOR MISTAKE

Professor Kantor said he did not think general sales tax would be increased.

"If the authorities hold down their spending, an increase in sales tax should not be necessary."

There had been some flirting with the idea of bringing food back into GST and holding down the average tax rate.

"I think excluding food from GST was a major mistake. It meant the opening of another department of tax exemption."

ARGUS 15/3/85 (320)

Company tax changes bring rich revenue haul

By DEREK TOMMEY
Financial Editor

CHANGES in company taxes announced in the last Budget are starting to produce a rich haul for the Treasury. Company reports show that tax payments by many companies are significantly higher than a year ago — even when their pre-tax profits are significantly lower.

In his Budget speech last year the then Minister of Finance, Mr Owen Horwood, increased the rate of company tax, changed the regulations governing investment and initial allowances and stopped the "last in, first out" (Lifo) method of valuation of stocks for tax purposes.

These changes followed the discovery that many companies, by taking full advantage of the tax concessions, were paying nowhere near the 50 percent company tax rate.

It was found that manufacturing companies on average were paying only 20 percent of their profits to the Government and commercial companies were paying only 30 percent.

An analysis of recent company figures shows that the changes in the tax rates have resulted in a sharp increase in tax payments by many companies. But the figures also show that there are a great many companies whose tax rate is still nowhere near the 50 percent figure.

A good example of how the new rates are affecting companies is to be found in the Foschini profit figures for the 1984 financial year issued today.

They show that Foschini's tax rate rose from 42,3 percent in 1983 to 48,9 percent last year. As Foschini's profits also increased significantly, the overall effect was that Foschini's tax bill rose 36,1 percent from R13-million to R17,7-million.

Another local company, Cape Wine and Distillers, has also had to increase its payments to the Treasury sharply. Although its profits last year were virtually unchanged at R53,9-million, its tax bill soared 25,2 percent from R23,8-million to R29,9-million, with its tax rate increasing from 44,4 to 55,5 percent.

MORE THAN DOUBLED

Metair, an engineering and trading company, was fortunate enough to increase its profits last year from R11,2-million to R18,6-million. But the directors' joy must have evaporated when its tax bill more than doubled from R4,1-million to R9,6-million and its tax rate went up from 36,7 to 51,6 percent.

However, a manufacturing concern BTR, was able to hold down its tax rate in 1984 at 34,5 percent, which was only slightly higher than the 1983 figure of 31 percent.

The Treasury was probably not too concerned, though. BTR's higher tax rate and its 65 percent increase in operating profits resulted in its tax bill rising 83 percent from R2,4-million to R4,4-million.

MORE CHANGES

Meanwhile, there is speculation in tax circles about whether the new Minister of Finance, Mr Barend du Plessis, will announce more major changes in company taxes on Monday.

It is believed the Government would like to cut company taxes to stimulate new investment.

It seems much could depend on whether the Government's plans for company tax reform are sufficiently advanced to enable it to make changes in the coming Budget, or whether it will have to wait until the Margo Commission can make detailed representations.

E 320

GFSA chief slams added surcharge

Gold mine taxes hurt industry

By BRENDAN RYAN

TAX levels on gold mines have reached the point where they will discourage new investment, says Mr Robin Plumbridge, the chairman of Gold Fields of South Africa (GFSA).

His view is echoed by Mr Pierre Kriegler, the financial director of Rand Mines.

Reacting to the jumps in mining taxes announced in yesterday's Budget, Mr Plumbridge said the pattern of recurrent increases in tax introduced a new risk factor of future potential tax increases in the evaluation of mining projects.

In his Budget, the Finance Minister, Mr Barend du Plessis, added a special temporary surcharge of 5% over and above the present 20% surcharge on tax paid by all gold and diamond mines.

He also introduced a special surcharge of 15% on all other mining companies, thereby raising their normal tax rate to 57,5%. This rate includes the platinum mines, coal mines and base-metal mines.

General reaction from the mining industry was that the 5% increase in the surcharge on gold and diamond mine taxes had been expected, but not the 15% surcharge on other mining companies.

Mr Plumbridge questioned the validity of the current system of gold mining taxes, which taxed profitable gold mines at exceedingly high levels and gave no incentive to the mines to hold down their expenditures and working costs.

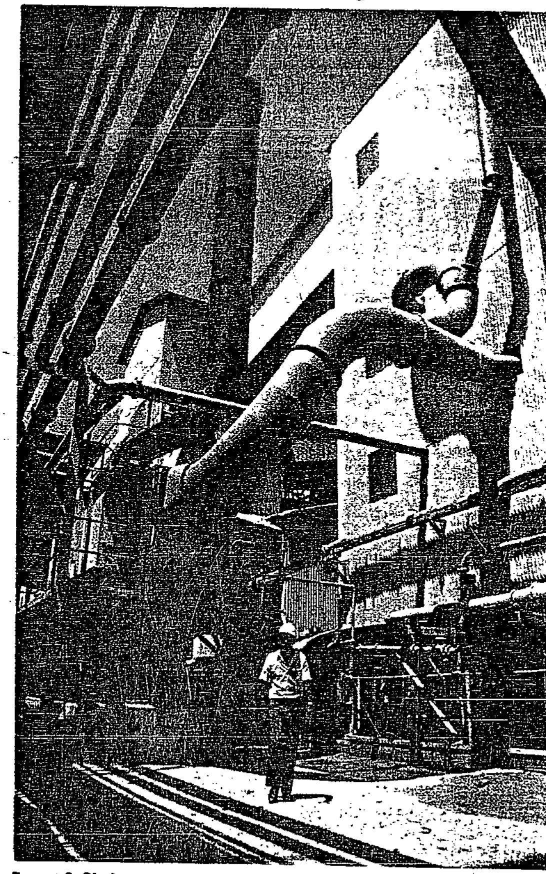
He said initial calculations showed the effect on GFSA's Kloof mine would be to push the tax rate to 74,1% of incremental revenue.

Mining companies are allowed to write off capital expenditure against their profits in the year in which the expenditure is incurred.

Mr Plumbridge said that in the case of Kloof, the mine received a tax rebate of 78,8% on expenditure.

"One must question whether the present gold mining tax system encourages the mines to minimise expenditure and operate as productively as possible.

"This tax system means the Government can pay up to 79% of the costs on gold mine expenditure, which must inevitably have the neg-



Fraser & Chalmers, a company in the engineering division of Mitchell Cotts, recently completed a R1,3m refurbishment programme at the Western Holdings gold reduction plant.

foreign exchange earnings, while the mining industry as a whole earns about 70%.

"We have reached a situation where it is a question of killing the goose that lays the golden eggs because the level of tax is at the stage where, if the situation is not redressed, it will kill off new gold mining ventures.

"I can only hope the new tax surcharge will be a very temporary phase."

Mr Du Plessis said in his speech

capital expenditure.

Mr Kriegler said the tax increases were the latest in a series of Government body blows to the mining industry.

These had included the changes to State Assistance, the new rules on the merging of gold mines and the requirement that hedging losses or profits be allocated to non-mining income.

"I don't know who will be prepared to take the risk of sinking a deep-level gold mine in the future

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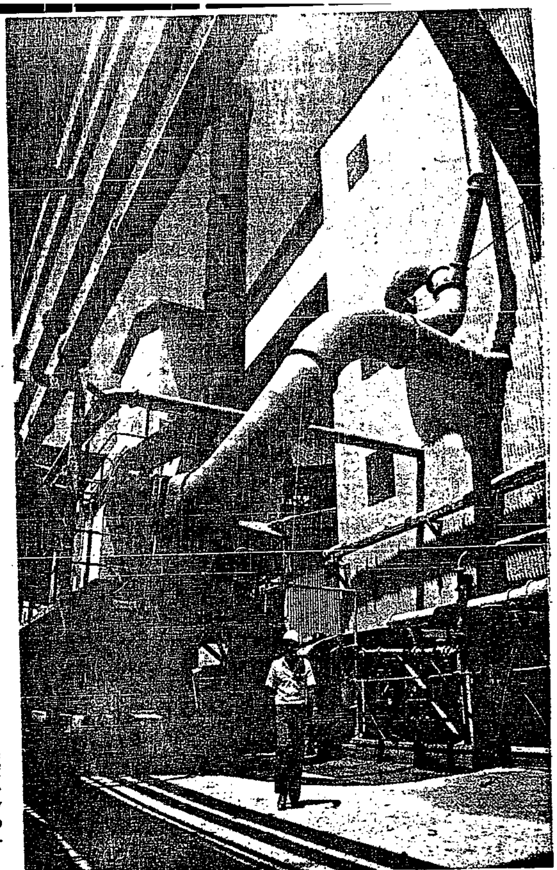

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"One must question whether the present gold mining tax system encourages the mines to minimise expenditure and operate as productively as possible.

"This tax system means the Government can pay up to 79% of the costs on gold mine expenditure, which must inevitably have the negative effect of encouraging an easy-going attitude to expenditure.

"At GFSA, we go out of our way to overcome that attitude and hold costs to a minimum, but it is a growing attitude at the operational level."

He said the average tax rate for GFSA's gold division would rise to about 63% with the additional surcharge, compared to the 50% paid by non-mining companies.

"An exceptionally high tax rate is being levied on the industry, which is the backbone of the [illegible]. The gold mines earn a[illegible] foreign exchange earnings, while the mining industry as a whole earns about 70%.

"We have reached a situation where it is a question of killing the goose that lays the golden eggs because the level of tax is at the stage where, if the situation is not redressed, it will kill off new gold mining ventures.

"I can only hope the new tax surcharge will be a very temporary phase."

Mr Du Plessis said in his speech that mining industry profits had benefited from the rand depreciation and that the industry could therefore be looked to for further tax payments.

Mr Plumbridge said that while the mining industry had benefited from the weak rand, this had only offset the low level of world prices for most metals.

The president of the Chamber of Mines, Mr George Nisbet, said yesterday the additional revenues the [illegible] industry had rec[illegible] [illegible] [illegible]ation of the [illegible] [illegible] largely on [illegible] capital expenditure.

Mr Kriegler said the tax increases were the latest in a series of Government body blows to the mining industry.

These had included the changes to State Assistance, the new rules on the merging of gold mines and the requirement that hedging losses or profits be allocated to non-mining income.

"I don't know who will be prepared to take the risk of sinking a deep-level gold mine in the future or where the money for it will come from.

"The Minister says the tax is temporary, but I can't remember when we last saw a reduction in mining taxes.

"The approach used by the Minister of targeting sectors of the economy which can afford to pay higher taxes does not fit in with the free enterprise system and appears to me a communistic approach to taxation.

"I can only hope the new taxes [illegible] indeed very temporary mea[illegible]" he said.

The Budget

ARGUS 19/3/85 320

'Price of mismanagement'

The Argus Parliamentary Staff reports on reaction to the Budget.

THE chief Opposition spokesman on finance in the House of Assembly, **MR HARRY SCHWARZ**, says 1985 will be a year of high inflation, no growth, high unemployment and increasing hardship for the ordinary South African.

This was his summing up of the effects of the budget proposals announced yesterday by the Minister of Finance, Mr Barend du Plessis.

Describing the Budget as "unsatisfactory", Mr Schwarz said the individual taxpayer would continue to carry the heaviest burden, the need to give incentive to work was ignored and so was the need to encourage foreign investment and to deal with the real issues relating to State expenditure.

Mr Schwarz said in a statement that the Budget was the price South Africa was being asked to pay for the Government's mismanagement and misplaced ideology.

The policies of the Government, as the Budget clearly demonstrated, had contributed to the lower value of the rand, the high rate of inflation and the high level of unemployment.

The admitted failure on the part of the Government to take adequate and timeous measures to deal with economic ills had caused the Government now to take much harsher measures than would have been the case had the proper steps been taken at the correct time.

MR CHARLES REDCLIFFE (LP Schauderville), the chief Labour Party spokesman on finance in the House of Representatives, said in a statement that the Budget reflected the serious state in which the South African economy found itself.

Although the Budget painted a picture of gloom, the Labour Party believed this to be only a short-term effect and that in the long term the country's economy would come to its full strength.

MR BRIAN GOODALL (PFP Edenvale), an opposition spokesman on welfare and pensions in the House of Assembly, said an 8,4 percent increase in pensions while inflation was running at 13,9 percent conLdemned many social old-age pensioners to an even faster decline in their standard of living.

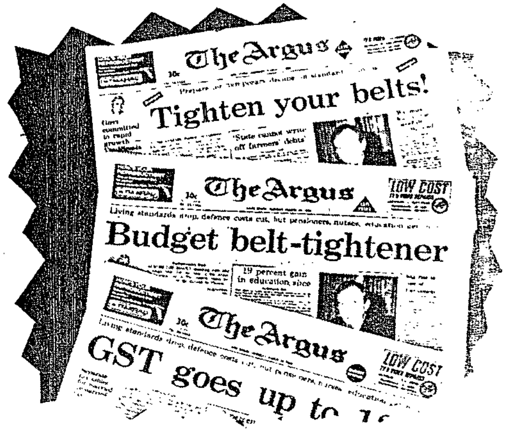
Mr J N REDDY, Solidarity leader in the House of Delegates, called on the Minister of Finance to exempt all basic food items from General Sales Tax to assist lower income groups.

Solidarity said it could not accept the two percent increase in GST as it would seriously affect people in the lower income groups already suffering from unemployment and other economic problems.

Mr Reddy said Mr du Plessis had to be "commended" for keeping the increase in Government expenditure below the inflation rate and said he was pleased with the indication that further expenditure would not be financed from borrowings.

The Indian Minister of the Budget, Mr BOETIE ABRAMJEE, said that in the prevailing circumstances the Budget was a fair one.

Although in some quarters the Budget might be perceived as an unfair one, the fact that concessions had been given to certain groups offset this. In real terms, he said, all groups would have to pay an increased two to three percent in tax.



How The Argus covered yesterday's Budg

WHAT YOU WILL PAY

UNMARRIED

income	Under 60 1985	Under 60 1986	Under 60 Difference	Over 60 but under 65 1985	Over 60 but under 65 1986	Over 60 but under 65 Difference
R	R	R	R	R	R	R
4 000	61	-	61	-	-	-
4 500	133	43	90	-	-	-
5 000	205	123	82	61	2	59
5 500	277	203	74	119	67	52
6 000	349	283	66	205	158	47
6 500	421	363	58	263	227	36
7 000	493	443	50	349	318	31
7 500	565	523	42	407	387	20
8 000	637	603	34	493	478	15
9 000	798	764	34	656	638	18
10 000	988	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MARRIED / GETROUD

INCOME INKOMSTE	No children / Geen kinders: Under 60 / Onder 60 1985	1986	Difference / Verskil	1 child / 1 kind: Under 60 / Onder 60 1985	1986	Difference / Verskil	2 children / 2 kinders: Under 60 / Onder 60 1985	1986	Difference / Verskil	3 children / 3 kinders: Under 60 / Onder 60 1985	1986	Difference / Verskil
R	R	R	R	R	R	R	R	R	R	R	R	R
4 000	-	-	-	-	-	-	-	-	-	-	-	-
4 500	14	-	14	-	-	-	-	-	-	-	-	-
5 000	74	-	74	-	-	-	-	-	-	-	-	-
5 500	134	-	134	34	-	34	-	-	-	-	-	-
6 000	194	2	192	94	-	94	-	-	-	-	-	-
6 500	254	82	172	154	-	154	54	-	54	-	-	-
7 000	314	162	152	214	62	152	114	-	114	14	-	-

income	1985*	1986	Difference	1985	1986	Difference
R	R	R	R	R	R	R
4 000	61	-	61		-	-
4 500	133	43	90		-	-
5 000	205	123	82	61	2	59
5 500	277	203	74	119	67	52
6 000	349	283	66	205	158	47
6 500	421	363	58	263	227	36
7 000	493	443	50	349	318	31
7 500	565	523	42	407	387	20
8 000	637	603	34	493	478	15
9 000	798	764	34	656	638	18
10 000	988	935	53	844	806	38
11 000	1 199	1 124	75	1 055	955	60
12 000	1 434	1 316	118	1 290	1 205	85
14 000	1 976	1 817	159	1 832	1 688	144
16 000	2 615	2 386	229	2 471	2 258	213
18 000	3 330	3 024	306	3 186	2 895	291
20 000	4 093	3 704	389	3 949	3 576	373
25 000	6 215	5 596	619	6 071	5 468	603
30 000	8 622	7 749	873	8 478	7 620	858
40 000	13 622	12 658	964	13 478	12 530	948
50 000	18 622	17 982	640	18 478	17 854	624
60 000	23 622	23 332	290	23 478	23 204	274
80 000	33 622	34 032	+ 410	33 478	33 903	+ 425
100 000	43 622	44 732	+1 110	43 478	44 604	+ 1 126

Over 60 but under 65

INCOME INKOMSTE	NO CHILDREN: UNDER 60 / GEEN KINDERS: ONDER 60			1 CHILD: UNDER 60 / 1 KIND: ONDER 60		
	1985	1986	DIFFERENCE VERSKIL	1985	1986	DIFFERENCE VERSKIL
R	R	R	R	R	R	R
4 000	-	-	-	-	-	-
4 500	14	-	14	-	-	-
5 000	74	-	74	-	-	-
5 500	134	-	134	34	-	34
6 000	194	2	192	94	-	94
6 500	254	82	172	154	-	154
7 000	314	162	152	214	62	152
7 500	374	242	134	274	142	132
8 000	434	322	112	334	222	112
9 000	588	482	86	468	382	86
10 000	722	642	80	622	542	80
11 000	896	809	87	796	702	94
12 000	1 090	977	113	990	870	120
14 000	1 538	1 371	167	1 438	1 264	174
16 000	2 066	1 850	216	1 966	1 743	223
18 000	2 660	2 400	260	2 560	2 293	267
20 000	3 294	2 993	301	3 194	2 886	308
25 000	5 056	4 665	391	4 956	4 557	399
30 000	7 064	6 599	465	6 964	6 492	472
40 000	11 723	11 156	567	11 623	11 049	574
50 000	16 720	16 075	645	16 620	15 968	652
60 000	21 720	21 204	516	21 620	21 096	524
80 000	31 720	31 898	+ 178	31 620	31 791	+ 171
100 000	41 720	42 598	+ 878	41 620	43 491	+ 871

INCOME INKOMSTE	2 CHILDREN: UNDER 60 / 2 KINDERS: ONDER 60			3 CHILDREN: UNDER 60 / 3 KINDERS: ONDER 60		
	1985	1986	DIFFERENCE VERSKIL	1985	1986	DIFFERENCE VERSKIL
R	R	R	R	R	R	R
4 000	-	-	-	-	-	-
4 500	-	-	-	-	-	-
5 000	-	-	-	-	-	-
5 500	-	-	-	-	-	-
6 000	-	-	-	-	-	-
6 500	54	-	54	-	-	-
7 000	114	-	114	14	-	[illegible]
7 500	174	42	132	74	-	74
8 000	234	122	112	134	22	[illegible]
9 000	368	282	86	268	182	86
10 000	522	442	80	422	342	80
11 000	696	602	94	596	502	94
12 000	890	763	127	796	662	[illegible]
14 000	1 338	1 157	181	1 238	1 050	[illegible]
16 000	1 866	1 636	230	1 766	1 529	237
18 000	2 460	2 186	274	2 360	2 079	281
20 000	3 094	2 779	315	2 990	2 672	[illegible]
25 000	4 856	4 450	406	4 756	4 343	413
30 000	6 864	6 385	479	6 764	6 278	[illegible]
40 000	11 523	10 942	581	11 423	10 835	[illegible]
50 000	16 520	15 861	659	16 420	15 754	[illegible]
60 000	21 520	20 990	530	21 420	20 863	[illegible]
80 000	31 520	31 684	+ 164	31 420	31 577	+ 157
100 000	41 520	42 384	+ 864	41 420	42 277	+ [illegible]

NB: (1) The above amounts have been calculated on the basis that the taxpayer's wife has no income and that he has no other dependants.

(2) The standard deductions for medical expenses and rebates for insurance premiums have been allowed.

'Herald of hard times for man in the street'

THE Budget has generally been greeted by the **PRIVATE SECTOR** as a herald of hard times ahead for the man in the street.

Criticism included fears of rising unemployment, insolvencies and a decrease in productivity.

Tax specialist Mr Costa Divaris said the Budget lacked confidence-building measures needed by the country.

Dr Hans Falkena, chief economist for the United Building Society, said: "Although somewhat bitter medicine, the Budget was what South Africa needed."

● South Africa's long-suffering motorists and the country's ailing **MOTOR CAR INDUSTRY** have been further hit by the two percent rise in general sales tax.

Motorists face an increase of two percent on all fronts because of the GST rise from 10 to 12 percent, effective from March 25.

Automobile industry and motoring experts said the GST increase would affect everything from car sales to service charges to spare parts.

'The Budget will stop the economy in its tracks'

Financial Staff

THE budget tax proposals will stop the economy in its tracks, if it has not stopped already, says **DR CHRIS VAN WYK**, managing director of Trust Bank.

"It will prolong the recession, it will have a negative impact on unemployment and it will certainly increase the hardship now in many sectors of the economy," he told a large audience of businessmen at a budget discussion held by the bank and Sanlam last night.

The cuts in government spending would also exacerbate the depressive forces in the economy.

He questioned whether the government would stick to its guns and keep within its spending limits.

"Only time will tell if the credibility gap has been closed between intention and practice and whether credibility is on the way to being restored."

PROFESSOR JOHN MORRIS, associate professor of accounting at the University of Cape Town, said the Finance Minister was using the bludgeon rather than the rapier in dealing with tax-collecting problems.

An example was his reference to insurance policies which were seen more as investments rather than insurance. His response was to take more money out of the insurance system which now faced a special surcharge of 7,5 percent.

The new surcharge meant that people in the income brackets will now pay 53,5 percent instead of 50 percent, bringing substantial tax increases for a few individuals.

Industry faced a marked drop off in investment and wear-and-tear allowances which after June 30 would not exceed 60 percent against the present 75 percent.

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● Mrs Joy Hurwitz, national president of the HOUSEWIVES' LEAGUE of South Africa, welcomed that fact that the Minister of Finance, Mr Barend du Plessis, had not done away with existing food subsidies.

● PENSIONS organisations said the tax rebates and increases in pensions did not go far enough to meet the needs of pensioners hard-hit by soaring inflation.

A major concern of most people was the negative effect of the increase in general sales tax to 12 percent.

● Prominent educationists and the Progressive Federal Party haave welcomed the 19 percent increase in government spending on national EDUCATION.

The Minister announced that R5 044-million had been earmarked for education in the new financial year.

● Tax experts have claimed that nothing has done more to undermine the confidence of taxpayers in the TAXATION system than the way in which the taxation of fringe benefits has been introduced.

Benefits including company cars, cheap loans for employees and housing subsidies are to be taxed.

● The Budget would be very hard on all consumers, but particularly on PUBLIC SERVANTS, the president of the Public Servants Association, Dr Colin Cameron, said.

"There is no evidence of any salary adjustment during the next financial year. This will mean public servants will have gone without increases for 27 months."

● The South African NURSING ASSOCIATION has welcomed the announcement of better salaries for poorly-paid nurses.

● The Building Industries Federation (Bifsa) says the allocation of R192-million to black HOUSING is disappointing.

It would not ease much of the housing crisis, said Bifsa's executive director, Mr Lou Davis.

● The Budget did not make adequate provision for aid to the AGRICULTURAL SECTOR, a spokesman for the National Maize Producer's Organisation (Nampo), Dr Kit le Clus, has warned.

He said accumulated agricultural debts were steadily increasing and farmers would need about R2 000 million to plant [illegible]

'The Budget will stop t[...]

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"Only time will tell if th[e] credibility gap has been closed between intention and practice and whether credi[...]

years.

The IMF believes that a new government plan, which involves cutting state spending and greater privatisation, will lay the groundwork for a successful restructuring of the economy.

Mozambique became the 148th, and newest, member of the fund in September last year. Its quota was set at 61m Special Drawing Rights (SDRs).

The country has experienced a sharp economic deterioration in recent years, traceable to severe droughts, security problems and a continued lack of skilled and managerial personnel to run the largely state-owned economy. These difficulties have left the country with a serious shortage of basic consumer goods, particularly in the rural areas. The scarcity of foreign exchange has impinged heavily on the country's ability to invest in capital goods.

Fiscal improvement

The substantial fiscal improvement in 1983 — through which the fiscal deficit was cut back from a high in 1981 of 10,5 billion Meticais (Mt43,96 equals US$1) to Mt5,8 billion — occurred largely because of controls on current expenditure growth and a sharp fall in investment spending.

In the external sector, Mozambique's balance of payments has shown an overall deficit since 1960 in every year but 1972, with deficits growing more substantially in recent years. At the end of 1983, the external debt (excluding debt to centrally-planned economies) was $1,35 billion, of which $285m represented arrears.

The 1984 debt-service ratio, including debt service to centrally-planned economies, is 131% of projected exports of goods and services.

The Mozambican authorities are now engaged in the formidable task of restructuring the economy and repairing the damage inflicted in the post-independence years, according to the IMF survey.

The most promising signs of a shift in priorities, according to the IMF, are taking place in the traditional mainstay of the economy, agriculture.

Other measures are also currently being considered. These include the redistribution of land and equipment of the unprofitable state enterprises to co-operatives and the family-based farming sector.

In industry, priorities have been redefined to include the production of goods through incentives, and of import substitutes, with investment to be concentrated in small-scale projects using local materials.

Deposits of several minerals, including coal, iron ore and uranium, are known to exist, and there is evidence of offshore oil and natural gas, with confirmed reserves of about 60 billion cubic metres.

With five major river basins — of which the Zambezi is the most important — Mozambique possesses one of the largest hydroelectric power potentials in Africa. This has only partially been exploited through the Cahora Bassa Dam with a potential of 3 600 MW. However, only the first phase of the complex is operational.

The public enterprise sector, which accounted for about 50% of gross domestic product (gdp) in 1983, is to be streamlined through strengthening autonomy, accountability, and procedures for control and supervision. Some have already been sold off to private owners.

In retail trade, the government intends giving much greater latitude to the private sector. Labour policies call for the introduction of merit pay incentives, increased productivity and the elimination of overstaffing, particularly in public administration.

In public finance, the authorities are stressing containment of expenditure for wages and imports, along with improvements in the efficiency of state enterprises. ■

TAXATION 320

Taxman goes berserk

Johannesburg's Receiver of Revenue is resorting to stiffer penalties for late payments of tax. FM 22/3/85

Few perhaps realise that as much as 200%

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of the tax payable, can be imposed, although current fines are running at about 20%, at the commissioner's discretion. The new measures have taken taxpayers by surprise, clearly indicating a sharp turnabout from previous practice.

The Johannesburg taxman had previously allowed both individual and corporate taxpayers to pay their taxes assessed over, say four to six months, with a series of post-dated cheques. Interest at the rate of 15% was imposed on late payments. And neither was the interest deductible from tax, thus costing a company an effective 30% at the 50% tax rate.

Post-dated cheques are now being rejected, and the taxman wants hard cash, upfront. If a taxpayer can show that it is impossible to pay cash, an arrangement has to be made to get the cash in as quickly as possible.

In some extreme cases of outstanding personal tax, a garnishee order may be made against the taxpayers' salary until the outstanding tax is paid. In any event, if the tax payment is late, the 20% penalty is imposed.

But taxpayers should note that despite the new approach, the penalty is, in many cases, a mere fraction of the fines the taxman can impose. Penalties can be exacted for a wide variety of reasons, not only late payments. Some of the circumstances and penalties payable are listed in *Silke on SA Income Tax* as follows:

☐ For default in rendering a return — twice the taxes payable;

☐ For omission of amounts — twice the difference between the tax paid and the amount actually payable after inclusion of the omission; and

☐ For incorrect statements — twice the difference between the tax paid and the amount actually payable after the statements have been excised.

The words "default in rendering a return" are of wide generality, and include the situation where a taxpayer omits to submit a return on time, but subsequently renders one correctly.

Apparently, only the Johannesburg Receiver of Revenue is imposing stiffer penalties. Other offices are charging a fixed fee of around R100 for late returns. In terms of the Act, the commissioner is entitled to reduce

IN MY OPINION

DAVID CLEGG

Pitfalls of the gst maze

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David Clegg is director of the Arthur Young tax practice in Cape Town.

The first full seminar (in seven years) on gst recently toured the country with interesting results.

Of those who came, most went away wiser — and sadder or gladder, depending. What was really interesting was who did not come. SA business generally continues to slide along under the misapprehension that sales tax is simple or, if not simple for everyone, is simple for themselves.

This belief is dimmed only when the Revenue inspectors drop in for a chat. And this experience is all the more painful because penalty is no longer being waived, even though most managers are completely *bona fide* in their ignorance of the law. So back-tax and penalty assessments for R250 000 and more are met with bemused hurt and indignation. No longer can they take comfort from the fact they at least got away with it for a while.

Even so, it is difficult to persuade organisations which have not been 'inspected' that all is not rosy.

This article aims to highlight four situations where taxpayers have found themselves in trouble, in the hope that it might shake others out of their complacency.

The brandy bottle bust

When returnable containers are taken back to the retail store, the amount of the refund can be claimed as a deduction in calculating the retailer's taxable amount for the month.

In the western Cape, the Bellville Revenue office found that liquor stores were claiming this deduction on the repurchase of empty spirit and wine bottles which were not "returnable," and so did not qualify. So far, the assessed tax and penalty over the past seven years is believed to exceed R2m. And they haven't even started on the rest of the country.

A case of concrete

The manufacturer of a certain product utilises sunken concrete tanks. These tanks are dug and cast by building contractors who naturally enough did not charge sales tax.

Early last year it came to Revenue's attention that the manufacturer, however, had claimed income tax allowance (investment and wear and tear) on these tanks. But Revenue correctly ruled that sales tax was payable on the contract price in terms of paragraph 1(b)(ii)(dd) of the definition of taxable services.

This was a combination of ignorance of the law (the builder) and lack of communication (the manufacturer). But being *bona fide* did not help, and the manufacturer was assessed for tax and penalties (over seven years) in excess of R50 000.

The pipe inspection peril

To quote for the inspection of a small diameter pipeline, a contractor arranged to rent a sophisticated remote-controlled trolley equipped with lights and scanners, from the suppliers in the US. The rental for a three-week contract was R20 000, and the contractor was quoting a total of R150 000 for the job.

Fortunately, before he committed himself he queried the sales tax implications, wondering whether the inspection fee was taxable. In fact it wasn't.

But the referral turned up an unexpected problem. The value of the machine was R2m, and the sales tax of over R130 000 (6% at the time) would have been due on temporary importation. The tax, together with the rental (which would actually have been tax free), was enough to wipe out the contract price. By rearranging the contract this problem was averted so that the gst instead became payable on the rental alone.

Company car chaos

The Sales Tax Act provides, in essence, that any consideration for the use of goods is taxable. There is no requirement for an actual lease, or that the vendor must be one carrying on a rental business.

This net is sufficiently wide to catch the nominal charge which some companies levy on employees for the private use of their company car. Such charges may disappear under the impact of fringe benefits legislation.

But it must be remembered that a taxpayer is always at risk for unpaid tax. There is no "three-year limit" beyond which Revenue cannot look — as there sometimes is with income tax. Indeed, revenue inspectors regularly issue assessments for every month back to July 3 1978.

Act is complex

The Act is complex and illogical. There are few general rules. The often-used test that the "end user" is liable for tax, is useless. The term "end user" does not even appear in the Act!

There is no substitute for a detailed knowledge of the legislation and a thorough examination of all transactions entered into by an organisation, whether as vendor or customer.

Indeed, the most dangerous assumption to make is that, for example, "we don't get involved in leases" (or rentals, construction, exports, imports, or taxable services). Nearly every organisation does get involved in all aspects of sales tax, and it ignores this at its peril. ■

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either the whole or any part of the additional tax as he thinks fit, unless he is satisfied that the act or omission of the taxpayer was done with the intention of evading tax.

The new attitude by the taxman seems to be part of a general tightening up of Inland Revenue policing methods. Part of the new regime is the secondment of national servicemen with professional accounting qualifications to the Department of Inland Revenue.

On offer for the taxman's lieutenants are remuneration packages compatible with the private sector. The string attached is that the accountant is tied up for four years, instead of the normal two required for national service.

But private sector tax consultants comment that someone who has acquired four years of experience under the taxman's wing would command a handsome ticket outside government when the four years expires. ■

FEATURE

PROJECT FINANCE

Double-dip for Soekor?

Though the proposed Soekor deal in Mossel Bay is far from decided, project financiers are already drawing up cunning strategies to provide the required R2,5 billion.

Their main problem is dealing with the Income Tax Act in which project financing packages of one sort or another have been severely curtailed.

Legislation permitting, however, Soekor's Mossel Bay petro-chemical project could well signal a reincarnation for project finance. It depends whether the claiming of tax allowances for business opens loopholes, albeit inadvertently.

If the Soekor feasibility study, due for release in September, is accepted by the Cabinet, the deal will be the largest project financing in SA history. And the project financiers — commercial and merchant banks and specialist lease brokers — are already hard at work designing what they hope will be the winning package.

Unlike Sasol's oil-from-coal plants and Escom's billion-rand power stations, the Soekor project would adopt the clothing of "classical project financing."

The package would be created around that quintessential definition of project financing, that is: *a transaction where money lenders are prepared to invest funds in a project which can be regarded as having sufficient cash-flow to service the debt.*

In the build-up to the possible Soekor deal, project financing in SA may come of age. The term has become synonymous with highly creative tax-engineered packages — plain tax avoidance. But as one leading banker says, given that the Soekor proposal comes to market, the deal will involve a lot more than optimising tax advantages.

The new emphasis, he stresses, is project management and control. The Soekor physical feasibility study is one thing; how the financiers conduct their feasibility another. A wide range of petro-engineers will have to be consulted to answer the innumerable *what-if?* queries that will arise.

And much of the financial planning will have to be based on plain guesswork: if the Mossel Bay product prices are linked to world prices, for one, that is just a risk that must be lived with.

The project financing could run from any period ranging from five to 20 years. Coordinating R2,5 billion of cash flows, with ever-changing interest and foreign exchange rates, will need the very highest expertise. Sudden changes in tax and commercial law are always possible, and there is always the problem of financing cost over-runs.

Even assuming Mossel Bay gets the green light, it is impossible to say how the project financing package for Soekor would look. One possibility is the much-vaunted "double-dip" or "whiplash" lease. This international tax financing mechanism made its debut in SA in 1984.

In essence, this lease allows for the claiming of tax allowances in two jurisdictions on the same set of goods. The cost effect is that the final lessee pays a lower rental than he would otherwise have done.

Countries either recognise a lease as an operational lease (where the lessor owns the asset to make money from it) or a financial lease (where the lessor does not own the asset but lends money to the lease to derive income by means of the interest rate differential).

The secret is to place the lessor in a country that recognises a lease transaction as operational, and the lessee in a country that says it is a financial lease, or vice versa. In this way, both the lessee and the lessor can claim tax allowances on the same item — hence "double-dip."

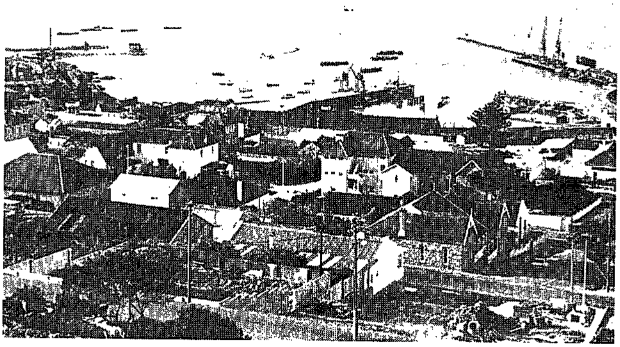
Tax authorities are averse to this in-house tax haven, and will prevent such leases where they can. Lease brokers in SA appear to be structuring these leases through a trust — since it has no disclosure requirements — in a tax haven. And the deal is written as a suspensive sale in SA, allowing the seller to bring the asset to book and claim tax allowances here.

The cost-benefits are substantial. A project financing package structured solely in SA must borrow money at a minimum of 25%/year. But, if it has the income to wash against tax allowances, the financier can reduce the cost to the lessee to about 5%/year. So with a double-dip lease, the SA beneficiary could well end up paying a negative interest rate.

The SA tax authorities are probably not averse to the mechanism, because the extra benefit to the lessee is not a cost for the SA fiscus. This is in sharp contrast to earlier project financing mechanisms, which has left a legacy of wars between the SA financiers and Inland Revenue.

Whatever the outcome of the Soekor feasibility study, the project finance market marches ahead. The possible profits will always draw creative packages, but the downside potential is always there. One banker says: "You can have your pants beaten off in this market.

"Last year a competitor won a tender offering a whole percentage point below ours. We found that impossible to understand. But some months later the client accepted our deal. Our competitor had gone to the client and asked for a review, showing that they would lose \$1m/year. Our competitor was let off the hook. It doesn't always happen, though," ■



Mossel Bay ... financiers like the view

Retrenchment — ready prey for the taxman

(320) S. Times 24/3/85

CASH-FLUSH retrenchees run the risk of being walloped by the taxman unless they seek advise on lump-sum payouts.

The Receiver of Revenue has little mercy for employees who are axed by the recession and walk away from their jobs with severance pay.

Unsuspecting victims of retrenchment will walk into his trap unless they investigate retirement annuities, alternative pension funds and spreading their windfalls over an extended period.

Some companies are handing out two months pay instead of notice and pro rata payments for length of service — a month's pay for every three years, for example.

Exception

The generous ones are doubling employees' pension contributions, although this is more the exception than the rule.

Long-serving employees who are not near retirement age have the biggest problem. The temptation is to take the money and run.

Although there is special tax relief for payments made on termination of service, it applies only in specific cases. There is an age qualification of 55 for men and 50 for women. Otherwise, ill-health and infermity are the only loopholes.

As in the case of investors tied into low-yielding investments, there is room for the taxman to make special allowances in case of need.

Scapegoats

The tax-free limit on pension fund withdrawals is R1 800. After that, pension withdrawals are subject to average rates of tax.

Most lump-sum payments will be hit by Paye, but they fall into different categories in the eyes of the taxman.

Severance pay, bonuses and money paid for accumulated leave have Paye deducted from them by the employer before they reach the employee.

Directive

Pension contributions are paid out only after a pension fund has a directive from the Receiver of Revenue. This can take months as many job-hoppers and scapegoats of recession can testify.

If pension withdrawals are not reinvested in similar funds, sufficient tax is usually deducted so that recipients do not have to fork out again when they are assessed on their annual tax returns.

For most people, the only way to avoid being socked by the taxman now is to divert pension cash and severance pay straight into retirement funds.

Pitfalls

But there are ways of ducking and diving if you do not want to tie cash up until retirement. Retirement annuities, for example, cannot be touched until the age of 55, but may not be suitable for young people.

The Receiver limits tax-free gratuities to R30 000, but this allowance can usually be taken only on retirement.

So the pitfalls are great and can easily trap the unwary into ceding retrenchment benefits to the State.

Lease cars or company cars which employees take with them when they leave a job can be hit twofold.

Firstly, the watered-down fringe benefits tax takes effect this month; and secondly, the taxman may charge the difference between the amount an employee pays for a car and its market value.

The onus is on the employer to evaluate values correctly — so not many people will get away with bargains.

An interesting proposition for some companies and laid-off staffers to look at is the possibility of retaining someone on a consultancy basis.

Kevin Wiles, an accountant with Arthur Andersen & Company, says retainers are a way of limiting tax that would otherwise be payable on one-off payouts.

"For someone who does not need a large amount of cash immediately on retrenchment, a monthly retainer over a few months could be the answer.

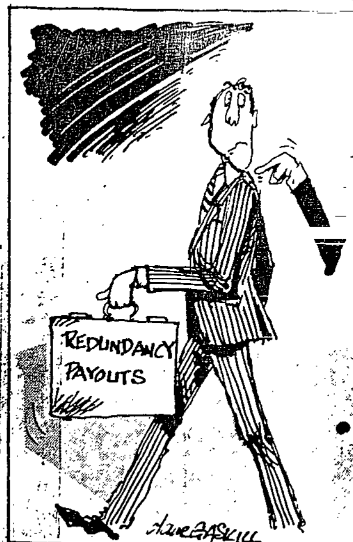
Retainer

"The company can say that it is retaining someone on a consultancy basis. The former employee will then be able to offset some costs, like office and transport, against tax."

Many attorneys work on a retainer basis and Mr Wiles says there is scope for other professionals and occupations to act in similar fashion.

There is no real way of avoiding the taxman, but there are a few permutations to reduce his pound of flesh.

This may be a punt for the financial services industry, but for most retrenchees sitting on a pile of cash, a visit to a financial specialist would not be amiss.



(3) (a) disability caused or aggravated by military service, determined at least 20 per cent in terms of the provisions of the Military Pensions Act (Act 84 of 1976).

(b) death of spouse as a result of the performance of military service, or death subsequent to the performance of such service if immediately prior to his death he—

(i) was in receipt of a pension in terms of the Act, or

(ii) suffered from a pensionable disability of at least 20 per cent or, if less than 20 per cent, death is as a result of the pensionable disability.

Hansard Q. Col. 803

Open areas 25/3/85

381. Mr G B D McINTOSH asked the Minister of Constitutional Development and Planning:

Whether any open areas have been proclaimed in municipal areas in terms of section 19 of the Group Areas Act since 31 December 1983; if so, (a) how many, (b) in which municipal areas, (c) when and (d) in respect of what date is this information furnished?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

Yes, trade areas in municipal areas have been proclaimed in terms of section 19 of the Group Areas Act, 1966.

(a) 7.

(b) and (c)

Grahamstown: proclaimed on 1984-03-02
Cape Town (Wynberg): proclaimed on 1984-05-30
Witbank: proclaimed on 1984-09-14
Pietermaritzburg: proclaimed on 1984-10-05
Queenstown: proclaimed on 1984-10-05
Volksrust: proclaimed on 1984-11-23
Vanderbijlpark: proclaimed on 1984-11-23

(d) As on 1985-02-21.

Hansard

Buses: accidents

Q. Col. 804 25/3/85

428. Mr D J N MALCOMESS asked the Minister of Transport Affairs:

(1) How many (a) accidents involving (i) privately-owned and (ii) South African Transport Services buses transporting Black persons occured, and (b) persons were (i) killed and (ii) injured in these accidents, in the Cape Province in the latest specified 12-month period for which figures are available;

(2) whether the causes of the accidents had been established; if not, why not; if so, how many were due to (a)(i) overloaded and (ii) unroadworthy buses and (b) incompetent or careless drivers;

(3) whether any steps have been taken to prevent a recurrence of such accidents; if so, what steps; if not, why not;

(4) whether he intends to take any steps in this regard; if not, why not; if so, (a) what steps and (b) when?

The MINISTER OF TRANSPORT AFFAIRS:

Information with regard to privately-owned buses is not available in the Department of Transport and this part of the question must be directed to the Minister of Constitutional Development and Planning. With the exception of the reply in respect of Question (4) the remaining information is only applicable to SA Transport Services.

(1) (a) (i) Falls away.

(ii) 46.

(b) (i) 4.

(ii) 2.

(2) Yes, in respect of South African Transport Services.

(a) (i) and (ii) Nil.

(b) 30, of which more than 75 per cent were of a minor nature.

(3) Yes, in the case of SA Transport Services departmental enquiries were held after each accident to determine the cause thereof and corrective training was given where found necessary.

(4) The National Institute for Traffic- and Road Research of the Council for Scientific and Industrial Research is undertaking specific case studies and if it appears that consequences can be related to specific causes appropriate preventative measures will be considered.

Hansard

Income tax

Q. Col. 806 25/3/85

466. Mr B B GOODALL asked the Minister of Finance:

(a) What were the total taxable earnings for Whites, Coloureds and Indians, respectively, in 1983 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)	(1983)	23 736,9M	1 341,6M	1 138,8M
(b)	(i) (1984)	19 555,7M	1 302,2M	994,3M
	(ii)	+ 5,95%	+ 27,37%	+ 13,92%

Notes:

(1) It is assumed that what is required under (a) and (b)(i) is the taxable income for the 1983 and 1984 tax years, respectively.

(2) The statistics for the 1984 tax year are incomplete because ±23 per cent of individual taxpayers have not yet been assessed. The percentage growth has therefore been calculated on the average income per taxpayer.

Hansard

Johannesburg/Soweto: removals

Q. Col. 805 25/3/85

474. Mr P G SOAL asked the Minister of Co-operation, Development and Education:

(1) How many persons were moved from the (a) Johannesburg municipal area and (b) Greater Soweto area in 1984 to (i) national states and (ii) independent Black states;

(2) how many of these persons (a) moved voluntarily and (b) were moved (i) by decree, (ii) by court order and (iii) in terms of other legal provisions?

The MINISTER OF CO-OPERATION, DEVELOPMENT AND EDUCATION:

(1) (a) 40.

(b) 33.

(i) 36.

(ii) 37.

(2) (a) 31.

(b) (i) 19.

(ii) 23.

(iii) None.

Motor vehicles: accidents

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(a) How many South African Transport

GST-day doesn't scare shoppers

Cape Times 26/3/85

(320)

Staff Reporter

IT was "too early" to gauge the effect of the raised 12 percent General Sales Tax which came into effect yesterday, a snap survey of supermarkets and department stores showed.

"On the contrary, we had a very good day," the general manager for Pick 'n Pay Western Cape, Mr John Barry, said.

He explained that yesterday, the 25th, was payday for many of his customers and stores throughout the Peninsula experienced "highly satisfactory sales — especially in foodstuffs".

He said that he expected a slight drop in the sales of luxury items, but added that it was a "little too early" for more detailed comment.

Increase in sales

The general manager of Stuttafords in Cape Town, Mr F Vehmeyer, said that his store had experienced a "wholesome increase" in sales.

"The GST coming into effect might have had something psychologically to do with it. But the sales' increases were not restricted to any one area — they were increases right across the board," he said.

Café owners also agreed that it was too early to gauge whether the 12 percent GST would considerably affect their trading. One owner said that Mondays were normally quiet days, but he had not noticed a decrease in the number of his customers.

"Today was a quiet day — but that's not because of the GST. I don't think the increase in sales tax would affect me much anyhow. People have got used to the fact that prices are increasing," he said.

RDM 27/3/85 (320)

Audit teams uncover R35m in unpaid taxes

By GERALD REILLY
Pretoria Bureau

SPECIAL audit teams of the Directorate of Inland Revenue uncovered another R17-million in unpaid taxes in February — more than R13-million of it in the Johannesburg area.

This makes a total of R35-million recovered since the special investigations began four months ago.

Economists said the amounts indicate the extent to which tax evasion was taking place in the country.

The Chief Director (Operations) of the Directorate, Mr Schalk Albertyn, said the amounts did not include the discovery of unpaid general sales tax, which amounted to millions of rands.

"Most of the money recovered constituted tax avoidance, where taxpayers claimed deductions they were not entitled to. They were stretching the provisions of the Act beyond reasonable limits."

The audit teams consist of professionally qualified national servicemen who were given basic training. But for the efforts of the audit teams, the money being "scratched out" in unpaid taxes would have been lost, Mr Albertyn said.

In his Budget speech the Minister of Finance, Mr Barend du Plessis, warned that new tough tactics would be adopted to eliminate large-scale tax evasion, hitting out at "those cadging a lift on the backs of their fellow South Africans".

Mr Albertyn yesterday repeated the Minister's offer that those tax dodgers who surrendered up to the end of June would be treated leniently. After that "they will be hit with the full force of the law".

The PFP's spokesman on Finance, Mr Harry Schwarz, said it was obvious that large amounts were being lost annually because of evasion. When the tax system was seen to be fairer, a better relationship would develop between the Government and taxpayers.

Johannesburg tax consultant, Mr Costa Divaris, said tax morality in SA had sunk to the bottom. One reason was a tax system seen by the public to be unfair and inequitable.

...esday April 3 1985

Levies for local govt system will fuel inflation

New tax shock looms

(320) 5 tar 3/4/85

By Colleen Ryan,
Pretoria Bureau

A new tax shock which could fuel inflation and place an added burden on the man in the street is likely to be introduced by the Government before the end of the year.

At least two levies on businesses will be implemented to help finance the new system for local government.

Legislation to establish Regional Services Councils and to provide funds for local authorities is to be submitted to Parliament after the Easter recess.

Leading businessmen have expressed shock at the new measures and have warned that they could fuel inflation.

Retail spokesman Mr Raymond Ackerman said the levies would affect consumers adversely.

"Taxes in South Africa are already way above the average in the Western world. The levies will be highly inflationary and contrary to the spirit of Mr Barend du Plessis's Budget.

The proposed levies are:

- Traders whose goods are subject to general sales tax will pay a levy based on a percentage of the tax they collect. Retailers will be hardest hit by the tax and they are likely to pass this cost on to consumers.
- A salary and wage levy will be paid by all businesses, as well as Government, provincial and municipal employers. The levy will be based on a percentage of the employers' wage and salary bill.

When details of the levy were first given in December last year, the Minister of Constitutional Development and Planning, Mr Chris Heunis, said revenue on the taxes could exceed R1 000 million.

A spokesman for another major retail chain, Mr Joel Wolpert, said: "The levies will have a negative effect on the economy and will be an additional expense carried by businesses."

South Africa's largest employer groups, the Associated Chambers of Commerce, the Federated Chamber of Industries and the Afrikaanse Handelsinstituut, held discussions on the levy with Mr Heunis and other Cabinet Ministers in Cape Town last Friday.

A spokesman for Assocom said the meeting was confidential and details could not be disclosed. It is known that business leaders are not entirely happy with the proposals.

The Assocom spokesman said further discussion would be held with the Government after publication of the draft legislation next week.

The Regional Services Council Bill which is to be presented to Parliament, has undergone several changes since it was first published last year. The most important provisions are:

- The Regional Services Councils will be permitted to supply bulk services such as water, electricity and transport, previously supplied by individual municipalities.
- They will collect the new business taxes and redistribute them to local authorities to assist them in development. A large proportion of the money is to be spent on developing black, coloured and Indian townships.

TAXATION

320

Is there more to come?

The new taxes imposed on banks and life offices in the March Budget could be the tip of an iceberg, despite official hints of imminent watering down for the banks. Fears among bankers are that the latest measures may be the beginning of a longer term tax clampdown on financial institutions.

It is understood that the new taxes, officially estimated to raise R100m from banks and R77m from life offices, were imposed on a sector that is perceived as being profitable on the one hand, but is also paying very low rates of tax on the other.

In view of this, financial institutions must be the obvious target of a Treasury that is strapped for cash.

Bankers fear too that the rather radical departure in the way banks are being taxed may have been given the green light by the Margo Commission on tax by Finance Minister Barend du Plessis. If that be the case an important precedent could have been set.

Tax rates of those involved in business and commercial life vary enormously. Pension and retirement annuity funds do not pay tax — but they do have to invest in certain prescribed assets. Banks pay between 1%-2% (measured on cash actually paid to Inland Revenue). Life offices officially pay 27,5% (on life insurance investment income only). Small businesses pay 50% and individuals up to 53,5%.

Michael Stein, co-editor of Silke on SA Income Tax, says the new taxes have been applied on an *ad hoc* basis to enterprises that appear to be cash cows. But he argues that "it's the individual taxpayer and saver who is being hit. A higher tax rate applied to any enterprise is paid for by the individual: customers pay more, shareholders receive smaller dividends and employees less remuneration.

"The worrying effect of these new *ad hoc* taxes is their application to a tax system that has had its taxbase eroded. Practically no business enterprise pays the official tax rate because of aberrations that have been built into the law over decades — exemptions, rebates, allowances and so on. Presently, the whole system reeks of discrimination."

The new financial institution taxes have been imposed on enterprises which, on a simple analysis, are paying very little in tax. None of the "big five banks" pay more than 2% of operative profits in current tax. Barclays, for example, paid only R0,6m of its declared R32,5m tax charge in current tax, or cash, in its 1984 year. The balance is deferred for future payment.

The life offices also appear to pay very low tax rates. Liberty Life's latest accounts show that the company paid R19m on R262m investment income — a tax rate of 7,25%, not the official effective rate of 20%.

Behind these simplified analyses lie vast complexities. Take banks, for instance. They can legitimately claim tax allowances on items such as plant and machinery that are leased to clients.

At the current prime overdraft rate of 25%, such a lease would cost the client only about 5% finance charges on rentals. Because all banks can claim the allowances, the deals are usually struck on a tender basis, with the banks passing the benefits of lower tax rates on to their clients.

Stan McDonald, Barclays senior GM, points out that the banks make their profits on such deals in the time-honoured way: by taking a cut between their cost of funds and the rate charged to the borrower. The tax allowances merely reduce the actual finance charge, not the cut the bank takes. But unfortunately for banks, the effect of the tax allowances is reflected in their, and not the clients', accounts.

But the outlook for financial institution's taxable status is far from rosy. Although the Margo Commission is examining the equalisation of tax rates of all enterprises, it is also understood to be concerned with the relationship between tax shelters and the pattern of savings in the economy.

There is no doubt that the tax advantages offered by the life offices have attracted more funds than they would otherwise have had.

Indeed, life offices, with revenue from life insurance premiums and pension contributions, are the fastest-growing form of economic enterprise in SA. Latest figures show that they must invest a gigantic R29m every working day.

It is generally invested in low-risk assets such as shopping centres and the shares of proven public companies. But with the offices' ever-growing income, they have branched out into a wide variety of enterprise, from farming to car manufacturers and the leisure industry.

One way of slowing the exponential growth of the financial institutions is by shifting the tax burden. For the current system of actual and not official rates is penalising the West's new economic engine — the small business. ■

Cape Times 18/4/85

Budget not a 'political success' (320)

Mr Jac Rabie

HOUSE OF REPRESENTATIVES. — In broad terms the Budget introduced by the Minister of Finance, Mr Barend du Plessis, was a success but when the political and social aspects were taken into consideration it definitely was not, Mr Jac Rabie (LP Reiger Park) said yesterday.

Speaking in the Second Reading debate on the Budget, Mr Rabie said the increased sales tax had been reckless.

The man at the bottom paid just as much in GST as the one at the top and it was coloureds, blacks and Indians who suffered. Those at the bottom had to pay GST on paraffin and foodstuffs while those at the top escaped GST on electricity.

Mr Rabie suggested a two-level system of GST — foodstuffs should be pegged at four percent while that on other goods should be 15 percent.

Replying to the debate, the Minister of Finance, Mr Barend du Plessis, said the government had had to choose between drawing up a politically popular Budget or one which was responsible and economically sound. It had chosen the latter in the interests of South Africa's future. — Sapa

TAXATION

320

Banking levy relaxed

Bankers have won several concessions from Finance Minister Barend du Plessis regarding the deposit tax imposed in the recent Budget (*FM* March 22).

Expected to raise a one-off R100m, the proposed 0,25% rate has been effectively reduced by making the levy deductible from income, and relaxing the instalment payment dates.

Perhaps most important of all, the levy is applicable for this year only, and "it is not the intention to repeat it next year." The base for the tax will be the average 1984 quarterly deposits held by institutions registered in terms of the Banks Act. Discount houses are exempt from the impost.

Du Plessis mentioned several factors in the announcement indicating the veracity of the case that bankers presented in challenge of the impost. It was important not to put "undue pressure on the cash flow of the banking sector during a year in which their earnings are not expected to be as buoyant as in previous years," said Du Plessis.

While bankers resent the tax, it is not without its precedent. In 1980, Britain imposed a one-off windfall tax on banks that raised £355m. The reason for the impost was Whitehall's opinion that the banks were simply making too much money. Du Plessis' reason for the bank levy — and the increase in life offices tax to raise an estimated R77m — was probably based not so much on the profits financial institutions make, but on the low taxes they pay.

Certainly the banks can easily afford to pay the levy, much as it might be an affront to shareholders. None of the "big five" banks, with total assets of R68 billion, pay more than 2% of their operating profits in tax.

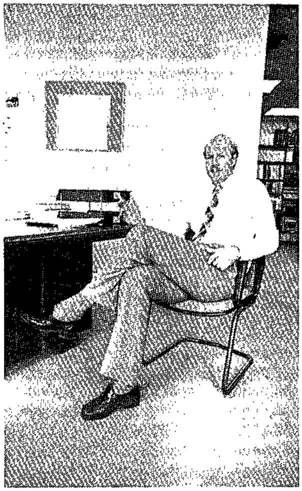
And, ignoring the R100m to be raised by the levy, Inland Revenue will receive less than R10m in the form of income tax from the banking sector in 1985. The sector is expected to produce profits of R400m this year, so the new levy will increase the effective tax rate from about 2% to around 25%.

Pat Quarmby, tax partner at Ernst & Whinney, says the bank tax is somewhat unfair because it is based on historic results. "At the time, banks had no idea the tax would be imposed, so they could not build the cost into their financing structures."

Quarmby says that, despite appearances to the contrary, the tax levy is not retrospective.

A leading tax attorney adds that the bank deposits are used merely as a reference point for the tax. The level of deposits would ensure that the R100m is shared equally by banking institutions, although the ratio of profits to deposits does vary according to a bank's business mix.

Du Plessis also suggested that the concessions were made against the new capital and reserve requirements that banks will have to comply with — probably from 1986. This tightening up of the banking system follows



Ernest & Whinney's Quarmby . . . tax is unfair

from the Basle Concordat, which requires that no bank in the world escape supervision.

Du Plessis said banks would be restricted in their foreign exchange dealings by the proposed legislation, and this would curtail their freedom and probably impact on profits. Under present regulations, banks have almost unlimited potential in forex markets.

The Bill to introduce the new measures will probably be passed in this parliamentary session and come into operation in 1986. It is expected that the measures will be phased in over a five-year period from next year. Also, the requirements will be linked to the asset-side and not the liability-side of the balance sheet, with different requirements according to the risk of the asset held.

This means that as a bank's assets increase, so its capital and reserves will have to increase. Such an increase can either be funded by shareholders' cash or through retaining profits. The recent R117m rights issue by Stanbic was a case in point.

Although the bank levy is now clearly not to be repeated in its present form, the fear in some circles is that financial institutions will again come under the taxman's axe next year, possibly through a complete change in their tax structure or an increase in the income tax rate.

The Margo Commission on tax is known to be particularly concerned about the erosion of the tax base by tax allowances and other concessions. The erosion is reflected by the average company tax rate of about 25% instead of the official rate of 50%, and the low rates of the financial institutions.

Certain commission members, speaking in their private capacities, have said they would like to see all tax concessions replaced by direct cash handouts from Parliament. This line of thinking would be injurious to the banks, which have reduced their effective tax rates from the official 50% to 2% by claiming and using various tax allowances.

There is also concern in official circles that the tax system has given undue fiscal privilege through tax-sheltered savings to various financial institutions, particularly the life assurers. They, for example, now invest a massive R29m every working day.

Although there are many reasons for the booming income of the financial institutions, there is no doubt that the tax system has encouraged this kind of contractual saving. So the financial institutions may be in for more tax surprises and less sympathy from Pretoria. ■

HIRE PURCHASE

Crowded car lots

Visions of overcrowded repossessed car lots are beginning to plague banking halls. The number of hire-purchase defaulters is rising dramatically. In the case of motor car deals, repossessions have leapt by as much as 300% on a year ago.

As it stands, some of the banks must now rank as the largest second-hand car dealers around.

Although the banks claim they have made provision for this increase in defaults, there is concern that conditions could worsen substantially during the year. Says Duncan Reekie of Stannic: "Our arrears are a lot higher than last year and the situation could get much worse as the man-in-the-street suffers even further."

Wesbank sees its provision as being 20% higher for this year, while Volkskas, on the other hand, has witnessed a 300% increase in arrears.

Nedfin, although slightly more selective with clients and aimed mainly at the top end

The

KEN OWEN COLUMN

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Cape Times 11/7/85

Feeding the country's big spenders

THE tax collector, a central figure in every revolution since the tribes of Asia Minor poured molten gold down the throat of an avaricious Roman governor, has assumed a sinister prominence in South Africa.

The mildest taxpayers are getting into an ugly mood as the Receiver of Revenue arrogates to himself the right to know whether the person you took to dinner in 1982 was your client or your mistress.

When the state hounds its people to track down every last penny of taxable wealth, it makes enemies of its best defenders. The tax collector becomes, in effect, the recruiting agent of rebellion.

The mystery is why the Receiver has assumed this role.

One needs to understand that the office of the Receiver is essentially a mechanism designed to transfer wealth from Johannesburg to Pretoria, from entrepreneurs to civil servants, from English to Afrikaans.

It has worked like a charm.

As recently as 1977, for example, an outstanding Stellenbosch economist, Professor Sampie Terreblanche, told an Afrikaans audience that South African whites must face up to the need to share wealth with blacks, adding comfortingly that the wealthiest communities were in any event the Jews and the English.

It is no longer so. By 1980, according to figures given to Parliament a few weeks ago, the English community (presumably including Jews) was trailing badly, providing the country with most of its poor whites but a minority of its wealthy.

Of the 2 940 people earning more than R100 000 a year, 2 212 had Afrikaans as their home language; only 548 were English, 47 were black, 14 Indian and seven coloured. Control of the fiscus is clearly a key to prosperity.

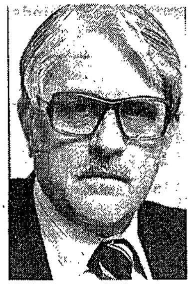
Today, anybody of any race in South Africa who earns more than R40 000 a year, according to government statistics, is most likely to be an Afrikaner. Any white person earning less than R1 000 a year is most likely to be English.

These figures confirm the impression which you can form for yourself any Sunday afternoon by driving through the immense new suburbs that spill across the hills in every direction from Pretoria: the stereotype of the poor Afrikaner has long been obsolete. The mandarins are fat cats.

Mr Chris Heunis

Pretoria needs taxes because it has a high standard of living to keep up. Any senior civil servant who sends his wife out to work is automatically in the upper classes, which explains why, in the words of a visiting diplomat, there seem to be more Porsches in Pretoria than in Bonn.

Who are these rich people?



Prof Terreblanche

They are ordinary nine-to-five civil servants. Mr Chris Heunis's department of constitutions, for example, has 15 people earning more than R55 000 a year, and another 134 who earn R26 000 to R55 000. If you don't earn R2 000 a month in Pretoria, you're nobody.

The government department laughingly known as Co-operation and Development has no fewer than 460 people in this New Class (if one may be permitted to steal a label from Yugoslavia's disillusioned Marxist Milovan Djilas). The State President, known for his frugality, has only 53.

The New Class largely comprises technocrats, the top engineers and architects, the medical superintendents and the chief magistrates; but it includes many who can't be identified except perhaps as Senior Clerks, Grade 1.

What do they do for their money?

It is not easy to say. The explanations given to Parliament are sketchy at best. Mr Heunis, to cite a random example, is spending more than R28 million this year on "demographic studies".

Demographic studies? Couldn't we give the job to a graduate student with a computer and reward him with a Ph D? Or ask Professor S P Cilliers of Stellenbosch for the answer, since he probably knows it already?

But wait! Mr Heunis's merry men are also spending R36 million on "statistical services", presumably non-demographic. They spend more than R8 million on "planning". Another R6 million goes to "management". Then there are smallish additional sums, a couple of million, for "economic planning", for "physical planning", for "social planning", for "science planning", and for "constitutional planning".

Another R2,5 million is swallowed by "research", which presumably covers neither demographic studies nor statistical services, and which is manifestly not planning.

You think it doesn't add up? Mr Heunis presides over the expenditure this year of R5 000 000 000. That's right — five-thousand-million. It is half the entire gold production for the year.

Look at it another way. The army's Operation Thunder Chariot has been criticized because it is said to have cost more than R25 million; with Mr Heunis's budget the army could have mounted 21 000 such operations and have change left over.

Then, too, Mr Heunis likes to give money away. He is spending R11 million on Bloemfontein, R20 million on Bronkhorstspruit. (If you don't know where Bronkhorstspruit lies, just wait: it will soon be an eastern suburb of Pretoria.)

Of course, the government's real expert at giving away money is Mr Pik Botha. He's giving away a billion or so in "foreign aid and development co-operation", some of it to pay the salaries of seconded white civil servants who are teaching the black civil servants of Bophuthatswana, Transkei, Ciskei and Venda the tricks of living off the taxpayer.

The government claims it does all this spending to keep us safe from revolutions. But there's a better way. The state now confiscates in taxes more than R31 billion a year — enough to give every black man, woman and child a regular income of R1 000 a year, and enough left over to pay for an army.

The trouble with the poor, said American radical author Saul Alinsky, is they don't have any money — why not give it to them?

Why not, indeed? Cut out the middleman, give every black person R1 000 a year, or R5 000 for the average family, and the ANC wouldn't have a snowball's chance.

That way, we wouldn't need an army, we'd hardly need a police force, and we certainly wouldn't need Mr Heunis or his merry men. We would be a stable society.

29 offices represented, comprising insurers and reinsurers, voted unanimously in favour of a recommended scale of minimum rates for storm damage.

It was clear the initiative came from the reinsurers. Recently they had decided to establish separate accounting of the premiums and claims arising from special perils.

Insurers were immediately faced with the problem of allocating a portion of the premium from the overall fire policy to the special perils cover. Before they started on the figures, they knew well enough that they'd end up with precious little of the premium to cover the balance of the policy.

A typical commercial or industrial fire policy would include cover for fire, industrial riot, strike, impact, lightning, earthquake and, of course, the special perils.

In the good old days, the rate for this lot would come to about 0,25%/year of the sum assured, made up of 0,1% for storm, 0,12% for fire and, say, 0,03% for earthquake.

Since then, competition has done wondrous things. Reinsurers have been gasping for business, brokers have been competing for accounts, and the insurers were caught in the middle. In succumbing to the combined forces, the insurers' overall rate was whittled down to between 0,06% to 0,12%, while at the same time cover expanded dramatically.

"Assets All Risks" policies, for instance, were a more recent development where the assets of a company are insured against all risks under one package deal. Such policies did not reveal any splitting of the premium into different rating sections, even though such things as burglary, transit, and fidelity, as well as the fire and special perils covers, could be rolled into one.

Under fierce competition, such non-disclosure meant that some elements of the insurance carried no premium at all.

But now the rates to be established for special perils are:

☐ 0,075% on the first R20m sum insured;
☐ 0,06% on the next R80m; and
☐ 0,04% on the balance; while
☐ it is recommended for insured assets of over R250m that application be made to the special perils rating committee of the SAIA.

SAIA's Newman ... massaging the rates up

A number of "conventional solid construction" risks are excluded from the above, because these are not normally the source of large catastrophe losses. This category includes banks, churches, clubs and colleges, for example, and the minimum rate here is to be 0,035%.

The rates will apply to both material damage and consequential loss covers. There is a special formula, however, to determine rates where the period of indemnity exceeds 12 months. It is also recommended that profit-sharing elements, where a portion of premiums is refunded for good behaviour, should not be considered.

It can be seen from this that, where a company is paying around 0,06% for an Assets All Risks policy with sums insured of, say, R100m, its new rate will average 0,063% just for the special perils cover.

Says Newman: "Understandably, we can't impose the new storm rate on top of the existing rate; you can't sort the problem out overnight. So we'd probably 'massage' the rate."

In practice, the likely outcome for a risk at the level of R100m might amount to 0,10%, made up of the 0,063% for the special perils cover plus about 0,04% for the balance of the cover. This would amount to an increase in premium of 67%, from R60 000 to R100 000.

Excluded from the recommended rates is householders', homeowners' and motor business, where special perils are insured under the accident account for which the association has still to gather statistics. In the accident department is included private motor, fleet business, contractors' all risks (CARs) and goods in transit.

The correction has long been overdue. In 1984, the combined loss ratio for the fire department was 134%; that is, claims plus expenses and commissions came to 134% of the premiums. For the previous three years, the industry had also experienced such negative positions: 133% in 1981, 106% in 1982 and 109% in 1983.

Says David Alston, executive director of the SA Insurance Brokers' Association: "Having regard to the bad claims experience to date, our association realises the need for insurers to recoup their position. Without the necessary capacity, the operations of our members would also be severely restricted on this class of business.

"However, brokers will continue to act in the interests of clients, obtaining the best cover for the lowest price."

Add to this the fact that AA Mutual is not a member of the SAIA, and you have a similar recipe that spoilt the dinner for the insurance cartel. This had tried to jack up premiums across the whole commercial and industrial fire business — but it didn't work very well at all. ■

FEATURE

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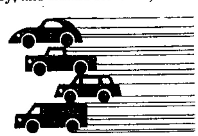
PERKS TAX

Getting some of the answers

Probably the most confusing of tax issues is the administration of fringe benefits. Legislation on the matter is still in a state of flux, with yet more changes expected to be announced in Parliament in the next six weeks or so.

But, faced with the tax from March 1, employers have to rely on their reading of the Seventh Schedule to the Income Tax Act, two press releases from Finance Minister Barend du Plessis, and statements made by Inland Revenue officials, either in public or in answers to queries from taxpayers.

Since there are many areas where the applicability of perks tax is still unclear, the *FM*, together with accountants Ernst & Whinney, and Inland Revenue, have compiled the following guide on some of the more confusing areas of the new tax.



Perks tax became payable as of March 1 1985. When is the tax actually payable, and which PAYE tables apply?

Employers may defer the payment of PAYE withheld on fringe benefits for the month of March 1985. This amount is to be remitted together with the April PAYE payment, so that employers will have to either accumulate two monthly deductions, or make a double deduction in April. From March 1985, PAYE will be deducted using the existing PAYE tables, until the new tables come into effect on July 1 1985.

Housing loans are usually repayable with interest and capital determined on a monthly

basis. **What will the position be when a loan is repayable, on, say, a rate of interest compounded daily, weekly, monthly, quarterly or annually?**

The taxable benefit will be the difference between the official rate of 18% and the rate at which the employee is charged. The taxable benefit will be computed according to the repayment terms of the agreement.

What about housing loans that are restricted to certain classes of employee?

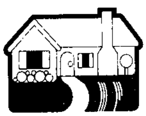
If the scheme is approved, thereby qualifying for the seven-year phasing-out allowance, it will be restricted to the named specific class of employee.

What of a housing *bond* that has been replaced by a *loan* granted under an approved housing scheme?

The loan will qualify for the phasing-out concession provided the original loan was used for the erection or improvement of residential property. If the replacement loan was granted after March 1 1985, the phasing-out will apply only to the first R50 000 portion of the loan.

What of an approved housing scheme loan that is increased after March 1 1985 to an amount exceeding R50 000?

The phasing-out will apply to the first R50 000 portion of the loan only.



An employee moves from company A to company B, both of which have approved housing schemes. If the loan at the date of transfer was in excess of R50 000 and the grant of the new loan is after March 1 1985, what qualifies for phasing-out?

Phasing-out will apply to the full amount of the loan regardless of the amount at the date of transfer. No phasing-out will apply to an amount granted in excess of the loan at the date of transfer.

Will Inland Revenue approve direct and indirect housing subsidy schemes?

Yes. But for the year of assessment ending February 28 1985, the subsidy will be taxed in the employee's hands. It is unlikely that assessments prior to this date will be reopened to tax a subsidy.

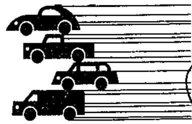
An employee has two company cars, and the smaller car is used by his wife — but is not used predominantly for business purposes. How will these perks be taxed?

Both cars will be taxed according to the relevant tables, and both will be given the phasing-out concession. But the second car benefit will not be calculated on the cost to the company.

What happens when an employee contributes R10 000 towards a company car that costs the employer R20 000?

The perks tax must be calculated according to the cost to the employer. But note that the employee cannot deduct from the taxable benefit the business costs relating to his contribution, such as interest payable on a loan.

What about a company car financed with a financial lease, and the employee, having chosen a more expensive car, contributes towards the lease payments?



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The perk will be calculated on the full cash cost in the lease. But note that the employee *can* deduct his portion of the lease payment from the taxable benefit.

What about a special case of, say, a geologist operating in a barren area, who is given an expensive off-road vehicle?

No special concessions or relief apply. The only relief is if the geologist does less than 10 000 km/year on private travel, thereby qualifying for a named perks tax concession.

What would happen in another special case situation of an employee using a car for 24-hours call?

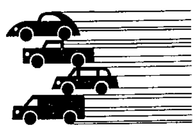
A hard line will be taken — with the employer left to police the situation. The employee must use the car *regularly* outside business hours for business purposes. His employment terms must state explicitly that he may not use the car for *private* purposes other than for travelling between home and work.

Are there any special rules pertaining to the definition of the determined value of company cars, which is usually the cost to the employer?

For motor manufacturer employees, the determined cost will be the "dealer billing price" less 20%. For employees temporarily using cars of a second-hand car dealer, the "cost" will be calculated on the average price of car stocks on the last day of the tax year.

Are there any special rules to govern reimbursive car allowances, which cannot be finally determined until the end of the tax year, and the payment of PAYE?

No. But what must be taken into account is that the allowance must be genuine. Thus an allowance to cover travel between home and work will be subject to PAYE.



What will be the official attitude towards the many methods used to determine the deduction allowed to an employee against a travel allowance?

Any chosen method will be acceptable provided it is substantiated by comprehensive and accurate records.

An employee owns his own residence and is provided with accommodation while working on site. Is this a taxable benefit?

Yes, but there are no hard and fast rules, and each case must be determined on its own merits. As a guideline, if he is absent for less than six months, no taxable benefit would arise. In certain cases this could apply even to a period of 12 months. This practice will also apply to expatriates.

How is withholding of PAYE to be applied to soft loans?

PAYE must be deducted on each date interest is payable if it is paid monthly. Where no interest is paid, or it is paid annually, PAYE must be deducted in equal proportions during the year when cash remuneration is payable.

What exactly is meant by a "casual loan"?

To be casual, the loan must be short-term and should not be granted at regular intervals. And it must not be a facility available to all employees or all classes of employees.

What are the practical details of the special rules for the payment of entertainment allowance PAYE?

PAYE is to be withheld each month the allowance is received, as and when the cash remuneration is payable to the employee. In exceptional circumstances, a directive may be issued to permit the allowance to be paid without PAYE deduction.

What about the PAYE rules on allowances other than for entertainment and travel?

No PAYE is payable. Reimbursive allowances, such as those for subsistence, are dealt with in the main body of the Act — Section 8.

Does this mean that it is unnecessary to reflect on the IRP form subsistence allowances that are equal to or less than the amount laid down in the Act?

Correct. No disclosure will be necessary.

Say a long service award is granted to an employee each year, and the amount of each payment is less than R2 000?

Legislation has been drafted to prevent abuse of this concession. A non-taxable benefit will only arise if the long service is of 20 years' duration and every 10 years thereafter, or on resignation or retirement.

What will be the "market value" of an asset acquired by an employee for less than full value?

The amount reflected on a certificate issued by a reputable independent valuer.

What if an employer discharges the debts of an employee expatriate, such as school fees, holiday travel and the like?

The amounts are fully taxable. There are no concessions applicable to expatriates.

What is the perks tax position of company contributions to employees' pension, medical aid and group life schemes?

None of these payments give rise to a taxable benefit. ■

made redundant, (b) dismissed and (c) retired prematurely as a result of these staff cuts; if so, how many in each race group in respect of each of the above categories;

(4) in respect of what date is this information furnished?

The MINISTER OF HOME AFFAIRS:

(1) to (4) As the curtailment in personnel expenditure as announced by the State President, only becomes effective from 1 April 1985, I cannot answer the Honourable Member's question at this stage.

Committee regarding the Economic Position of the Farmer and Agricultural Financing in General

733. Mr M A TARR asked the Minister of Finance:

(a) What are the names of the persons serving on the Committee regarding the Economic Position of the Farmer and Agricultural Financing in General (Jacobs Committee) and (b) what organizations do they represent on this Committee in each case?

The MINISTER OF FINANCE:

(a) and (b)

1.	Dr A S Jacobs (Chairman)	South African Reserve Bank
2.	Mr I S Geldenhuys (Vice-Chairman)	Department of Agricultural Economics and Marketing
3.	Mr C R Baard	Department of Agricultural Economics and Marketing
4.	Mr J C Hugo	Land and Agricultural Bank of South Africa
5.	Mr K H W Spät	Land and Agricultural Bank of South Africa
6.	Mr J J H Kotze	Department of Finance
7.	Mr H J Kleynhans	Department of Finance
8.	Mr J le R Retief	Agricultural Credit Board
9.	Dr L W A Nel	Department of Trade and Industry
10.	Mr J A Jooste	South African Agricultural Union
11.	Dr A P Scholtz	South African Agricultural Union

Middelburg by-pass road to Belfast

750. Mr P G SOAL asked the Minister of Transport Affairs:

(1) Whether, in view of the additional revenue that will accrue to the National Road Fund owing to the increase in the road levy, he plans to complete the Middelburg by-pass road to Belfast; if not, (a) why not and (b) when is it anticipated that it will be completed; if so, (i) when (aa) will work on the by-pass road commence and (bb) is it due to be completed and (ii) what is the extent of this increase per litre of fuel sold;

(2) whether he will make a statement on the matter?

The MINISTER OF TRANSPORT AFFAIRS:

(1) Yes.

(a) Falls away.

(b) At a yet undeterminable date between 1988-89.

(i) (aa) Provisionally during August 1985.

(bb) Please refer to my reply at (b).

(ii) 1,946 cent per litre which will result in an estimated additional income of R164 million during the 1985-86 financial year.

(2) No, not at this stage.

Attention is drawn to the fact that the announced increase is not in respect of road levies which in its existing connotation is commonly associated with toll. What has in fact been approved is an increase in the levy which the Minister may in terms of section 2 (1A) of the National Roads Act, 1971 (Act 54 of 1971) impose on every litre of petrol or distillate fuel which is sold or supplied by any person at any point in the Republic for consumption, or imported by any person into the Republic, with the concurrence of the Minister of Finance and the Minister of Mineral and Energy Affairs.

(320) Hansard Q. 61. 1257 24/4/85

Income tax

758. Dr W J SNYMAN asked the Minister of Finance:†

What total amount of income tax was paid by private persons in respect of each specified population group during the 1983-84 financial year?

The MINISTER OF FINANCE:

Statistics in respect of income tax *paid* are not available. The following statistics are however furnished in respect of *assessments* issued until 31 January 1985 for the 1983-84 tax year:—

	R
Whites	3 421 951 000
Asians	84 751 000
Coloureds	110 592 000

Note: The statistics at my disposal relate only to tax levied under the Income Tax Act, 1962, which Act was not applicable to the income of Blacks in respect of the 1983-84 tax year.

Own Affairs:

Teachers' associations/federations

69. Mr R M BURROWS asked the Minister of Education and Culture:

Whether his Department recognizes, for consultation and negotiation purposes, teachers' associations and federations; if not, why not; if so, (a) which associations and federations are recognized by his Department, (b) what number of teachers are represented by each of these recognized bodies and (c) what criteria are applied by his Department prior to its granting recognition to a teacher organization?

The MINISTER OF EDUCATION AND CULTURE:

Yes;

(a)	(b)
The South African Association for Technical and Vocational Education for teachers at special schools, schools of industries and reformatories and training centres for mentally retarded children	2 493
The Association of Technical Colleges	2 055
The Federal Council of Teachers' Associations	50 000

(c) The Department of Education and Culture is responsible for the administration of the educational and training at special schools and schools of industries and reformatories in terms of the Educational Services Act, 1967 (Act 41 of 1967); training centres in terms of the Mentally Retarded Children's Training Act, 1974 (Act 63 of 1974) and technical colleges in terms of the Technical Colleges Act, 1981 (Act 104 of 1981) and their associations are therefore recognized for purposes of negotiation.

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The Association of Technical Colleges	2 055
The Federal Council of Teachers' Associations	50 000

(c) The Department of Education and Culture is responsible for the administration of the educational and training at special schools and schools of industries and reformatories in terms of the Educational Services Act, 1967 (Act 41 of 1967); training centres in terms of the Mentally Retarded Children's Training Act, 1974 (Act 63 of 1974) and technical colleges in terms of the Technical Colleges Act, 1981 (Act 104 of 1981) and their associations are therefore recognized for purposes of negotiation.

The Federal Council of Teachers' Associations represents the various associations of teachers employed at provincial level. The Department of

	(a)(i)	(ii)	(b)
Zeerust: Ikageleng	1 413	1 167	2 075
Lichtenburg: Boikhutso	1 748	1 097	1 413
Bloemhof: Boitumelong	1 143	1 290	2 098
Schweizer-Reneke: Maamusa	1 845	1 876	2 040
Wolmaranstad: Boikhutsong	1 960	2 012	2 677
Delareyville: Tswaing	166	35	—
Sannieshof: Agisang	934	343	602
Swartruggens: Barolela	610	373	414
Christiana: Pöditshunyana	1 290	1 194	1 652
Koster: Bantuville	1 157	1 222	1 140
Ventersdorp: Tshing	1 088	958	1 628
Stilfontein: Khuma	4 719	2 563	3 656
Orkney: Kanana	3 148	2 443	3 008
Biesiesvlei	54	33	64
Witpoort	92	67	82
Makwassie: Lebaleng	907	911	1 578
Fochville: Kokasi	1 880	571	824
	36 007	28 114	39 719
Central Transvaal Development Board			
Warmbad: Belabela	1 774	1 794	3 567
Brits: Efitlhile	2 840	3 596	6 620
Thabazimbi	101	143	203
	6 715	5 533	10 390
Eastern Transvaal Development Board			
Carolina: Ezenzeleni	1 259	842	2 075
Amersfoort: eZamekhuhle	872	823	2 055
Piet Retief: eThandakukhanya	2 653	1 520	5 784
Morgenzon: Sivukile	313	214	1 577
Amsterdam: KwaThandeka	287	339	752
Davel: KwaDela	374	101	1 423
Chrissiesmeer: KwaChibikhulu	67	66	170
Wakkerstroom: eSizameleni	194	232	1 006
Breyten: KwaZanele	2 258	2 373	4 715
Sabie: Similie	1 349	904	1 654
Watervalboven: Umgwenya	907	872	3 651
Barberton: Emjindini	2 548	1 552	5 709
Lothair	519	405	1 101
	13 600	10 243	31 672

The question relates to townships *under the control of* Development Boards only. Statistics of those townships in respect of which Black local authorities have been constituted, is however submitted separately here under.

	(a)(i)	(ii)	(b)
Towns under Black Local Authorities			
Middelburg (Tvl): Umhluzi	10 371	577	12 989
Witbank: Kwaguwa	15 743	7 236	10 945
Johannesburg: Diepmeadow	67 745	66 290	66 584

	(a)(i)	(ii)	(b)
Johannesburg: Dobsonville	15 931	11 163	19 997
Johannesburg: Soweto	180 569	186 055	161 804
Johannesburg: Alexandra	17 433	13 492	31 202
Krugersdorp: Kagiso	13 813	14 143	29 494
Springs: KwaTema	27 386	26 293	41 945
Benoni: Daveyton	27 494	25 041	44 059
Germiston: Katlehong	43 074	25 511	60 872
Benoni: Wattville	7 299	4 303	10 391
Alberton: Tokoza	21 294	10 569	28 334
Kempton Park: Tembisa	76 429	39 915	45 760
Boksburg: Vosloorus	46 050	13 710	21 712
Pretoria: Atteridgeville	24 182	28 245	21 605
Pretoria: Mamelodi	57 152	44 524	26 651
Ermelo: Wesselton	8 635	3 485	8 019
Kimberley: Galeshewe	27 337	26 326	36 961
Bloemfontein: Mangaung	24 456	29 838	30 772
Welkom: Thabong	18 161	9 698	22 304
Vanderbijlpark: Sebokeng/Boipatong/Bophelong	68 149	46 785	74 469
Vanderbijlpark: Evaton	17 452	22 410	33 277
Bethlehem: Bohlokong	7 991	6 894	24 493
Kroonstad: Seeisoville	14 594	19 916	24 928
Potchefstroom: Ikageng	13 465	13 053	16 199
Klerksdorp: Jouberton	13 895	11 031	13 152
Port Elizabeth: Kayamnandi	66 629	75 500	125 523
Cradock: Lingelihle	2 741	3 635	7 369
Grahamstad: Rini	8 970	10 381	22 776
Uitenhage: KwaNabuhle	14 362	15 338	30 921
Sasolburg: Zamdela	11 620	3 236	3 384
Vereeniging: Sharpeville	12 984	14 101	18 354
	970 442	828 694	1 127 354

(320) Hansard Q. Col. 1277 26/4/85

Tax concessions

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What is the total amount of tax lost or expected to be lost as a result of tax concessions granted to decentralized or deconcentrated industries in respect of the year ended 31 March 1984?

The MINISTER OF FINANCE:

Because many taxpayers (especially companies) have not yet put in their 1984-returns, it is not possible to give a final figure, but on the basis of assessments already raised, the income tax concessions granted to decentralized or deconcentrated industries in respect of the year ending 31 March 1984 will amount to approximately R109 million.

This amount is made up of concessions granted under sections 11*bis*, 11*ter*, 11*quat*, 11*quin*, 11*sept*, 11*oct*, 12, 13 and 21*ter* of the Income Tax Act.

The figure in respect of the year ending 31 March 1983 given in response to Question No 224 of 1984, was R670 129. That figure related only to the section 21*ter* allowance. The correct figure in respect of all the allowances listed above was R153 315 478.

Hansard Q. Col. 1278 26/4/85

Natalia Development Board

436. Mr R W HARDINGHAM asked the

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320 Hansard

Tax concessions

Q. Col. 1277 26/4/85

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This amount is made up of concessions granted under sections 11*bis*, 11*ter*, 11*quat*, 11*quin*, 11*sept*, 11*oct*, 12, 13 and 21*ter* of the Income Tax Act.

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Hansard Q. Col. 1278

Natalia Development Board

26/4/85

436. Mr R W HARDINGHAM asked the

The unloveliest time of the year

W/E Argus 27/4/85 (320)

By MARTIN SPRING

THIS is the time of the year when most of us face the unpleasant task of filling in a form numbered IT 12 — the annual tax return. It is easy to make mistakes when doing so — and they could cost you a lot of money.

It may happen that when the tax-collector inspects your form, he will pick up those mistakes and correct them, to your advantage. But I wouldn't count on it.

One important difference is that between a deduction and a rebate.

A deduction is an amount you deduct from gross income to arrive at a taxable income. Gross income is all income that is subject to tax. It usually excludes capital profits or windfall gains, but it includes both income from employment and income from investment.

Most important

The most important deductions are:

- Contributions to retirement annuity funds;
- Wife's earnings allowance;
- Medical expenses;
- The tax-free portion of dividend income (normally one-third); and
- Exempt interest income (the first R100 of such income, where the interest would normally be fully taxable);
- Premiums on disability insurance policies;
- Expenses connected with physical disability up to a maximum of R3 000 a year;
- Donations to certain educational institutions, subject to the limit: the greater of (a) R500 or (b) two percent of taxable income.

Contributions to RA funds are fully deductable within certain specified limits.

Basically, those limits are the greatest of: 15 percent of your income excluding income on which contributions are based on your behalf to a pension or provident fund; or R3 500 less annual contributions to a pension fund or R1 750.

A wife's earnings — provided they are not harvested from employment in her husband's business or from a trade carried on in association with him — are fully deductable up to a maximum of R1 600 a year.

There is a standard (minimum) medical expenses and medical-aid contributions deduction of R300 for married

and R200 for unmarried taxpayers.

If you can prove higher expenditure, you can deduct up to R1 000 (married) or R750 (single). There are higher limits if you are 60 or older and medical expenses are fully deductable without limit if you are 70 or older.

After you have taken all these deductions off your gross income, you are left with the amount of your taxable income.

Using this, you can work out your basic tax, reading it off Table A on the page back of the general information brochure accompanying your form IT 12.

However, the basic tax is NOT the amount you actually pay. To calculate that amount, you must deduct the various rebates due to you. The rebates are:

- Primary (applies to everybody); R460 for married and R380 for unmarried taxpayers;
- Children: R100 for each child up to five and R150 for each child in excess of five;
- Life and accident insurance premiums and provident fund contributions, at a rate of 10 percent of such payments, up to a maximum rebate of R75 a year.
- Dependents: R20 for maintenance of R200 to R350 a year, R50 for maintenance of more than R350 a year.
- Aged persons: R120 for those who are 60 or older, plus an additional R300 for those who are 70 or older.

So, your tax liability is your basic tax less all your rebates.

Either in the form of PAYE deduction or provisional tax payments, you should already have paid most of your tax and if you are lucky, all of it.

(320) S. Times 28/4/85

100 000 blacks face income-tax first

By Ciaran Ryan

THE introduction of a unified tax system for income earners, regardless of race, means 100 000 blacks will submit returns for the first time this year.

Most are first-time taxpayers. Only those earning more than R8 000 a year are required to submit returns.

The Department of Inland Revenue has sent out more than 80 000 forms to blacks and another 20 000 will be posted in coming weeks, says Schalk Albertyn, chief director of operations at the Department of Inland Revenue.

Confusion

"We expect the number of black taxpayers will increase substantially next year because of rising standards of living."

The convoluted wording of the income-tax forms is expected to cause widespread confusion among those submitting returns for the first time.

Mr Albertyn says employers have been asked to help employees to complete their returns.

One company, Interman in Johannesburg, has developed an audio-visual training aid which explains in English, Zulu and Afrikaans how to fill out the form.

Bottlenecks

A director of Interman, Annica Foxcroft, told Business Times: "We were concerned that blacks filling out forms for the first time are required to do so in English or Afrikaans, neither of which may be familiar to them.

"The audio-visual training aid explains in 30 minutes how to complete the return."

Mr Albertyn says the addition of 100 000 income-tax returns will not cause administrative bottlenecks as most will require only routine processing. No extra staff have been taken on to handle the additional work.

The department normally handles 2,1-million individual income-tax returns a year.

Leon du Toit, a tax partner with accountants Arthur Andersen, said yesterday: "I hope the department handles the situation with tact since the experience will not be a pleasant one for those who are submitting returns for the first time."

Mr Albertyn says an after-hours advice service is available at all the receivers' offices should anyone have difficulty with the forms.

Fosatu official: Firms should stay

Cape Times 3/5/85

(320)

Own Correspondent

DURBAN. — Foreign multi-national companies already established in South Africa should not be allowed to pull out their investments, Mr Alec Irwin, education secretary of the Federation of the South African Trade Unions, told a lunchtime meeting at the University of Natal yesterday.

Speaking at a well-attended meeting of students in the Shepstone Hall, Mr Irwin said they had become part of South Africa's social structure and should remain.

"The workers helped build companies like Ford," he said.

He did not believe that the withdrawal of foreign investments would "correct the problem" in South Africa.

"The only way this can be done is by changing the country's economic policies. The creation of homelands and the tricameral parliament was costing South Africans money.

"The move towards shifting taxation on the black worker has got its limits.

"There will be a backlash against further attempts to shift taxes on blacks," he said, adding that the increase in general sales tax hit black people hardest.

Referring to the growth of the trade union movement, Mr Irwin said the total number of unionized workers in South Africa was about 2 000 000 but many were "trapped in dormant unions".

The trade union movement would always be political and could not escape from the present problems facing the country, he said.

A new federation of trade unions was emerging and was expected to be launched by the end of the year with a membership of 350 000 workers. "This will be the largest and most powerful federation in South Africa," he added.

Mr Irwin said workers here still needed the solidarity of American workers and there should be closer links with the Americans, British and German workers to strengthen the fight for better rights in the workplace for workers in South Africa.

MONDAY, 6 MAY 1985

†Indicates translated version.

X *For written reply:*

General Affairs:

(320) H... ..ad Tax Q. Col. 1393 6/5/85

732. Mr H H SCHWARZ asked the Minister of Finance:

What amounts of tax were collected from taxpayers in each specified (a) magisterial district and (b) other area in the 1983-84 tax year in respect of (i) personal income tax, (ii) general sales tax, (iii) company tax, other than from mining companies, (iv) company tax from mining companies, and (v) *ad valorem* duty?

The MINISTER OF FINANCE:

(a) and (b)(i)-(iv) This information is not available.

"(a)(v) Particulars of *ad valorem* duty collected in magisterial districts are not available as well.

(b)(v) *Ad valorem* duty collected by the various Customs and Excise district offices and the Post Office are however the following:

District Office	Amount
Beitbridge	746 547
Bloemfontein	912 254
Cape Town	21 890 442
Durban	41 472 191
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Pretoria	11 259 979
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Taxpayers

777. Mr P R C ROGERS asked the Minister of Finance:

What was the total amount collected in 1984 from individual taxpayers in each specified population group in respect of (a) single (i) males and (ii) females and (b) married (i) males and (ii) females?

HoA

The MINISTER OF FINANCE:

Statistics relating to collections from individual taxpayers in the abovementioned categories are not available

Hansard
Makhonyeni/Mjindi farm
Q Col. 1395 6/5/85

797. Mr R A F SWART asked the Minister of Co-operation, Development and Education:

(1) Whether, with reference to his reply to Question No 37 on 26 February 1985, the whole community was removed from the area where the Makhatini irrigation scheme is to be developed; if not, (a) how many residents remained there after the resettlement of the rest of the community and (b) why were these residents not moved;

(2) whether these residents are due to be resettled; if so, (a) when, (b) where and (c) how many families are involved;

(3) whether permanent housing is to be constructed for the members of the community who were resettled at Makhonyeni near Jozini and the Mjindi farm; if not, why not; if so, (a) when, (b) how many houses will be provided and (c) what will be the nature of the housing provided;

(4) whether any other (a) facilities are to be provided and/or (b) improvements to existing facilities are to be effected; if not, why not; if so, (i) what facilities and/or improvements and (ii) when in each case;

(5) in respect of how many families was the amount of R71 886,85 paid out in compensation?

The MINISTER OF CO-OPERATION, DEVELOPMENT AND EDUCATION:

(1) Yes. All the people were, after discussions and with their full co-operation, resettled in order to sensibly carry out planning for individual Black farmers. It was in fact not a community, but individual Black farmers who lived scattered in the area.

(a) falls away.

(b) falls away.

(2) (a), (b) and (c) fall away.

(3) No. The Department does not provide permanent housing at rural settlements. It does, however, provide the necessary infrastructure such as roads, residential and other plots, and water as well as temporary housing until the people erect their own permanent housing.

(a), (b) and (c) fall away.

(4) (a) Yes.

(i) Since only livestock farmers were resettled, facilities such as planned grazing camps, fencing, watering places in the grazing camps, dipping tanks and crushes are being supplied.

(ii) During the years 1985 and 1986.

(b) No. There are no existing improvements. The land is undeveloped state land.

(i) falls away.

(ii) fall away.

(5) 98 families.

Hansard
Workmen's compensation
Q. Col. 1396 6/5/85

805. Dr M S BARNARD asked the Minister of Manpower:

(1) Whether workmen's compensation is administered by a body falling under his Department; if not, (a) why not, and (b) by whom or what body are such matters administered; if so, what is the name of this body;

(2) whether there are any representatives of the (a) Black and (b) independent trade unions on this body; if not, why not; if so, (i) how many, and (ii) which trade unions do they represent, in each case?

The MINISTER OF MANPOWER:

(1) No.

(a) The Government's view is that an administering body is not desirable in terms of the Workmen's Compensation Act, 1941, as there is not only one insurance risk carrier that is liable for the payment of benefits. In addition to the Workmen's Compensation Fund there are also, *inter alia*, the Government departments, the South African Transport Services, the Governments of the national states, the provincial authorities, a group of the larger local authorities, and the mutual associations licensed to undertake insurance in terms of the Workmen's Compensation Act. Each of these categories of risk carriers would be justified in calling for representation on a Workmen's Compensation Board. In addition, the employer and employee organisations would have to be represented and possibly also the various industries; employers do not contribute at the same rate but each according to the accident risk of his class of business, as reflected by the claims cost of the class concerned. There is also the question of the inclusion of various specialists, and it is therefore difficult to see how a fully representative board could be constituted without its being cumbersome. In practice such a body which does not act in an advisory capacity only would make the administration of the Act difficult without making any worthwhile contribution to the speedier and more efficient disposal of the work. It is also difficult to see how a board outside the compensation organisation would be able to ensure uniform and consistent action, which is absolutely essential especially when it comes to handling a wide variety of claims and applying a wide range of rates of assessment.

(b) The Accident Fund is administered by the Workmen's Compensation Commissioner by virtue of a power vested in him in terms of section 65 of the Workmen's Compensation Act, 1941.

(2) (a) and (b) fall away.

Hansard
Unemployment Insurance Board
Q Col 1398 6/5/85

806. Dr M S BARNARD asked the Minister of Manpower:

Whether there are any representatives of the (a) Black and (b) independent trade unions on the unemployment Insurance Board; if not, why not; if so, (i) how many, and (ii) which trade unions do they represent, in each case?

The MINISTER OF MANPOWER:

(a) Yes.

(b) No. Half of the members of the Board are appointed from a list of persons nominated by such organizations as the Minister of Manpower may deem qualified to represent the interests of contributors. Such members represent the interests of all contributors and not only the interests of the organizations which nominated them.

(i) One.

(ii) Transvaal Leather and Allied Trades Union (affiliated to the Trade Union Council of South Africa).

MONDAY, 6 MAY 1985

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X *For written reply:* X

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320 Hansard Q. Col. 1393 6/5/85

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HoA

CITY ARGUS 6/5/81 322

Fedco accepts cut in teachers' bonuses

Prof H O Maree

Education Reporter

THE 58 000-strong Federal Council of Teachers' Associations (Fedco) has accepted that teachers' bonuses will be slashed in the Government's austerity drive.

A statement after the two-day annual meeting of the Fedco council in Cape Town said the issue had been "satisfactorily dealt with".

Fedco, the umbrella body of the organised white teaching profession, initially condemned as "wholly unacceptable" the move to cut teachers' thirteenth cheques by a third and expressed its reservations to President P W Botha at a meeting in March.

However, the council has emphasised that its decision was based on the following grounds:

- That the bonus cuts be a one-off measure and, according to reassurances given by Mr Botha during the talks, will not be implemented in the future;
- That any measures likely to affect the structure of service benefits and the quality of teaching in the education sector in future be discussed with existing statutory advisory bodies on which teachers were represented, and not unilaterally decided;
- That remuneration of teachers in no way be weakened in relation to similar sectors.

Fedco's new chairman elected at the meeting is Professor H O Maree, rector of the Pretoria Teachers' College and chairman of the Transvaal Onderwysersunie, who succeeds Mr John Stonier who stepped down after serving two one-year terms.

Last year's vice-chairman, Mr D C F Heese, did not make himself available for election.

The new vice-chairman is Mr D H Schroeder, principal of Queens College, Queenstown and a former chairman of the SA Teachers' Association which represents white teachers in the Cape.

Other members are Mr J F Steyn (secretary), Professor N T van Loggerenberg, chairman of the Free State Teachers' Association, and Mr K Olivier.

(320)

Southern Sun after-tax profits up 22%

Cape Times, 7/5/85

JOHANNESBURG. — Southern Sun Hotel Holdings Ltd almost equalled their 1984 profit before taxation of R15,95m for the 12 months ended March 31 this year at R15,54m.

However, a preliminary profit announcement shows taxation was much lower at R478 000 (1984: R3,61m) giving a profit after taxation of R15,06m up 22 percent on the R12,34m in 1984.

Attributable earnings of associated companies was down by nearly a half at R9,95m (R17,16m) with the result earnings attributable to ordinary shareholders was more than R4m down at R25,01m (R29,5m).

Earnings

The directors say: "Against the background of uncertain trading conditions, the board has decided to revert to its policy of distributing 70 percent of attributable earnings by way of dividend.

"A final dividend of 18c (26c) a share has, therefore, been declared making the total dividend for the year 32c (40c)."

Of future prospects, they say: "The economic slowdown will continue to depress trading in the hotel industry and earnings in the first half of the new year are, therefore, expected to fall well short of the level achieved in the comparable period of the previous year.

"It is anticipated, however, that some improvement in the overall economic climate will become apparent in the second half of the year.

"This, together with the impact of cost benefits flowing from the Holiday Inn acquisition, should enable earnings for the 1986 financial year to approximate those of the year just closed."

Of the acquisition of Holiday Inns, the directors say that agreement has been reached in principle to acquire the entire issued share capital comprising its interest in 23 hotels together with its 50 percent interest in Renhill Properties Ltd, a company which owns the properties on which 12 Holiday Inns are situated.

Obligation

This is subject to an obligation to offer the property interests to the Mine Employees Pension Fund and the Mine Officials Pension Fund in accordance with the preemptive rights which they have against the vendors.

A circular containing full details of the acquisition will be posted to shareholders in June.

The directors say the deterioration in economic conditions in the second six months of the year exceeded that predicted in the interim report and placed severe pressure on occupancies, room rates, food and beverage revenues and margins in general.

"Under these circumstances, the group did well to hold both operating and pre-tax profits virtually in line with the previous year.

"The severe impact on trading of the recent extensive refurbishing programme at a number of the group's larger properties was offset by a lower tax charge resulting from related tax allowances."

They say attributable earnings of associated companies declined by R7,2m, of which R5,5m was due to the cessation of management fees previously receivable from non-South African interests.

The balance of R1,7m arose from a lower level of time-sharing sales, especially in comparison with the buoyant activity experienced at the introduction of the Beacon Island project in the second half of the previous year.

The announcement shows that turnover of R129,80m was up on 1984's R123,83m giving an operating profit of R20,25m (R19,91m) but interest paid was also up at R4,71m (R3,97m). — Sapa

Shocks for taxpayers in new local govt Bill

Political Correspondent

TAXPAYERS will be hit by a series of new levies to pay for regional services in terms of the major Regional Services Bill which was published today.

The proposed regional services councils will carry a heavy price tag in additional taxes.

The new plans provide for multiracial management of local affairs, including blacks for the first time in South African history, in joint decision-making bodies with whites, coloured people and Indians.

The additional taxes will be in the form of a "regional establishment levy" and a "regional services levy", which a regional council is empowered to claim from each employer, vendor or person in its region.

The State is also regarded as an employer and "person" and will have to pay the levies.

Directors' fees

The levies are to be based on turnover, employers' payrolls, directors' fees and profits paid out to partners or sole traders by means of withdrawals or loans.

The regional services councils established by the new Bill will be controlled by the existing local authorities of all race groups.

Provincial Administrators are to have sweeping powers in the establishment and control of the new councils and they will take the final decision on the number of members on a particular council and on the number of votes they possess.

Their own accord

All decisions taken by the councils have to have a two-thirds majority, but the Administrators can of their own accord give rulings on proposals that do not get the necessary majority.

Proposals which do not achieve majorities may also be debated again or may be postponed for six months before being reconsidered.

The intention of these mechanisms is to ensure that big primary local authorities or a group of smaller bodies that support each other will not dominate the meetings, but that real co-operation and consensus are striven for before a decision is made.

Lose most functions

Existing primary local authorities, such as city councils, are to lose most of their functions to the new regional councils.

The draft legislation lists 21 functions as being the responsibility of the regional councils, and provides for any other service which can be provided jointly to be handled by the new bodies.

● The proposed taxes to fund regional services councils will add to the financial burden of taxpayers, destroy job opportunities and push up prices, the Progressive Federal Party predicted.

Mr Harry Schwarz said today that the proposed measures amounted to adding two further taxes to what had already become an over-taxed country.

Margo Commission

"It seems utterly illogical that these taxes should be established at a time when the Margo Commission is sitting in order to investigate the whole tax structure.

"Before these new levies come into force they should be referred to the commission so that the tax system can be examined in its totality," Mr Schwarz said.

He predicted that the levy on sales would affect living costs as vendors were likely to pass them on to the consumer.

A discouragement

"The employment levy acts as a discouragement to employ more people at the very time when we should be encouraging the creation of more jobs — which issue lies at the root of the solution of most of South Africa's problems."

Mr Schwarz said the Bill would be considered by the parliamentary standing committee on finance. He hoped the committee would refer the levies to the Margo Commission.

"One accepts that local government needs money and that there has to be assistance to local authorities which do not have a proper tax base, but the proposed new forms of tax are likely to create more problems than they solve," he said.

Some lar

'Open schools to all'

May 1985

MOTIONS calling for a single ministry of education and an investigation into opening state schools to all races will be tabled at the annual conference of the SA Teachers' Association (SATA) in June.

A motion calling on the Government to increase the number of teachers being trained for service in black education will also be tabled when delegates — SATA represents white teachers throughout the Cape — meet in Queenstown from June 21 to 25.

The new constitutional dispensation is expected to come in for a drubbing when a number of motions criticising the new deal are tabled.

These include a re-affirmation of SATA's commitment to a single ministry of education and the desirability of waiving the Group Areas Act "where educational facilities are under-utilised," according to Dr Malcolm Venter, the conference press liaison officer.

Another rejects the designation of eduction as an "own affair" and calls on the relevant authorities to investigate "the viability of proclaiming state schools open to all children."

A motion urging the Government not to make savings at the expense of "adequate standards of education" and to "conduct a thorough scientific investigation into educational finance and administration" will also be tabled.

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Timing of 2 new taxes is illogical — Schwarz

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By David Braun, Political Correspondent

Star 9/5/85

CAPE TOWN — Proposed taxes to fund regional services councils would add to the financial burden of taxpayers, destroy job opportunities and push up prices, the Progressive Federal Party predicted today.

In terms of the Regional Services Councils Bill introduced in Parliament today, the proposed councils will be empowered to claim from all employers in their regions a regional service levy and from each vendor or person a regional establishment levy.

The measures amount to taxation on employment and turnover, adding to the existing tax burden of income tax, general sales tax and local property rates.

It will be up to each council to decide on the extent of the levies that will be imposed to generate funds for providing regional services.

Mr Harry Schwarz, Progressive Federal Party chief spokesman on Finance, said today that the proposed measures amounted to adding two further taxes to what had already become an over-taxed country.

"It seems utterly illogical that these taxes should be established at a time when the Margo Commission is sitting in order to investigate the whole tax structure," he said.

"Before these new levies come into force they should be referred to the commission so that the entire tax system can be examined in its totality," Mr Schwarz added.

He predicted that the levy on sales would affect living costs as it was unlikely that vendors would not pass them on to consumers.

"The employment levy acts as a discouragement to employ more people at the very time when we should be encouraging the creation of more jobs." Mr Schwarz said the Bill would be considered by the Parliamentary Standing Committee on Finance. He hoped that the Committee would refer the suggestion of the levies to the Margo commission, he said.

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Call to refer proposed local tax to Margo

CAPE TIMES 10/5/85

By PAUL DOLD
Financial Editor

WHILE supporting the need for local government reform, Assocom has called for the proposed local tax system to be referred to the Margo Commission of Inquiry — which is reviewing the taxation system as a whole.

In a statement last night, Assocom said it was unwise to propose open-ended and radical changes to local government taxation in isolation from the work of the Margo Commission.

The proposed new local taxes are expected to raise more than R1 billion in additional revenue which will not be fully offset by concessions in other directions.

Assocom said that the business community is already alarmed at the extent to which the effective burden of tax has risen in recent years in response to the financing needs of government.

With the intended abolition of the provincial councils next year, it should be possible to effect savings in the costs of government which could be transferred to the running of the regional services councils.

"To introduce new local taxation in the present economic climate is extremely unfortunate, especially with about 70 companies going insolvent weekly.

"Assocom also queries the wisdom of introducing a payroll tax when unemployment is high and rising and at a time when the government itself has recognized the need to extend unemployment relief to the urban areas."

Commerce is also questioning whether the proposed regional services councils are still the most appropriate local government structures in the light of the recent black urban unrest, and whether they represent true devolution of power.

● These and other aspects will be taken up by Assocom with the relevant standing committee of Parliament which will now be considering the legislation.

CAPE TIMES 10/5/85

GST puts the brake on motor vehicle sales

Star 10/5/85

Star

By Duncan Collings
Deputy Financial Editor

Car sales crashed in April as the full effects of the rise in GST to 12 percent together with the shorter business month took their toll.

New car sales in April declined to their lowest level in eight years and at 12 849 units were down 34 percent on March and 48 percent on April 1984.

The gloomy picture is also reflected in car sales for the four months from January to April which at 68 245 units are 31 percent down on those for the same period last year when 98 328 cars were sold.

Overall sales including commercial vehicles for the month were down 33 percent over April and 46 percent down on April last year. Sales of commercial light vehicles were the lowest in 16 years.

Toyota sold most vehicles, retaining its market share of 29,6 percent with VW (11,6 percent) in second place, then Ford (10,4 percent) in third.

Toyota also claimed the lion's share of car sales with 3 292 or 25,6 percent of total sales with VW next with 1 918 sales, then Mercedes Benz with 1 586.

Commenting, the director of the National Association of Automobile Manufacturers of South Africa (Naamsa), Mr Nico Vermeulen, said that while some softening in the demand for new motor vehicles had been anticipated in the aftermath of the two percent March general sales tax increase, the exceptionally low level of new motor vehicle sales during April represented another severe shock to the motor industry.

He said the figures underline the severely depressed and serious conditions facing the South African motor and associated industries.

Current sales represent only a mere 40 percent of what the industry is capable of producing on a single shift basis and, as a result, the stability of the industry's investments remains under intense pressure.

The current stringent monetary and fiscal measures and the prevailing high level of interest rates continue to adversely affect business conditions and unless there is a significant improvement in vehicle sales in the short to medium term, manufacturers will inevitably be forced to adjust their operations in line with the lower levels of demand in the market place, he said.

Mr Colin Adcock, Toyota's managing director, said that read in the context of previous experience of major changes in GST it is likely to be two months before sales recover.

This, he said, indicates that the total car market for 1985 is unlikely to exceed 220 000 units, while the light commercial vehicle market will be in the region of 95 000 units.

But he said there are signs that the economy is improving

"I would therefore hope that by taking the strong medicine handed out by the minister of finance during his budget that we should be reaching the bottom of this very difficult recession," he said.

Light commercial vehicles sales were down by 32,3 percent at 5 369 compared to 9 692 in April last year and down also on March 1985's 7 935 units.

In the fledgling medium commercial sector sales were also depressed at 365, down by 36,9 percent compared to the 578 sold in April last year and down by 23,3 percent on the March 1985 sales of 476.

Heavy truck sales of 752 were 33,2 percent down on March and 26,4 percent lower than April last year.

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Star 13/5/85 (320)

Home-buyers with perks still pay less

By Frank Jeans

Contrary to popular belief, subsidised home-purchasers — who make up 70 percent of the residential market — will still be considerably better off than people without perks during the seven-year phasing-in of fringe benefits tax.

A purchaser who has a R50 000 bond, is subsidised at 4 percent interest and pays the highest marginal tax rate enjoys an advantage of about R35 000 in that seven years over an unsubsidised borrower with a bond at 18 percent interest.

Spelling out the implications of the new tax on the home-purchaser, *The Property Economist*, journal of property consultants Neville Berkowitz and Associates says: "The existing fringe benefits tax structure favours the public service and selected private sector employees who will still be living in homes they cannot really afford."

According to the *PE* figures, the unsubsidised borrower with that R50 000 bond pays R9 000 a year on interest which totals R63 000 up to 1992.

The "perks" man, on the other hand, at 4 percent faces a R14 000 outlay over the same period. Added to this figure, of course, is the additional tax he will be required to pay during the seven years (which will amount to R14 150) but the R28 150 total is substantially below the final figure of the unsubsidised home-buyer.

Indeed, the difference is equivalent to paying 11,3 percent a year bond interest on R50 000 compared with the unsubsidised taxpayer's 18 percent.

The Property Economist also predicts that home prices should bottom out between May and November this year.

"To delay buying a home longer than the middle of this year, could entail missing the bottom of the market," says the journal.

LARGER PROPERTIES

"Many people are waiting for this bottoming out, and it is the 'fence-sitter' who will rush into the market once the upturn gets under way, pushing prices significantly higher in a short space of time."

The journal also foresees the subdivision of larger properties into smaller self-contained units as has happened overseas — a trend that will require zoning changes.

"The conversion of servants' quarters and garages in suburban homes into cottages must become more com monplace," says the journal.

Exemption rejected

NM 15/5/83

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PRETORIA — The Government has rejected a proposal by doctors to exempt prescribed medicine from GST, a spokesman for the Medical Association of South Africa said yesterday.

Masa chairman, Dr R D le Roex, here for the body's annual meeting, said the rejection came from Deputy Minister of Finance Kent Durr.

Dr le Roex said Masa approached the Government last year with a request to eliminate GST on prescribed medicines.

'We regret to say the State does not see its way clear to accede to our proposals,' he said. — (Sapa)

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Provincial taxes stay the same

By HILARY VENABLES
Municipal Reporter

PROVINCIAL taxes will not be increased this year.

Presenting the last full budget of the Cape in the Provincial Council yesterday, the Administrator, Mr Gene Louw, said he had decided to "adjust the requirements of the Province to the availability of the money supply at its disposal".

"I really want this Province to attempt to make some small contribution to the combating of inflation and to the encouragement of the inhabitants of the Cape, who struggle daily with economic and financial realities," he said.

Surplus

Total expenditure for the year is expected to be R1 987,92-million, and anticipated revenue is R1 996,92-million, leaving a surplus of R9-million to cover last year's deficit.

The massive R113,7-million cut in the government subsidy, and increasing operating and capital costs are partially offset by savings in the wage bill and increased productivity.

Additional money will come from the delayed effects of last year's tariff increases — such as hospital fees which were increased in April last year — and the natural growth in income from motor vehicle licence fees, the betting tax and other licence fees and tariffs.

The education vote has increased by R64-million of which R56,66-million will go towards increased salaries, other staff benefits and the creation of new teaching posts.

Hospital and health services will get R765,83-million — R28,71-million up on last year's figure.

Expenditure on road maintenance, repairs and improvements will increase by R6,93-million "to provide funds for the tremendous backlog in respect of maintenance work which has accumulated over the years".

The roads vote as a whole, however, shows only a R4,9-million increase and the Province will spend R4,39-million less on the construction of new roads this year.

Groote Schuur

Mr Louw said the Treasury had allocated R108.4-million for capital expenditure, of which R27,7 would be spent on the redevelopment of Groote Schuur Hospital, and R5,8-million on community health centres at Mitchells Plain, Khayelitsha and Motherwell.

The Province will also spend R9,96-million assisting local authorities with the provision of beach and other amenities and an additional R895 665 on the Provincial library service.

The opposition spokesman on finance in the council, Mr Geoff Everingham, welcomed the fact that tariffs and licence fees would not rise.

All firms set to fund new Govt councils

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B. Day 16/5/85

By WINNIE GRAHAM

NO firms will escape the payment of turnover and payroll levies for the funding of the new regional services councils.

Every business operation, ranging from law firms and doctors' rooms to wholesalers and green grocers, will be liable for the levy which will be calculated at a rate to be determined by the Minister of Finance.

Assocom's legal adviser, Mr Ken Warren, believes it is "only fair no one should escape the levy leaving a few to pay through the nose".

But he believes the tax provisions of the new Regional Services Councils' Bill are "horrific".

Assocom, Mr Warren said, had repeatedly asked for an opportunity to discuss the tax proposals with the Joint Standing Committee representing all three houses. The representations had borne no fruit.

"Today we telexed Parliament asking for an opportunity to submit a memorandum and oral evidence," he said.

"We originally asked for a surcharge on GST — a sort of piggy-back sales tax — pending the outcome of the Margo Commission but when GST went up from 10% to 12% this fell by the way," he said.

In terms of the new Regional Services Councils' Bill, Mr Warren said, the Minister of Finance would be given wide "discretionary" powers to tax businesses who might not be liable for sales tax but who would have to contribute to the new metropolitan government.

"There are a number of very worrying aspects," Mr Warren said.

There were two components to the regional establishment levy (better known as the turnover tax).

Firstly, vendors would be levied according to the sales tax they paid. On the other hand, the Minister would be given the power to calculate the rate at which people other than vendors should be levied.

● The South African Insitute of Race Relations has urged the Government to be cautious while establishing the new regional services councils, reports Sapa.

The SAIRR commended the Government for taking steps to include black representation on the councils.

"There is, however, a danger that it will backfire because black local government authorities — a vital component of the new councils — are collapsing in several parts of the country," Mr John Kane-Berman, the director of the Institute said.

"To superimpose the new councils on a black local authority system that has failed to win general acceptance is asking for trouble.

"The problems surrounding local authorities, including their finances, must be sorted out first," he said.

CAPE TOWN

Tax perks needed for savers — Sanlam chief

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W/ARGUS 18/5/85

By DEREK TOMMEY
Financial Editor

DR FRED du Plessis, chairman of Sanlam and therefore trustee of a substantial portion of the country's savings, this week called on the Government to give further encouragement to savers by offering them tax concessions.

He warned that South Africa was not getting the foreign investment it wanted and that the present level of savings would have to be increased if South Africa were to achieve sustained long-term growth.

He also described current wage levels as excessive and called on the Government to fight inflation by introducing guidelines for wage and price increases.

Speaking at Ernst and Whinney's offices in Bellville, Dr du Plessis said this would be a difficult year. He could not say when the upturn would come and doubted whether the country could afford one.

Overspend

South Africa still had to overcome the tendency to overspend and also the high level of inflation.

One reason for the overspending was that an increasing proportion of income was accruing to the lower income groups. There had thus been a switch in the distribution of wealth from high level savers to high level consumers.

A second reason was that many people chose to spend their money because they believed it did not pay them to save, particularly after taking tax into account.

Company savings had helped to compensate for the low level of private savings, but in the next year or so company savings were likely to decline.

Devaluation

This development must be seen against the background of the trend in the country's foreign relationships.

After a devaluation such as South Africa has had one would normally expect a strong inflow of foreign capital. But it was not happening in text book fashion so South Africa had a problem.

Overseas investors were seeing the South African economy differently from the way South Africans were seeing it. They saw reform leading to friction and instability and were concerned about putting money in this country.

"We will have to supply ourselves the capital which we cannot get from overseas and so it is important that there are more incentives for people to save."

Imports

Another problem facing South Africa was that the low inflow of foreign capital meant that if there were an upturn and a big increase in imports, the foreign exchange reserves could not finance them.

Dr du Plessis said that something had to be done about inflation. For the past 10 years it had averaged 10 percent.

'People cannot save if they do not have confidence in the currency.'

CITY/INTERNATIONAL

Separate taxation would cost Govt R480-m — Margo

ARGUS 20/5/85

(32e)

Staff Reporter

IF married women were taxed separately on their earnings, the Government would lose R480-million a year, says the chairman of the commission of inquiry into the tax structure, Mr Justice Margo.

He told members of the President 100 Club at a Sea Point hotel that taxing of wives was being investigated by the commission, which would complete its work in June next year.

Worldwide surveys of non-working qualified wives had shown that in countries where women's incomes were combined with their husbands' earnings for taxation, most stayed out of the work market for tax reasons.

Where taxation was separate, however, very few women gave tax as the reason for not joining the labour force.

Mr Justice Margo said "the basic principles of tax reform" were simplification, fairness, equality, neutrality — the same tax irrespective of type of business — and cost effectiveness.

Taxpayers who believed they were unfairly taxed would always try to cheat.

"An 'honest taxpayer' has become a contradiction in terms," he quipped.

But improved methods of the revenue department were making cheating more difficult.

Discussing fringe benefits tax, he said employees' payment packages should be in cash and not in kind — cars, "soft" housing loans, other "soft" loans or expensive schooling for their children — because employees might wish to spend the money included in fringe benefits in different ways.

Report tells of litter problem

Environment Reporter

MORE rubbish was swept up from Cape Town streets than was deposited in rubbish bins last year, according to the Fairest Cape Association's 1984 review.

However, in the 12 months until June 1984, the City Engineer's Department recorded a small increase — from 36 percent to 41 percent — in the amount of rubbish placed in the bins.

This is estimated as saving the city R225 000 in street-sweeping costs.

The review said 50 443 volunteers spent 106 890 man-hours in clean-ups in the Peninsula last year.

R10 m betting tax paid

NM 22/5/85 Pietermaritzburg Bureau 320

A TOTAL of R10 060 585 in betting tax, consisting of R9 154 767 in totalisator tax and R905 818 on-course bookmakers' tax, was received and banked by the Durban and Clairwood turf clubs. This is according to figures released in a White Paper tabled in the Provincial Council.

English-speaking teachers 'dying off'

ARGUS 28/5/85 (322)

Provincial Staff

ENGLISH-speaking teachers were a dying species because of the Government's and Provincial Administration's "Afrikanerisation of education", the Provincial Council was told.

Mr Jan van Eck (PFP Groote Schuur) said the administration was trying to subject English-speaking pupils to "as Christelike Nasionaal an environment as possible" by discouraging English-medium schools run by a majority of English-speaking teachers.

There was a serious shortage of English-speaking teachers in all schools, but especially in dual-medium schools, Mr van Eck said in the committee stage of the budget debate yesterday.

"So-called" dual-medium schools were unacceptable to English-speaking parents. The general ethos and political ideology at the schools was foreign to pupils from an English-speaking cultural background.

Mr Herbert Hirsch (PFP Sea Point), Leader of the Opposition, said the education system was not being used fully to influence the next generation to understand and accept the movement of change and reform.

"One might ask, now that mixed marriages are being legalised, whether the children of such marriages will have complete freedom of choice as to which school they may attend."

Mr Willem Bouwer (MEC Education) said the new constitution, with all its implications, would demand much of educators.

(320) B. Day 29/5/85

ECONOMICS/David Solomon

Turnover tax is fatally flawed

It will endanger the growth of our cities and will also raise enmity for a government which cannot afford to antagonise its friends. David Solomon is a lecturer in the Department of Business Economics, University of the Witwatersrand

TAXABILITY INDEX	
Sector	Index
Construction	1,2
Wholesale Commercial	1,3
Retail Commercial	1,2
Manufacturing	0,8
Beverages	0,45
Tobacco	0,41
Food	0,94
Motor Vehicles	4,05
Transport (other)	2,06
Plastic	1,05
Rubber	0,54
Paper	0,48
Chemicals	0,47
Textiles	0,78
Apparel	1,12

THE intention to finance Regional Services Councils (RCSs) from the proceeds of a turnover tax will not affect the profits of metropolitan-based business equally.

Since the tax is to be levied on the basis of "turnover" or the value of gross output, it will affect bottom lines to a greater or lesser extent, depending on the mark-up of each specific concern.

Firms with a low mark-up will pay a larger proportion of their profits as turnover tax than will firms which are able to include relatively high mark-ups in their prices.

This means that commercial firms located within the RSC jurisdiction will find that their tax bill is higher in relation to their profits than will their neighbours in the manufacturing sector who turn over fewer rands per rand of profit earned.

They will find that the same is true of their direct competitors who have located themselves outside of the RSC area.

The extent of the differences in the burden imposed by the turnover tax can easily be seen if we construct an index of the "taxability" of each industry.

This index (see table above) shows the extent to which the industry or sector pays its share of the total tax.

A sector which earns 10% of the region's profits, but pays only 5% of the total tax bill, earns a rating of 0,5.

On this basis, the commercial sector scores 1,2, well above its fair share of 0,1.

Manufacturing as a whole scores well below, at 0,78. This means that for every rand of profit earned, manufacturing firms will pay only two-thirds of the tax paid by trading establishments, whatever the rate of taxation levied.

This discriminatory treatment is likely to be of great concern to metropolitan-based retail and wholesale businesses, whose overall tax liability has increased greatly over the past decade when compared with other sectors of the economy.

The liability for GST has not been fully passed on to consumers, leaving trading businesses relatively worse off. Buckling as they are under the strain of the downward trend in domestic expenditure and an unfavourable (for them) movement in the exchange and interest rates, traders are unlikely to take this new blow to their earnings lying down.

Manufacturing, too, will be unevenly affected by the new dispensation, with some industries being affected more than others.

Some industries, such as beverages, tobacco, paper and chemicals, with a taxability index of less than 0,5, will bear a tax bill which is far less onerous than that of the motor or the clothing industries, both of which have very low profitability ratios and therefore very high taxability. This has the potential to cause many upsets.

Some traditional competitors will find themselves differentially taxed, possibly upsetting industry balances which have been precariously established. Each rand of profit earned in rubber production, for example, will attract a tax which is less than half that paid by plastic products.

Textile producers, who have a far higher profit to turnover ratio than do clothing manufacturers, will pay a tax which is two-thirds that of the clothing industry.

The motor industry, which has possibly the lowest profit to turnover ratio of all SA industry, will pay as much as four times as great a proportion of the tax as it earns as profits. Its "taxability index" is as high as 4,0.

Producers of other transport equipment face a tax which will be twice as great as their fair share, as dictated by profits.

If the level of the tax is at all considerable, this beleaguered industry could be dealt a further crippling blow, should Minister Heunis decide to incorporate their factories within the boundaries of an RSC.

Because it is not proportional to profits, the tax has the potential to be confiscatory. A tax rate as low as 2% could entirely wipe out motor industry profits. The devastating effects need hardly be elaborated.

The general economic effects could be very severe indeed for city-based firms and consumers alike.

Because many manufacturing businesses have competitors outside the metropolitan regions who will not be liable for the new tax, they do not have the opportunity to "pass on" these taxes to consumers.

City traders, for whom the locational advantages of the metropolis gives them a competitive edge over their out-of-town rivals, will be able to do so to an extent.

City-bound consumers will be forced to foot part of the new taxes, should its level make such a move worthwhile. In general, the tax constitutes a potentially severe stick with which to drive consumers and producers out of the city into the neighbouring rural districts.

As a policy instrument it is deficient in that its effect is not uniform, and it adds a new dimension of insecurity to the city environment. As a source of revenue it will certainly be productive. It must be remembered, however, that the final source of tax revenue is the pocket of the taxpayer.

This new form of tax simply makes the final taxpayer more difficult to identify. In addition and even more importantly, it exacts a toll from the taxpayer which will never reappear as useful government spending in the form of roads, refuse removal or other services.

By making our economic society less effective at doing its job of making useful commodities out of raw resources, a tax such as the turnover tax makes all of us pay good money for no reward.

This tax is certainly a step in the wrong direction. Not only will it hinder the growth of our cities, which are the productive hearts of our economy, it will also raise enmity for a government which cannot afford to antagonise its friends.

Tax revenue can be raised and be productively spent on improving our society. We do not need to rely on methods such as the turnover tax which are fatally flawed.

ARGUS 29/5/85 (320)

'Tax goose plucked bare and freezing to death'

By DEREK TOMMEY
Financial Editor

CAPE Town Chamber of Commerce president Mr Philip Krawitz was highly critical of the Government's taxation system at the chamber's annual meeting last night.

The aim of tax collectors was to obtain the largest amount of feathers from the goose with the least amount of hissing.

The trouble with South Africa, he said, was that the goose had been plucked bare and was now freezing to death.

He accused the Government of excessive plucking of resources from the private sector.

MORE THAN R9-BN

"In the 1981-82 tax year individuals paid R2,1-billion in tax. For the 1985-86 tax year they will pay more than R9-billion — a four and a half fold increase in five years.

"In 1980-81 general sales tax brought in R1,6-billion. This year it should bring in about R8-billion. Had GST been 12 percent in 1980-81 we could have abolished both individual and company tax."

Mr Krawitz said the Government was using an unacceptably high proportion of the private sector's resources.

Government expenditure amounted to about 30 percent of the gross domestic product. The chamber believed this had to be reduced to around the 24 to 25 percent mark at the earliest possible opportunity.

The chamber also believed that the 27 percent increase in regional assistance and development was totally unjustified and a reduction in the R3,6-billion earmarked for this could help reduce taxes.

He said the fringe benefit tax was unpopular because of the gross inequity in its application between the private and public sectors.

HIGHER PRICES

The regional service levy would undoubtedly lead to higher prices. It was hoped that if the levies were introduced there would be a reduction in taxes elsewhere.

He wondered whether the exemption of basic foodstuffs from GST was in the country's best interests. Credit dealers still found the financing of GST an unwarranted burden and tourists were irritated that there was no exemption for foreign visitors.

Mr Krawitz said the chamber was pressing vigorously for the establishment of an export processing zone in the Western Cape. While it would not be an instant cure to all export problems there was much merit in the concept.

With the rand at its current levels, South African raw material prices were at bargain basement levels but this did not provide many jobs. Therefore there had to be a new set of incentives aimed specifically at promoting the export of manufactured goods.

'Blinkered' Ministers 'need to travel'

ARGUS 29/5/85 (320)

Argus Correspondent

JOHANNESBURG. — Government Ministers do not travel abroad enough and their blinkered view of international economics is resulting in an escalating tax burden for business.

Pretoria seems unable to grasp the fact proved in some industrialised countries of the world that a lower tax structure encourages investment and exporting which ultimately leads to greater revenue benefits for the State.

This is the view of South African Foreign Trade Organisation (Safto) chief executive Wim Holtes, given when he spoke to a Durban Exporters' Club meeting.

Leaders of the public and private sectors overseas believed the tax level in this country was going to rise even higher to pay for regional development and for separate political facilities.

They were also concerned with the 16 percent inflation rate which, they felt, would damage the country's economic status alongside countries such as Australia and Canada, said Mr Holtes.

"Top business leaders and bankers I met on my recent trip to the US and Britain felt our recession would not have been as severe if the public and private sector had used the export opportunities apparent 14 months ago when the rand began to weaken."

New S A taxation system mooted

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NM 30/5/85

Finance Reporter.

SOUTH African taxpayers would be better served by a cash flow tax system that taxed consumption and not savings, rather than the present tax system which had failed.

This was said by Mr Stephen Mulholland, Editor of the Financial Mail, who was delivering a paper by Barry Sergeant, also of the FM, on 'Tax Reform: A Proposal for South Africa', to the Economic Society of South Africa at the University of Natal, Durban..

He said that such a system with a low flat tax rate would be pure, simple and workable with tax levied on consumption and determined by cash flows.

'It would be equitable, neutral, economically efficicent, easier to understand and monitor with the tax flow system, simply taxing all of the taxpayer's cash receipts which had not been saved.

Mr Mulholland said becasue cash flow tax would be a direct tax on households it could be adjusted for individual circumstances, unlike sales tax, which in effect was regressive.

'It would have a progressive effect, with personal cash receipts below a certain level being tax exempt.

He said business taxes would be effectivley abolished, with businesses paying tax on behalf of individual taxpayers for remuneration and dividend end disbursement made to them, 'but,' he added, 'businesses would still be subject to audit to prevent the system being abused.

Mr Mulholland, said a cash flow system could also work in tandem with indirect taxes such as sales tax and custom and excise duties, with the concepts of income, capital gains, abatements, rebates, concessions, allowances, banished forever.

He said cash flow tax was clear in its principles and its applicability simple in any given circumstances and could condense the present voluminous Income Tax Act into a 20-page document.

Cape Times
30/5/85

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Racing taxes criticized

Staff Reporter

CRIPPLING taxes on tote takings had pushed the Cape, formerly the leading horseracing province, into third place behind the Transvaal and Natal, Mr John Sonnenberg, MPC for Green Point, said in the Provincial Council yesterday.

Stakes offered by the racing clubs had not increased as much as they had in other provinces because of heavy taxes, he said.

Many local racehorse owners now preferred to keep their horses in training in other provinces where the tax was lower and the stakes were higher.

In the Cape, clubs had to pay 12½ percent of their gross "exotic betting" pools in tax, while in Natal the corresponding tax was 5 percent, he said.

Fewer punters

Mr Sonnenberg appealed to the Administrator, Mr Gene Louw, to bring a revised Horse Racing Ordinance to next year's first council sitting.

Mr Louw replied that if the Cape had slipped into third place, it was because there were fewer people and fewer punters here.

The province was busy with a very wide-ranging inquiry into the industry, he said.

Expert pooh-poohs expenditure tax calls

W/E ARGUS 1/6/85 (320)

Weekend Argus Correspondent

DURBAN. — Calls for South Africa to swing to a system of taxation based on expenditure, or on cash receipts, are on the increase — but are by no means unopposed.

In the local context such calls were "nothing more than a load of piffle", Johannesburg-based tax expert Costa Divaris claimed.

Necessary as changes were to South Africa's creaky and anomalous tax system were, he said hopes for a radical new system simply were "pie in the sky" within the framework of a socialism-prone economy.

Latest calls for a new system come from Prudential managing director Dorian Wharton-Hood and Financial Mail editor Stephen Mulholland.

Mr Wharton-Hood believes an expenditure tax would simplify the tax structure and create minimal administration costs, boost the infrastructure and create more jobs.

Mr Mulholland is reported as saying in an address that a "cash receipt" taxation system, coupled with a low flat tax rate, would be pure, simple, and workable, with tax levied on consumption and determined by cash flows.

Responding, Mr Divaris said there was no such thing as a neutral or a simple tax system anywhere in the world. "Any change has enormous implications."

GST, for example, was supposed to be simple yet the whole tax was clouded by confusion. He also believed advocates of such systems in general were wrong in diminishing the impact they would have on expenditure patterns.

Such calls overlooked the basis on which much of the South Africa's economy and taxation was built — to redistribute wealth — and they diverted attention from the real need to reform the present tax system.

At such a critical juncture the Government would not dare to introduce a system which could erode its income basis.

In spite of the lip-service paid to free enterprise, South Africa's economy and tax system were built on principles which protected big business and the bureaucracy. They paid minimal tax at present and had a vested interest in the status quo.

In fact those in a privileged position often welcomed tax increases because this increased the value of their own privileges.

Fixed deposits are losing their appeal

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Mercury 4/6/85

Finance Editor

LATE last month Finance Minister, Mr Barend du Plessis, announced tough clamps on the device by which people took out an assurance policy — a pure endowment — and received a generous tax-free return on it.

Also last month the banks dropped their pattern of overdraft rates, participation mortgage bond managers also reduced their rates and some savings accounts had their rates cut.

And last week South Africa's trade balance reflected a healthy surplus of something like R3 billion.

Add to this the determined, and new, moves by building societies to make profits ahead of the legislative plans to allow them to go for a Stock Exchange listing.

What does this all mean to the investor?

Short-term: that is until the end of the year should see interest rates come down a further three percentage points.

Medium-term: (to the end of 1986 and provided the building societies get their stock exchange listings) should see a softening of fixed deposit and other building society savings' rates.

But not too much should be expected. Savings rates are destined to remain linked to the level of the prime overdraft rate and will move in tandem with the bankers' rates.

The decline in savers' rates should be matched by a fall in the mortgage bond rates and for hire purchase and leasing.

But again, in the case of bonds, not an awful lot should be expected with the building societies committed to making a profit. They will have to give investors a little more and take a little more from borrowers to make those profits demanded by the proposed new laws.

That takes care of the prospects offered by the economy.

What about the structural changes brought about by the decision to axe pure endowment assurance policies — it is more complicated than that in fact?

It appears that a substantial amount of capital has been directed to these policies which have allowed generous tax savings. That avenue having been sealed off those who want to save cash and tax will have to look for something else.

Krugerrands, proof and ordinary, have been dealt a hammer blow by the collapse of the main dealers in proof coins. The diamond market is still in the doldrums, though a lot more cheerful than it once was.

Trading in hard assets — paintings, gem stones, coins, silver, platinum, carpets, and so on — is always problematical if not only because there are plenty of people selling these goodies, but not so many providing the market where a fair price can be gained.

Given that the government will not curb inflation significantly, that is to bring it below 10 percent, the need to invest in assets which will maintain their value remains.

Whats left? Property. Conventional wisdom is to buy a house, or flat or plot of land somwehere but the track record of the property companies listed on the Stock Exchange is well worth examining.

There are nearly ten of them nowadays and over the long term they should perform well both in terms of dividend yield and capital appreciation.

Have a look at them before you go and put your cash into fixed deposits for with interest rates taking a turn downwards and an attractive avenue like pure endowments policies, suddenly unattractive the flow of investment capital has to go somwehere.

PAYE (320)

Blacks overtaxed

As many as 50% of black taxpayers earning less than R8 000/year would probably receive tax refunds if they applied for them. So says Ron Warren, technical director of computer payroll software suppliers Q Pac.

When SA's tax system was desegregated last year, it was decided that taxpayers earning less than R8 000/year need not submit tax returns and their PAYE deductions are presumed by the Receiver of Revenue to be correct. However, a variety of factors are likely to lead to taxpayers paying more over a tax year than they are required to.

This will happen if a taxpayer receives a wage increase, works overtime, is laid off, or does not earn a wage for the full period for any other reason. It will also happen if an individual gets married or has more children.

In addition, the PAYE tables do not take into account dependents who are not the taxpayer's children. A further complication is that the earnings of married women are taxed at an arbitrary rate, which might well result in a couple's combined earnings being overtaxed.

As the law stands, taxpayers earning less than R8 000/year may opt to submit a simplified tax return (Form IT 11) to obtain a refund. But logistical difficulties and ignorance of rights mean that few potential beneficiaries will do so, says Warren.

Q Pac — whose clients employ 1,5m people — has, after consultations with the Department of Inland Revenue, designed a form where taxpayers in that bracket can easily calculate, with the assistance of their employers if required, whether it would be worthwhile to submit an IT 11 form to the department.

According to Warren, the response from employers has been disappointing so far. Only 12 have requested a supply of forms since the service became available a month ago. "Employers not only have a moral duty to assist their lower-paid staff to claim tax

Financial Mail June 14 1985

14/6/85

refunds where due, but such aid would have a positive industrial relations impact on the company. Any employer who can arrange for a large proportion of his workforce to receive refunds would gain an enormous amount of goodwill, which will more than make up for the extra work involved," he says.

In a recent newsletter, the Johannesburg Chamber of Commerce publicised the fact that workers earning below R8 000/year can claim. But it is uncertain how many employers have taken any action. The Federated Chamber of Industries also raised the issue with employers when the new taxation system was introduced early last year.

☐ The Q Pac forms are available from Formcraft printers in Johannesburg. ■

ZIMBABWE

Rushing to the polls

Zapu opposition leader Joshua Nkomo has been having a torrid time since PM Robert Mugabe returned from a protracted Eastern European tour on June 2 and promptly set dates for Zimbabwe's long-postponed general election.

Using special powers assumed in March, Mugabe reduced the statutory period of notice to opposition parties before the July 1 and 2 poll, when 2,9m blacks will vote for the first time from formal rolls in 80 constituencies.

The first headache for Nkomo stemmed from being denied access to voters' rolls in most constituencies until last weekend. Without the hurriedly completed rolls, he could not confirm the names of valid seconders for candidates whose nomination papers had to be filed by June 10.

"Do you call this a free and fair election?" Nkomo protested to the election supervisory commission, but to no avail.

Two Zapu High Court actions to get the nomination deadline extended proved costly failures, because judges ruled they had no power to say whether Mugabe was being "unreasonable" or not.

The ruling Zanu (PF) also dealt a shrewd blow to Zapu's main hope of capturing the votes of urban blacks outside Nkomo's native Matabeleland when it announced compulsory pay rises of up to 15% for all lower-income blacks.

Discontent at soaring living costs (a 100% increase since independence in 1980) was opposition candidates' best vote-catching issue. Urban blacks' wages have risen only 45% since 1980.

Zanu (PF) politburo chiefs have been reassuring voters (and foreign aid donors) that a landslide victory will not spell the end of Zimbabwe's Lancaster House constitution, into which Britain wrote entrenched guarantees against the introduction of a one-party state until 1990 at the earliest.

But even if Zanu (PF) can, as expected, remove Bishop Abel Muzorewa's hold on the UANC's three remaining House of Assembly seats, Mugabe now seems resigned to letting Nkomo keep many of the 20 seats he won in 1980.

At a weekend rally in Bulawayo, Mugabe drew a crowd of over 30 000 (6 000 Zapu supporters turned out for Nkomo in Harare, but he failed to appear). This suggests Nkomo may lose some of his 15 "safe" Matabeleland seats, especially in urban townships where Zanu (PF) commissars and Youth Brigade zealots have succeeded in extending their vast underground network of Maoist-style "cells," which already cover all Shona-speaking areas of Zimbabwe.

In rural Matabeleland, suspected Zanu (PF) cell members risk assassination by dissidents. A big security force deployment is taking place there, despite pleas by Roman Catholic churchmen that a polling day presence of soldiers will be an intimidating reminder to voters of past army excesses.

"The dissidents speak the language of Zapu, and Zapu speaks the language of the dissidents," Mugabe last week warned 2 000 villagers at a rally near the western border town of Plumtree, one of the worst dissident infiltration areas. They heard him out in polite silence. Inquests on some of their relatives who died at the hands of Shona-speaking troops are currently being heard in Bulawayo.

Besides Zapu, the UANC and the exiled Ndabaningi Sithole's Zanu, three obscure black parties have suddenly emerged for the elections, but none stands much chance of affecting the results.

Fear of suffering the slide into political obscurity grips Ian Smith's Conservative Alliance Zimbabwe (CAZ), which has struggled to find candidates for what seems set to be the final contest for the 20 reserved white seats — which seem certain to be abolished when whites' constitutional guarantees lapse in 1987. The total hold Smith once had on white representation has been whittled down to seven seats by defections and by-election defeats.

Farmers and businessmen who still sympathise with the Rhodesian leader fear jeopardising their relations with officialdom by openly identifying with him. As part of the CAZ's strategy against the Independent Zimbabwe Group (IZG), Smith is leaving his old home territory in the ranching country of southern Matabeleland to fight an urban Bulawayo constituency.

Bitter personality feuds lie concealed beneath superficial bickering over policies between the CAZ and IZG, which claims better communications with Zanu (PF) and has the backing of influential business interests that once supported Smith. Heading the IZG is a former rightwing member of Smith's cabinet, Bill Irvine, who has won popularity with whites by exposing official incompetence and corruption as the hard-hitting chairman of the parliamentary public accounts committee.

Public Service Minister Chris Andersen, 49, is staking his political career on retaining his Harare suburban seat of Mount Pleasant as an "independent independent" after falling out with the IZG. Defeat for the brilliant but sharp-tongued advocate will leave no visible successor to the Smith generation of white leadership as Mugabe continues the march towards a "socialist transformation" of Zimbabwe in the late Eighties and Nineties. ■

PM Mugabe (top) and Zapu's Nkomo ... free and fair on July 1?

Heunis says higher taxes must pay for expansion

B. Day 5/6/85

320 262

By PAUL BELL
Political Correspondent

TAX levels must rise if the country is to meet the increasing financial demands of urbanisation and development, according to Chris Heunis, Minister of Constitutional Development and Planning.

He was addressing a Press conference called to clear up misunderstandings over the proposed Regional Services Councils system.

The RSC Bill proposes payroll and turnover levies on businessmen to provide revenue for new metropolitan/regional councils.

The councils' priority will be to serve the infrastructural requirements of developing — or black — areas.

The levies will probably come into effect next year.

Heunis, accompanied by the bill's chief architect, Public Finances director Gerhard Croeser, described the background to its formulation as a search for fiscal mechanisms to transfer "assets or wealth from developed to developing communities".

He said development requirements had risen beyond the capacity of present total tax revenues.

It is understood that two representatives of organised commerce and industry accepted a report recommending the levies.

However their concurrence was later repudiated by their organisations.

Croeser said the rates at which the proposed levies would be taxed had not yet been determined. These would probably vary from region to region according to needs.

Nevertheless, he regarded 1% on the payroll levy, and 0,5% on the turnover levy, as outside estimates.

On this basis, using Johannesburg and the Reef as a basis, the Department of Finance had estimated that the taxes would bring in about R1,3bn a year, of which about R800m would go to the four major metropolitan areas.

Croeser said the Department of Finance had given evidence on the levies to the Margo Commission which is also examining a third proposal by Croeser concerning a levy on productive assets.

Tax men pounce on city home

W/E ARGUS 8/6/85

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By Tom Hood

THREE tax inspectors spent three-and-a-half hours searching a Cape Town man's home this week.

They were taking part in the Government's intensified clampdown on tax dodgers.

"It was a traumatic experiece and my wife was most upset," said the man, a retired garage owner.

"They searched every room including the bathroom and store room. They asked me to open my safe but there was nothing inside. They took away a number of documents and gave me a receipt."

Amnesty offer

He complained he intended taking advantage of the Government's amnesty offer to tardy taxpayers and report some untaxed earnings. He recently sold 10 coastal plots which he owned for several years because the taxes and bush-clearing were becoming expensive.

"But before I could declare the sale the tax men pounced. They asked a lot of questions which I had to answer."

When they left they gave him a 14-page questionnaire to list full details of his spending, including what he spent on golf.

"The cheekiest question of all was headed "19th Hole Expenses", he added.

● An Inland Revenue spokesman said personal visits were part of an ongoing inspection process. The form, a capital reconcilliation form, was issued regularly.

The clampdown in Johannesburg recovered R73-million in tax in the past seven months.

W/T ARGUS 15/6/85 (320)

Income Tax Bill explained

Financial Editor

THE Income Tax Bill tabled this week gives legal effect to the announcements made by the Minister of Finance in his Budget speech and in various press releases and statements.

The 30 percent investment allowance for machinery and plant lapses on 30 June this year and is replaced by an increase in the initial allowance from 25 to 50 percent for machinery and plant brought into use after that date.

The 20 percent investment allowance for certain industrial buildings lapses and is replaced by a 17,5 percent initial allowance. The Bill also contains amendments aimed at limiting the large scale use of pure endowment insurance policies as tax-free investments.

Mr Kevin Dillon of Price Waterhouse, commenting on the Bill, said that it contained a number of significant changes only some of which were hinted at in the Budget speech. Retailers who enter into credit agreements that have a term of less than 12 months (within which the contract price will be paid and ownership of the item sold will pass) will no longer qualify for a deduction equal to the portion of the sales price not received by them at the close of their financial year. The total sales price will be taxable in the year the short-term contract is entered info.

CLOSE CORPORATION

Mining companies with several mines that commenced mining operation at a new mine after 5 December 1984 will only be able to set off the capital expenses of the new mine against income from that mine.

A favourable new provision enables certain private companies to elect to be taxed on the revenue portion of dividends declared in anticipation of liquidation or deregistration at 10 percent and enjoy the tax benefits that would result if they converted to a Close Corporation.

The Matrimonial Property Act has caused a number of tax and estate duty changes. The disposition of property by one spouse to another during their marriage to change their matrimonial property system will be free from donations tax. A donation of this kind (in terms of Section 21 of the Matrimonial Property Act) will be excluded from a donor spouse's deceased estate and included in the estate of the surviving spouse for estate duty purposes.

ATTRACTIVE AMENDMENT

A very attractive amendment to the Estate Duty Act provides that any property that accrues to a surviving spouse on death will be deducted from the dutiable estate of the deceased spouse. The existing R50 000 deduction in respect of a surviving spouse will be reduced by the amount of such accruals. These provisions will make estate planning much simpler and less expensive.

A number of existing schemes to avoid fringe benefits tax appear to have been countered with retrospective effect, notes Bruce Freer of Price Waterhouse. An employee who lets his house to his employer who then lets the employee occupy rent-free will be deemed to receive a taxable benefit equal to the rent his employer pays to him. The existing formula based on salary will not be applied.

In certain schemes an employer buys a house that the employee may in turn buy on the termination of his service at the original cost (to the employer) and lets it to the employee for a rental based on that cost. A scheme of this kind will now be taxed as if comprised of a low-interest housing loan with the rental as interest.

Some taxpayers will be comforted by a ban on the tax man taxing benefits received in the 1985 and 1984 (and earlier) tax years which are now taxable but were not then or were genuinely believed not to be taxable.

The much publicized "period of leniency" has been extended to 30 August 1985 for some taxpayers (30 June 1985 for others) and is now law.

Drive to catch tax-evaders stepped up

W/ ARGUS 15/6/85

Weekend Argus Correspondent

JOHANNESBURG. — Desperate for new cash reserves to meet soaring levels of public spending, the Government has dramatically stepped up its drive to recoup millions of rands lost in unpaid taxes.

Following up on swoops in the main centres, where, according to information obtained this week, R77-million in lost taxes has been recovered in seven months, the Inland Revenue Department is preparing to close in on thousands of tax-dodgers in other areas.

The department's chief of operations, Mr Schalk Albertyn, has disclosed to Weekend Argus that a mobile audit team — the first of its kind — has been assembled to trace millions of rands more from the pockets of tax evaders.

The hand-picked squad, made up of 10 tax specialists, will focus on the Transvaal and the Free State, and backup operations will be mounted simultaneously in Natal, with Maritzburg as the base. Operations in the Cape will be conducted through revenue offices in Cape Town, Belville, Paarl and Worcester.

The nation-wide drive will be directed by a nucleus of senior officials, headed by Mr Albertyn, at the Inland Revenue Inspectorate in Pretoria.

Among the main culprits are engineering and construction firms which either do not pay tax deducted from their employees, or do not make the deductions at all.

Fly by night

The result is that thousands of workers employed by fly-by-night companies, and moving about from one job to another, are getting away with substantial taxes.

Those companies found not to have submitted returns would be taxed retrospectively, and many would face heavy penalties.

While Government coffers have been boosted by the recovery of R80-million in unpaid taxes, hard-pressed wage-earners cannot expect to reap any benefits. Tax rates are not likely to come down.

- If anything, by next year you could be paying more in spite of the fact that the Directorate of Inland Revenue is still unable to collect vast payments in GST, which run into billions of rands a year.

This week, Mr Albertyn admitted the Government was still losing out on GST. He argued that no tax-collecting agency in the world could claim to have a 100 percent compliance (collection) rate.

Still, whether the rate of uncollected GST has been reduced or not, taxpayers are still suffering a double burden: on the one hand they are short-changed by the State, which is unable to collect the taxes, then they are required to pay still more tax to compensate.

On top of that, the Government, through a nation-wide drive spearheaded by specialist audit teams, has reclaimed R80-million in unpaid taxes — mostly from companies — yet again there are not likely to be any benefits for tax-payers.

Chronic shortages

If the figures disclosed by the Press in 1982 are taken into account — R628-million uncollected over four years when GST was 4 and not 12 percent — losses, in the light of Mr Albertyn's admission, must still amount to thousands of rands, if not hundreds of thousands.

The missing taxes, until 1982, were the result of Government inefficiency in collecting them, and in just one case a company in Johannesburg was found to have underpaid R3 900 000 in less than two years.

Chronic staff shortages in revenue offices were said at the time to have been the main cause, though this has since improved, says Mr Albertyn.

Those who have submitted returns, but evaded paying tax for three years or longer, even for 10 years, will be taxed on earnings for the past three years, and also not penalised.

Biggest GST 'swindle' uncovered in Republic

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Weekend Argus Correspondent

JOHANNESBURG. — Taxpayers have been saved from footing the bill in the biggest alleged GST swindle uncovered in South Africa.

The fraud, said to involve R2-million or more, reportedly involved a well-known South African businessman who evaded paying GST with the help of a corrupt tax inspector in Johannesburg.

However, the unpaid taxes — about R1,3-million, but worth R2-million with penalties — are being recovered by the Directorate of Inland Revenue, which means they will not be borne by the public.

The full amount is expected to be paid back, and further action will be taken against those involved.

The 57-year-old tax inspector, who had 10 years' service, resigned and left the country soon after the fraud was discovered. He was believed at one stage to be in France.

A warrant for his arrest has been issued and tax authorities in South Africa are confident he will soon be forced to return to stand trial on fraud charges.

The commercial branch is continuing to investigate.

NATIONAL

Taxman warns dodgers — don't be late

Argus 21/6/85

320

Argus Correspondent

JOHANNESBURG. — Tax dodgers were warned today to meet deadlines — or face penalties that will worsen as evasion goes on.

Mr Schalk Albertyn, director of operations at the Department of Inland Revenue, disclosed that computers were now keeping a track record of offenders who assumed they had escaped the tax net or had tried to diddle with returns.

"Offenders trying to play tricks with the tax system will discover there is a mailed fist in the velvet glove we are wearing while the amnesty runs into a countdown," he said.

"Make a clean breast"

"It's most disappointing there has been such a small and slow response to offers of an amnesty for taxpayers who have failed to file tax returns over the past year or two or else given false information.

"They are missing a tremendous opportunity to make a clean breast of it without fear of stiff penalties if they come forward in time.

"Unfortunately, there seems to be mistrust about our sincerity in promises of leniency. There still seems to be a suspicion they will be trapped and hammered if they volunteer to confess to fiddles and errors.

"We can only hope the extension of the amnesty deadline from the original June 30 date to August 31 will be seen as a demonstration of our genuine eagerness to help them clean the slate.

"The alternative, if they try to keep old dodges hidden, is the risk of being tracked by computer records sooner or later — or running into the net that is closing on offenders as we expand our team of investigators.

"From September 1 we will start prosecutions that may end in dodgers facing fines that will add 100 percent to the tax they have tried to escape paying."

Mr Albertyn also warned taxpayers that there would be no further extensions of the deadlines for 1984/85 tax returns — switched from May 15 to June 30.

Only teachers had been granted a time limit put back to July 31 — necessary because of late completion of IRP-5 tax forms by the Department of Education.

Tax snoopers rake in R100 m

Mercury Reporter

21/6/85 NM

320

INLAND Revenue auditors uncovered more than R18 million of undeclared taxes and duty over the past year in Durban alone, it was disclosed yesterday.

And throughout the country the taxman's snoopers have raked in more than R100 million which had been concealed in fiddles of one kind or another.

What's more, Durban's Receiver of Revenue, Mr Eddie Sawyer, warned yesterday, the snoopers are still on the prowl and intend to carry out continual checks.

'If there are any defaulters they are well advised to come to us before we get to them,' he said.

Up to the end of May this year the auditors had collected R18 369 590 of undeclared taxes in Durban.

Evasions

More than R13 million of that came from undisclosed company tax.

Mr Schalk Albertyn, the Inland Revenue's Director of Operations, revealed this week that more than R100 million in company evasions and undistributed profits and sales tax fiddles had been paid over to the Treasury this year.

About R9 000 000 had been recovered from one large Johannesburg firm alone, he said.

In Durban R13 175 000 in company tax, R3 191 000 in sales tax, R1 600 000 in individual income tax, R211 000 in undistributed profits tax, R173 000 in donations tax, R18 590 in stamp duty and R1 000 in estate duty fiddles had been collected.

Mr Sawyer did not disclose how many companies or individuals had been involved in Durban, nor did he say whether they would be prosecuted.

Mr Albertyn said tax dodgers had been given until the end of August to make 'a clean breast of things'.

'We will not take legal action provided that the evasions do not go back more than three years, and provided nothing is held back. We will be checking very closely.'

There were now 100 chartered accountants and 50 commerce graduates in the directorate's audit teams deployed mainly in the larger centres throughout the country.

Tax haven attracts new industries to Ciskei

CAPE TIMES 24/6/85 (320)

By AUDREY D'ANGELO

BISHO. — Twenty new industries, representing a total investment of over R25m, have been established in Ciskei since January this year, the Ciskei Peoples Development Bank announced in a statement today.

The industries, many of which have been attracted from overseas, will provide nearly 2 900 jobs when in full production.

They bring the total number of industries attracted to Ciskei to almost 150 including 52 factories now being designed or under construction.

The managing director of the Peoples Bank, Mr Frans Meisenholl, said the 20 new factories that came into production this year came from South Africa, Hong Kong, Israel, Taiwan, the United States, Britain and Germany.

"The factories represent a total investment of R25-million. They have been built in Dimbaza and Fort Jackson and include textile, electronic, galvanising, veterinary vaccines, and surfboard and paddle ski manufacturing industries," he said.

Mr Meisenholl said scores of enquiries into Ciskei's new tax haven status had been received from potential investors since legislation abolishing company tax was introduced in March this year.

"The interest ~~from~~ investors investigating the feasibility of establishing manufacturing, commercial and other ventures in Ciskei has been most encouraging.

"Over 20 of the enquiries received recently have developed into formal applications to open up here and are being followed up."

Industrialists have until August 31 this year to switch to the company tax free status. — Sapa

ARGUS 25/6/85 (320)

Big business urges Government to slash income tax rates

Argus Correspondent

JOHANNESBURG. — The Government was today urged by big business to take "urgent action" to slash income tax rates to pull the economy out of the doldrums and encourage a surge in productivity and investment.

Guidelines to an action programme are spelled out in a memorandum prepared by the Association of Chambers of Commerce and submitted to the special Margo Commission that is studying tax reforms.

The main proposals are headed by recommendations that income scales should be radically lowered — with the top marginal rate cut from 50 percent to 40 percent and the threshold hoisted from R40 000 to R100 000 for married taxpayers.

The commission is also urged to pull down the company tax rate to a 40 percent limit.

Assocom entered the controversy over the joint taxation of married couples by throwing its weight in favour of separate taxation.

"We believe the present system tends to discourage participation by married women in the active economic sector. South Africa will need to tap every source of skilled labour if the country is to grow at the required rate", says the memo.

It suggests measures to simplify the GST system by bringing all sales and services under its umbrella.

And it seeks the abolition of heavy indirect taxes and levies on petrol and diesel fuel, which it brands as "discriminatory and inequitable".

But it gives a thumbs-down to the idea of tax allowances on home mortgages, which it insists would boost house prices and encourage home-owners to increase the burden of their borrowing on loans.

● See Page 23

Mines say no to regional levies

5 Times 30/6/83 (320)

THE Chamber of Mines has rejected out of hand proposed regional services levies on mining company wage bills.

Retiring president George Nisbet said that the chamber had told the Parliamentary Standing Committee on Constitutional affairs that the levies should not be payable by mining companies.

Mr Nisbet said it appeared the levies would be used to finance infrastructure and certain basic services. The mining industry had always provided its own infrastructure.

"If mining companies were required to pay the levies they would in effect be paying twice for the same facilities.

"The chamber has pointed out that the Bill runs directly counter to the principle accepted by the Government that mines should be taxed on their profits and not in a manner which has the effect of increasing costs of production.

"The chamber believes that failure by the Government to recognise the special circumstances of mines would reveal the levies as just another means of increasing the flow of funds from the private sector to the public sector which in the long term will operate to the detriment not only of mines but the economy as a whole."

TAX/David Solomon

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B. Day 28/6/85

A payroll tax creates poverty

IT MAY surprise South Africans to know that the tax on salaries and wages being proposed as a source of revenue for Regional Services Councils (RSC) has been a part of our tax structure for many years. The familiar UIF deduction, the worker's compulsory premium on his unemployment insurance, is technically a tax on pay, just as the new tax will be.

In contrast to the RSC payroll tax, which has already raised considerable controversy between government, business and labour unions, the UIF contribution has caused few complaints. In the first place, the amount of the UIF contribution is not great; and, secondly, benefits in the form of a cash payment in the event of unemployment accrue directly to those who have paid the tax. This conforms closely to both the benefit and the ability-to-pay principles of fair taxation.

In contrast to this, the RSC payroll tax will be considerable in relation to after tax earnings, and the amenities which it finances will be enjoyed by a relatively small proportion of those who pay. Neither of the fairness principes is thus satisfied.

Despite assurances from Gerhard Croeser, architect of the scheme, that the tax on payrolls will "in all probability" not exceed 1%, there is no such assurance embodied in the Bill, soon to be law. The Bill explicitly avoids placing any limit on the level of either of the taxes, leaving this to be determined according to the will of the Minister of Finance.

There is hardly room for comfort from this quarter, considering the pressures currently being exerted on the cabinet and on the finance portfolio in particular. Probabilities seem to indicate that, contrary to Croeser's assurances, the local taxes as a whole will be made to shoulder an ever greater burden both for "own" and "general" affairs.

Even if Croeser is right and the payroll tax remains at the level of 1% of gross salaries it must be remembered that, after payment of income and sales taxes, the R1 per R100 of gross income becomes a much greater proportion of disposal income.

Lower salaried people will find that the payroll tax reduces the value of their incomes by R1,20 per 100, whereas higher salaried people, who are already paying an average of 35% of their incomes to the taxman, will find their spending curtailed by a further 1,7%. Croeser's estimates are, therefore, between 20% and 70% off the mark — assuming, if we can, that nothing else changes in the interim.

There is cold comfort to be had from paragraph 12 (7) of the Bill, which "prohibits" employers from adding the tax either to the invoice he presents to the customer or on to the wage slip he gives to the workers. Experience with GST should surely have shown all of us that, add on or add in, it's the customer who pays.

Prices and wages are determined in the marketplace, and depend on supply and demand. The only defence the worker has against being forced to accept a reduced wage is his reluctance to work in the city at a lower price. If alternatives to urban employment exist and are available at little or no extra cost, inconvenience or danger, then employers will not stand still to be taxed if they can do otherwise.

That such alternatives do not exist in SA is made patently obvious by the unstemmable tide of work seekers flooding into the cities. Workers must not expect, therefore, to be protected by the laws of Parliament when the laws of supply and demand are being manipulated against them.

The only good that this paragraph can do (and this is not to be sneezed at) is to save employers the trouble and expense of changing their stationery and computer programmes to accommodate a new category of deduction or addition.

The law can have no effect whatsoever on determining who does and does not pay. Equally important, it can have very little to say about who does and who does not benefit from activities of the RSC. While it is the intention of the Bill that RSCs should operate in such a way as to benefit the black and coloured areas, there are few features of the RSCs which give any assurance that this will indeed happen.

While it is true that domination of the RSC by a single municipality is prevented by the Bill, this is not likely to have much effect in practice. The Bill requires that decisions be made on a two-thirds majority of council votes, while prohibiting any single community from having more than half of the votes available. This will force communities to enter into alliances with each other in order to reach decisions.

There is no doubt that, if they chose to do so, the richer communities could easily find sufficient common cause to successfully thwart the redistributional intentions of the Bill. This process will be greatly facilitated by the political parties which find their role in local politics considerably enhanced.

The net result will be that those who pay the payroll tax will not be direct beneficiaries of the services provided by their means. Payment will be made by all salaried or wage employees, who tend as a group not to be among the richer section of the population. Services will be provided through a structure which, while intended to favour the poor, will in practice probably not do so.

The benefit principle of fair taxation is clearly violated, resulting in a local tax system which will, in all probability, exacerbate urban poverty and ignite further conflict, despite good intentions to the contrary.

● *David Solomon is a lecturer in Business Economics at Wits.*

ARGUS 11/7/85 (320)

Taxes — too much paid by too few for too many

By HARRY SCHWARZ, MP for Yeoville and Opposition spokesman on Finance in the House of Assembly

THE word "tax" is on most people's lips these days. Three particular subjects are high-profile topics of debate: evasion, reform, and how much the Government should be allowed to spend.

Government expenditure is a topic on its own and is beset by ideological issues pertaining to priorities, the role of government, and non-discrimination in the provision of services.

Tax evasion has received considerable publicity. Announcements of success in detection have been combined with employment of National Serviceman accountants and estimates of large losses due to dishonesty. There was an announcement of a moratorium for those who confessed their previous sins and came forward.

It is forgotten, however, that high levels of taxation lead to increased wage demands and so add to inflationary pressures, lower the level of savings and make less capital available for investment — not to talk of increased debt adding to money supply problems.

It is by no means clear how much tax fraud exists. There is a feeling that in respect of ordinary income tax and company tax it has not increased, but that in respect of sales duty and ad valorem duties it has escalated — and that the evasion of these duties has brought with it more income tax evasion.

How hard are taxes biting into people's lives these days?

Tax is paid not only on salaries and wages and profits from business, the professions and industry but also on many other human activities. Income tax is paid with surcharge up to 53,5 percent of what is earned on the highest level.

Company tax is 50 percent, and for gold mining companies it is even higher. Gold mines also make lease payments to the Government.

Diamond mines have just had their level of taxation increased.

Tax is paid on income from savings whether it be by way of interest or dividends.

Mr Harry Schwarz, MP for Yeoville

11/7/85 (320)

There are some tax-free investments in the form of Treasury Bonds, Post Office Certificates and Building Society shares (which are to be phased out) but the amounts which may be invested tax-free are limited.

Dividends represent a form of double taxation in that they are paid from after-tax profits of companies and are taxed again in the hands of private individuals, who pay up to a further 35 percent.

There is estate duty on death except now where a spouse inherits. There is donation tax on gifts unless specifically exempted.

There are also rates and taxes payable to local authorities by property owners, and fees for owning cars and dogs.

In business there are licences and levies — and now there are to be payroll and turnover taxes to finance the new Regional Service Councils.

There are stamp duties, marketable security taxes and transfer duties.

In the field of consumption, few activities are not hit. Smoke a cigarette, have a beer, place a bet on a horse, buy petrol — on all of these there are duties.

Imported goods are subject to customs duties, with special duties on cars and video recorders. Ad valorem duties are imposed on so-called luxury goods — watches, engagement rings and so on.

Then on top of it there is General Sales Tax, with only limited exceptions such as for so-called essential foods.

The tax burden of the individual has changed dramatically. In the three years after the beginning of this decade, direct taxation of individuals increased by more than 110 percent against an increase of only about 20 percent in company tax.

Income tax as a percentage of personal income has increased substantially.

Percentage of total tax represented by GST (as well as the absolute amount collected by way of this tax) has risen dramatically, not only with the rise from four percent to 12 percent but with increases in prices due to inflation.

Taxes as a percentage of the gross domestic product increased from 19,2 percent in 1970 to 23,3 percent in 1983. For real incomes of R10 000 the average tax rose from 14,2 percent in 1972 to 24,9 percent in 1979 — and in 1984 the same group paid 30,9 percent (Mercabank Focus on Economic Issues).

The proof of how the tax burden bites is seen in the statistics of decreased savings in the private sector, which in mid-1984 dropped to zero, and by the debt burden which the consumer now bears.

Strange as it may seem, there is no capital gains tax — but how long this will continue is an open question. While income has been heavily taxed, vast fortunes have been made without any tax being payable where such fortunes have resulted from capital gains. (The issue of whether capital gains should in fact be taxed is a matter of considerable controversy.)

It takes a substantial bureaucracy to collect and police the many forms of taxation, and much of the private sector's productive time is occupied in keeping records and making returns. The more taxes there are, the more it takes to collect them — and the greater the possibility of evasion, the greater the application of ingenuity by the individual to avoid payment.

So when one talks of tax reform, one should seek to reduce the number of taxes levied and simplify the task of both payer and payee.

Much has been written on the efficacy of various forms of taxation and the effect of high levels on incentive and even on returns to the fiscus.

Tax has become more than an irritation in South Africa — it has become a burden. People are being hurt by it and are becoming fed up.

It is having its effect on entrepreneurship just at the time when we need more enterprise to create more jobs. It is annoying the ordinary working man who has his tax deducted at source and does not have the facility to employ experts to minimise his tax.

The question which all taxpayers ask is: What are we getting for our money?

South Africans are furious when they see Government waste and inefficiency. The level of social services does not compare favourably with the level of taxation. The tax burden is carried by too small a section of the population but the need for social services is spread across the broad spectrum of the people.

The Margo Commission is to make recommendations to the Government on the form and nature of taxation and will no doubt seek to evolve equitable and simple forms of achieving the correct balance between the different methods available. This would be not a moment too late.

But the balance between direct and indirect taxation and the question of which sections of the community are to bear the burden in what proportion are political issues.

The taxpayer does not mind paying tax to provide services which he wants and which the private sector can not efficiently supply, nor is there objection to taxes to ensure stability and security.

What is objected to, however, is taxes which are inequitable in their application and which stifle the incentive to work, and where the use to which the money is put is wasteful and unproductive, either in the field of social services or in terms of problem solving.

SA tax loss may be R6 billion

320

ARGUS 7/8/85

DEREK TOMMEY
Financial Editor

SOME South Africans are not paying their full taxes, says Mr Carl Schweppenhauer, Commissioner for Inland Revenue. However, he denies that the tax losses could be anywhere as much as R10 billion, as some people have suggested.

In a discussion at the SA Fiscal Society in Prtoria on Monday, Mr Schweppenhauser said that on overseas experience there was normally a non-compliance rate of 20 percent.

If this figure were applied to South Africa it meant that the fiscus was under-recovering some R6 billion.

Commenting on these figures today he said his department had not made a study of the extent of non-compliance.

He believed that the amount of tax lost was nowhere near the R6 billion mark.

The major tax-payers — the public companies whose accounts were properly audited — were certainly not under-complying.

Meanwhile, profit figures from industry show that the Government's clamp recently on tax concessions for industry, and especially on lessor trusts, are showing results.

Tax payments by many public companies are up sharply. A good example of this can be found in the latest profit figuress for the Standard Bank Investment Corporation.

This company today reported a 25 percent increase in operating profits for the six months ended June. However, its tax payments soared by 40 percent.

Similar figures can be found in the balance sheets of many companies, suggesting that company tax collections could show a significant increase this year in spite of the recession.

The hope is that some of the increased taxes collecxted from companies could be diverted to the pockets of the ordinary tax payer in the next Budget.

Time ripe for GST cut says Standard

MERCURY 9/8/85

Mercury Correspondent

THE Standard Bank believes the time is ripe for a cut in GST. Government revenues are ahead of budget and the economy has cooled down to a level which suggests some stimulation is appropriate, according to the bank's August Review released yesterday.

The already-depressed economy has worsened in recent weeks. There has been an increase in the number of lay-offs and business failures and the level of confidence, which had been steadily improving in recent months, has been jolted by the recent social and political developments.

Spending

As a result, pressure is mounting on the Government to stimulate the economy.

However, Standard's economists say that 'some lobbies and special interest groups are urging Government to stimulate demand by increasing its spending.'

A provision of R400 million was set aside in the Budget, in the form of a tax reserve account, for possible economic stimulation. R250 million of this has already been put aside for drought relief and employment creation. That leaves a meagre R150 million, which is insufficient to launch a major stimulation exercise.

The Review argues that it in any event it would be unwise to go the Keynesian route, implying additional deficit spending.

Firstly, it 'would destroy the credibility that the Government is painstakingly (and painfully) establishing.' Secondly, it would reverse expectations of a lowering of the rate of inflation, and 'it is probably no exaggeration to say that the country now has its last chance to meaningfully reduce inflation.'

Solutions

Instead, the report urges that if economic policy-makers decide to stimulate the economy 'supply-side' economic solutions be sought.

One option had been a reduction in the pump price of fuel. But that probably now awaits the recovery of the rand.

'For that reason, the other option — a cut in GST — potentially an even more significant supply-side stimulant — has now shifted to the foreground. A move of this nature has not only been made possible, but indeed desirable, by substantial excesses of the Government's tax-take relative to the amounts actually budgeted for.'

For the first three months of the fiscal year, Government revenue was 32,3pc higher than in the same period of the previous year. In addition, gold mines' August tax payments are expected to be around R1100 million, compared with August '84s R797-million. This is considerably higher than budgeted for.

'All indications point to overall Government revenue at present tax rates being comfortably above the amount budgeted for the full year,' notes the Review.

'A reduction of GST to 10pc would cost the Exchequer approximately R120-million a month. Not only would that immediately benefit personal expenditure, thereby boosting economic activity, but it would have a beneficial (although strictly technical) effect on the Consumer Price Index.

Deficit

'Were the reduction of GST to take effect from September, the deficit for the full year would be raised by some R840-million. Based on the originally budgeted figures of expenditure and revenue this would imply a deficit of less than R4 billion, or 3,3pc of GDP. That is by no means too high for an economy in recession.

Moreover, over-collection of taxes is already a feature, and if the rand were to remain weak, the gold mines' profits and hence tax payments, would continue to exceed budget even further. Thus the deficit finally realised could actually be less than R4-billion.'

Standard's Chief Economist Nico Cypionka says that all information reaching him indicates that economic activity is more depressed than the currently available domestic statistics reflect. If this declining trend continues in the short-term it might be very difficult to get out of it.

Payments

'From an abstract point of view, some of the developments have brought about an easing of a number of economic problems, such as the now healthier balance of payments; but one must be acutely aware of what is happening at the human level and the practical and political ramifications.

'Sound businesses are being forced into a corner and good workers are losing their jobs through no fault of their own. In terms of dampening economic activity, we have gone far enough. Most of the original objectives set in July last year have now been achieved.'

ARGUS 13/8/85

40 percent have not sent in tax returns

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Argus Correspondent

PRETORIA. — About 40 percent of taxpayers have not given in their tax forms for the 1984-85 financial year, according to the chief of operations for the Directorate of Inland Revenue, Mr Schalk Albertyn.

He said: "Anyone who returns their form after the June 30 deadline could be liable for penalties."

Penalties vary depending on the amount owing and whether the person is a first offender or not. First offenders face a maximum fine of R100.

Taxpayers have already been granted one extension — from May 15 to June 30. This also gave relief to some Government departments which had not yet issued employees with IRP-5 forms.

150 inspectors on duty

Meanwhile the Government's special audit teams have tracked down R119-million in unpaid taxes over the past 10 months in a campaign against tax dodgers.

Mr Albertyn said the special tax units had been boosted from 90 to 150 inspectors.

The audit teams consist mainly of university graduates doing their national service who are transferred to revenue offices after three months basic training. They operate in centres such as the Witwatersrand, Pretoria, Cape Town and Durban.

The teams had netted R75-million by the end of May, R109-million by the end of June and R119-million by the end of last month.

Mr Albertyn said the audits had also resulted in a big reduction in assessed losses — this would yield a further R100-million in revenue in the coming financial year.

Frequent checks needed

Inspections on GST had yielded R47-million in the past 10 months but Mr Albertyn said he was "not entirely satisfied" with the revenue being collected. A great deal of money was still escaping the tax net.

"It is a different ballgame to what it was when GST was only four percent. With our staff situation we can check traders only once in three years — but with GST now at 12 percent we need frequent checks," he explained.

The directorate's work study division was conducting a special study into tax collection with the emphasis on GST.

Referring to a report that tax evasion caused an annual R6-billion revenue loss, Mr Albertyn said this figure was probably exaggerated.

He said a special study had been commissioned in an attempt to measure the gap between taxes paid and what should be paid.

Unrest a nightmare for insurance industry

(320)

13/8/85

MERCURY

THE CURRENT state of unrest and violence is a nightmare for the short-term insurance industry. Looting, arson and motor vehicle damage and theft are consequences of this prevailing climate of lawlessness, according to Mr F N Haslett, managing director of S A Eagle.

Mr Haslett was announcing S Eagle's unaudited figures for the six months ending June 30.

The company, which has declared an unchanged dividend of 21 cents for the period under review, increased gross premiums by 19,5 percent to R122,5m. Investment income (net of investment expenses) also increased marginally to R9,7m.

'However, we experienced a shortfall in our underwriting surplus of R1,5m,' said Mr Haslett.

'Our results were also seriously affected by the recession and the continuing high rate of inflation.'

Earnings

Earnings per share for the six-month period declined only marginally to 57,2 (1,7 percent down).

Net income after taxation attributable to members of the company declined to R6 865 000 (R6 987 000).

'Underwriting results have been affected during the period by the inadequate rating of industrial and commercial business, the increase in incidence of motor and crime class claims as well as the effects of inflation.

'The anticipated increase in re-insurance costs has materialised and will continue to impact on underwriting profitability. Every effort is being made to correct adverse trends,' Mr Haslett said. — (Sapa)

Net tightens around dodgers

Tax teams have traced R119-m

320 STAR 13/8/85. 17

By Colleen Ryan, Pretoria Bureau

Special audit teams have tracked down R119 million in unpaid taxes during the past 10 months in the intensive campaign against tax dodgers.

The chief of operations for the Directorate of Inland Revenue, Mr Schalk Albertyn, said the special units had recently been boosted from 90 to 150 professional inspectors.

The teams consist mainly of university graduates doing national service. They are transferred to revenue offices after three months' basic training and operate in major centres such as the Witwatersrand, Pretoria, Cape Town and Durban.

They had netted R75 million by the end of May and R119 million by the end of July.

Mr Albertyn said the audits had also led to a big reduction in assessed losses, which would yield another R100 million in revenue in the coming financial year.

General sales tax inspections had yielded R47 million in the past 10 months, but Mr Albertyn said he was not entirely satisfied with the revenue being collected — a great deal of money was still escaping the tax net.

"It is a different ball game to what it was when GST was only four percent," he said. "With our staff situation, we can check traders only once in three years — but with GST now at 12 percent we need frequent checks."

He said the directorate's work study division was conducting a special study into tax collection — with special emphasis on GST. Attention would be given to increasing the number of inspectors and upgrading their training.

Referring to a report that tax evasion meant a revenue loss of R6 000 million a year, he said the figure was probably exaggerated.

A special study had been commissioned in an attempt to quantify the gap between the taxes paid and what should be paid.

Defaulters face fines

Pretoria Bureau

About 40 percent of all taxpayers have failed to submit their tax forms for the 1984/85 financial year, says the chief of operations for the Directorate of Inland Revenue, Mr Schalk Albertyn.

"Anyone who returns his form after the June 30 deadline could be liable for penalties," he said in an intervew with *The Star*.

Penalties varied depending on the amount owing and whether the person was a first or frequent offender. First offenders face a maximum fine of R100.

Taxpayers have already been granted one extension — the deadline was moved from May 15 to June 30.

The extension also gave relief to some Government departments which had not yet issued employees with IRP5 forms.

Stern warning to tax dodgers

STAR 14/8/85

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By Michael Chester

Tax dodgers were given a stern new warning today by the Commissioner of Inland Revenue that they will be tracked down and hit with severe penalties if they ignore offers of a amnesty on fiddles.

The deadline for the amnesty, first set at June 30, has been extended to August 30.

The Department of Finance has offered the option of the carrot or the stick to thousands of taxpayers suspected of making false entries on tax returns — or failing to submit returns at all.

First the carrot:

- Penalties will be dropped if taxpayers now turn up at Receiver of Revenue offices and volunteer to make a clean breast about disclosures.

All tax dodgers will be assured of no criminal prosecution if they confess to failures to disclose information about income that should have been liable to tax.

- No additional assessments will be imposed on fiddles and omissions that may have occurred before March 1982 — giving a fresh clean slate on tax returns older than three years.

But next the taxman shows the big stick he intends to wield if tax dodgers ignore the amnesty deadline.

"Tax defaulters are reminded of the substantial penalties, amounting to as much as double the tax evaded, that may be imposed for tax evasion and the non-rendition of returns or declarations", said the Commissioner in a statement today.

"An appeal is directed to all persons who have not been completely frank with the Receiver of Revenue during past years to avail themselves of this extended period of grace".

Cheaper loans soon — bond rates likely to drop 2 percent

NEWS 20/8/85

Cont from Page 1

320

Mr Raymond Ackerman, one of the country's leading businessmen, has called on the Government to include a cut in the general sales tax in its measures to boost confidence.

"While the cut in interest rates was good for the big boys, it did little for the small people.

"A cut in GST would be an excellent antidote to what is happening and would help the poor."

Alternatively, the Government could take GST off all foods.

Dr de Kock said he cut the bank's discount rate to prevent the recent political developments from bringing about an undue contraction of money and credit leading to rising interest rates.

The Reserve Bank's new bank rate was being fixed at 16 percent, following the reduction by 1,75 percent in the Bank's rediscount rate for Treasury bills for discount houses from its present level of 17,75 percent.

Similarly, the rediscount rate for Landbank bills was being reduced from 18 to 16,25 percent and for bankers' acceptances from 18,25 to 16,5 percent.

"Corresponding reductions in the Reserve Bank's rediscount rates for banks and in its interest rates on overnight loans to discount houses and banks will be introduced," he said.

"The expectation is that the lowering in the bank rate will lead to a further reduction in the prime overdraft rate of the commercial banks from the present level of 21 percent to between 19 and 20 percent. Reductions in the bond rates of building societies can also be expected in time."

He said the inducement for banks and their borrowing clients to use offshore credit would not be diminished as the Reserve Bank would make appropriate adjustments to the margins on forward exchange.

Tax relief promised for higher pay group

STAR 320 12/9/85

By David Braun, Political Correspondent

BLOEMFONTEIN — Tax relief for the higher income groups and a less restrictive budget are planned for next year, the Minister of Finance, Mr Barend du Plessis, has indicated.

At the Free State congress of the National Party here yesterday, Mr du Plessis undertook that the extra income earned from fringe benefits taxation would be ploughed back in further tax relief.

"There is a heavy load on the higher income groups and next time we will have to see how we can help them.

He said that while he could not foresee a huge expansionary budget next year, the country would not again need such a restrictive budget as it had this year.

The minister also suggested that as the political and economic situation was so fluid, the time had perhaps come that the state should be in a position to constantly adapt its budget, just as many large corporations do all the time.

Mr du Plessis was grateful that so many departments had been able to hold their expenditure to this year's budget, but he said there were some that were struggling, especially the Defence Force.

The time had come, he said, to cut state expenditure by striving for a smaller, more mobile but better-paid public service.

Fears grow of govt crackdown on Press

(330) B. Day 13/9/85

PETER WALLINGTON

FEARS that government is preparing to limit further news coverage of events in South Africa — particularly international coverage — have been fuelled by yesterday's deportation of a *Newsweek* correspondent and the banning of this week's issue of the magazine.

The department of Home Affairs told *Business Day* yesterday further deportations could not be ruled out, although it was "not considered a matter for undue speculation".

The spokesman said a decision to deport foreigners was not taken lightly.

Newsweek corresondent Ray Wilkinson, who had been in South Africa for three weeks, was arrested in Cape Town on Wednesday night. He was then transferred to Jan Smuts Airport to await a flight from the country.

It is believed Wilkinson, who carries a British passport, would return to Nairobi, where he is based. A *Business Day* correspondent's request to interview him at the airport was turned down by Home Affairs.

The first available flight to Kenya was on British Airways last night.

Newsweek's South African correspondent Peter Younghusband said from Cape Town yesterday no other moves had been made against the magazine.

PFP media spokesman Dave Dalling said he feared further restrictions could follow. There has been speculation that government was looking at aspects of the discredited Steyn Commission, in particular a register of journalists.

This would make it impossible for journalists to practise if struck off the register, and it is feared government could monitor foreign coverage by South African journalists not restricted by visa regulations.

Dalling again warned that to implement any of the recommendations would cause "great damage".

"The government has resorted to authoritarian tactics when it should be taking political initiatives. It seems to me that government, without making a public announcement, is toughening its stance on the Press."

● Editorial comment — Page 6

Lift GST on food, says Tucsa

STAR 13/9/85 320

The Trade Union Council of South Africa (Tucsa) yesterday ended its annual conference with a call on the Government to lift general sales tax on all foodstuffs as this was an "extra tax burden on the poor and the unemployed".

Tucsa also asked the Goverment to introduce a national health scheme free of discrimination and affordable to all South Africans.

The two calls were part of a package of wide-ranging political and "bread-and-butter" resolutions passed at the four-day conference in Johannesburg.

Delegates said GST was an iniquitous system which "robbed the poor to make the rich richer".

A resolution was passed demanding the introduction of "a national health service totally free of discrimination".

It must also guarantee to everyone in South Africa efficient medical care at a price which they can afford", the resolution stated.

● See Page 11.

Some imported goods to cost more

Substantial tax cuts likely in next budget

320 STAR 23/9/85

By Trevor Walker

Substantial tax cuts could be introduced in the national budget next March if the 10 percent import surcharge imposed today were extended for the whole of 1986.

Bankers said the tax burden on individuals in South Africa had reached usuary proportions and the imposition of yet another tax, that on imports, was uncalled for when not accompanied by some form of tax relief.

Following the unilateral debt moratorium, the import surcharge comes as no surprise, despite it running counter to the wishes of the International Monetary Fund and especially with the country running a massive R5 billion surplus on its current account of its balance of payments.

The import surcharge was eliminated some two years ago, following pressure from the IMF and bankers said today it was highly likely the government would extend it next year to allow it to continue its profligate ways and at the same time enable it to introduce tax cuts.

The rise in GST by two points to 12 percent this year will bring in a further R1,2 billion, and meant this most wide ranging of all taxes was now netting R8,3 billion every year for the government to play with.

A wide range of imported goods will become dearer as a result of the decision to reintroduce an import surcharge.

While the 10 percent surcharge imposed from today affected only those goods not included in the General Agreement on Tariff and Trade (Gatt), it nevertheless would hit imported components of most locally manufactured or assembled goods.

Motor cars, electrical goods, fridges will be hit to some extent, while clothing, textile and footwear items will carry the full 10 percent duty.

Cigarettes, tobacco, furniture polish and creams, plastic bottles, plastic coated electrical wire, hand tools and a wide range of steel, copper and aluminium items will also have to pay the full 10 percent on import.

The new tariff will only affect between 45 and 50 percent of the country's total import bill of R20 billion.

Treasury sources said the estimate of R400 million that the exchequer expected to net over the next six months was fairly wide.

The GATT structure is based largely on a tariff structure agreed to internationally and covers such diverse interests as live horses, anchovies, cheese, hog sausage casings and duck down.

For more couples it's 'till taxes us do part'

320 Mercury 26/9/85

Mercury Reporter

DURBAN couples, frustrated by joint taxation, are turning more often to perjury and contrived divorce as a means of easing family financial burdens, says the Women's Bureau of South Africa.

'We receive a steady stream of calls from women wanting to know if we think divorce a good idea,' said the bureau's Mrs Joyce Atkinson.

'Last month we had about 30 inquiries from women on this problem, and many of them said they were either considering divorce or planning to remain unmarried.

'We advise the women not to take the drastic action of getting divorced, but we do appreciate the stress they are under,' she said.

'Most of the callers were women in ordinary jobs who say they are at their wits' end and cannot cope.

'It is alarming that the tax system in a Christian country can threaten the institution of marriage and does not encourage people to go out to work.'

Perjury

A retired judge said last night he felt couples were misusing the courts if they obtained divorces merely to escape joint taxation.

'Divorces are granted on the basis that a marriage has broken down. In the case of couples merely wanting to avoid tax, it is obvious the marriage has not broken down and therefore they are committing perjury.'

One of the callers, who later spoke to the Mercury, secretary Mrs A, said if tax laws did not change soon she and her husband would have to consider divorce.

'We were married only three months ago and if we had known what it was going to be like financially, we would not have bothered. It's that bad.

'We had lived together for five years before, and we lived very well. Now we are really scrimping, and we are just glad we don't have any children to support.'

Another woman said she and her husband had divorced in October last year 'to improve the financial conditions in our home'.

She and her husband still lived together and had a young child, born before their divorce. They estimated they saved about R2 500 a year as a result.

'We just felt that at the end of every tax year the taxman was taking us to the cleaners.'

Before the divorce she paid almost double the tax she would be required to pay as a single woman.

'We spoke to our friends about the matter and then went to see a lawyer. Seeing him did not really cost us much, and what my husband said in court were mere words. It was really a question of saying that we didn't get on.

'The divorce order is just a piece of paper and

★ TURN TO PAGE 2

The divorce tax dodge

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◆ FROM PAGE 1

although it may seem odd to some people, we consider ourselves far better off for going ahead with it.

Court

'It has made no difference to our domestic situation. My child has got our name. We are living happily together as a family and in the future we will have more money for children as a result.'

Her brother-in-law, a sales manager in the motor industry, said he had been divorced four years ago specifically because of joint taxation.

'Three of my friends have done exactly the same thing, one of them only two months ago.

'We just went to court and got a divorce on the grounds of an irretrievable breakdown of marriage. It's as easy as that.

'We still live together, have three children, and our feelings towards each other are not going to change.

'I am just not interested in marriage any more. I estimate we saved R3 500 last year as a result. That comes to about R300 a month and it makes a big difference.'

Another Durban man said: 'My wife and I have been seriously thinking of getting divorced because we estimate we could save about R1 000 a year.

Pointless

'If it were just a matter of signing a form we would go ahead. I'm pretty sure we will get round to getting divorced ... the difficult part is having to stand up in the Supreme Court and tell lies.

'It is pointless to have to pay that R1 000 to the Receiver as a "licence fee" and the advantage of gaining social approval through marriage is receding so rapidly that it does not mean a thing anymore.'

Another woman estimated she and her husband would save R1 800 a year as a result of divorce.

'Although it is not a nice thing to have to do, we are going ahead. But getting divorced to avoid taxation is a big step. You have to lie your way through it,' she said.

Remarrying

A Durban teacher said: 'My wife and I both feel the same way and if we were able to circumvent her employer's moral stance on not employing unmarried mothers we definitely would get divorced.'

A Durban grandmother who recently wrote to the Mercury's Forum blamed the tax system for two of her sons getting divorced and a third not remarrying.

'If young people have any sense these days, they don't get married,' she said.

'When my three sons were divorced we were terribly upset. My husband and I are both over 50 and come from families where marriage is the correct thing to do.

'But we have had to accept this even though we don't discuss it with relatives.

'What worries me is what it will be like in 20 years' time. What are their children going to do when they are grown up? They won't even consider marriage.'

Finalised

The chairman of the commission into taxes, Mr Justice Margo, has said he has been told the Treasury would lose an estimated R480 million if there was a straightforward change to separate assessment of earnings and investments.

Finance Minister Barend du Plessis said in March he had hoped to address the problem of taxation of working couples in this year's Budget speech.

But the Margo Commission's recommendations on the subject had not been finalised and it would be inappropriate to confirm or change the system before the recommendations were presented, he said.

The final report is due in June next year.

Beating joint taxation

Divorce cuts tax bills for career men and women

By Chris Steyn

Hundreds of South Africans are getting divorced because they are financially crippled by joint taxation. And many more career women are opting to stay single because marriage is too expensive.

This has emerged from a survey done by *The Star* among married couples and single professional people as well as authorities on taxation and women's issues.

Other couples who wish to be married, but want to avoid the tax burden that goes with marriage, opt for church weddings — but avoid formally registering their marriages.

REJECTION

"There appears to be a total rejection of marriage by couples who feel that the tax burden would be crippling," said Ms Roberta Johnson of the Women's Legal Status Committee.

"And working woman are constantly complaining that they are just an extra source of income for their husbands.

"I've often heard women say: 'Why should I stay with my husband if I have to put up with poverty because of joint taxation'."

Businesswoman and a member of the Women's Bureau, Ms Suzanne du Toit, said she knew of many who had got divorced purely for tax reasons.

Divorces like these were, however, usually well-kept secrets. "They don't even tell their parents or their best friends," she said.

Ms du Toit said many eligible career women now avoided marriage because of the effects joint taxation would have on their finances.

"How can you get married if you're going to be paying R1 000 more in tax every month?," she said.

Couples in higher income brackets told *The Star* they were forced to save a certain amount of their joint income every month to enable them to meet the taxman's annual demands.

About 80 percent of professional married people surveyed by *The Star* said they were considering getting divorced purely for tax reasons.

Although couples who divorce, but continue to live together as "man and wife" technically contravene the law, the Department of Inland Revenue has not prosecuted any offenders.

EVASION

Some 75 percent of Johannesburg's population are married.

A spokesman for the officer of the Commissioner of Inland Revenue said the department had received reports of couples getting divorced to evade high taxation.

But these cases were not being investigated.

"Considering that one of the highest priorities of the Margo Commission (whose report will be ready in June next year) is to look into separate taxation for husbands and wife, we are are not viewing this trend in a serious light".

One woman who has not married for tax reasons, however, disagrees with the Department's view: "I think it is very said that members of a Christian society are forced into divorce by their country's tax laws".

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Couples should get tax law changed says Hurley

Mercury 320 27/9/85

Mercury Reporter

ARCHBISHOP Denis Hurley yesterday called for a campaign by married couples to get joint tax legislation changed as soon as possible.

'It seems that the tax system in South Africa is detrimental and contributing to the breakdown of the institution of marriage and family life,' he said, reacting to a report in yesterday's Mercury.

Mrs Joyce Atkinson of the Women's Bureau of Southern Africa said in the report that the bureau's Durban branch had last month received a steady stream of telephone calls and letters from women attacking the joint taxation system and wanting to know if divorce was a 'good idea'.

'Married folk should get together to have this legislation changed as soon as possible,' said the archbishop.

Mrs Helen Suzman, MP for Houghton, said there had been so much pressure exerted over the issue of joint taxation that it would be surprising if 'something does not emanate from the Margo Commission on tax reform'.

Professional

'I have been pushing for separate taxation of married working couples for a long time,' said Mrs Suzman.

She maintained that the amount of money which would be lost by the Treasury — estimated by some sources to be more than R400 million a year — could be 'offset by the number of skilled and professional women who would come on to the market as a result'.

The main problem facing the Government if such changes were made, said Johannnesburg tax specialist Mr Costa Divaris, would be how to make up the lost revenue.

'I believe any changes being considered by the (Margo) commission would just be a question of redistributing the tax burden.'

Meanwhile, Durban tax consultant Mr Rob Stretch, of chartered accountants Ernst and Whinney, has highlighted the 'penalty tax' incurred by married couples in a table comparing joint and separate taxation.

According to the table, a married couple with a combined income of R20 000 a year (husband R12 000, wife R8 000) would be taxed slightly more than R2 500 annually.

Taxed as single people they would pay about R1 900 but in addition, said Mr Stretch, a further R500 would be due from the married couple at the end of the tax year, a total difference of R1 100.

'This amount to be paid in is based on the assumption that the couple's respective employers have deducted the required PAYE.'

A married couple with a combined income of R80 000 a year — husband and wife both earning R40 000 — would have to pay R31 042; but if their combined earnings were taxed separately they would pay R5 726 less.

At the end of the year the married couple would also have to pay in a further R12 218 showing a total difference of nearly R18 000.

Proportion

The amount which had to be paid in at the end of the year also depended upon what proportion each partner earned.

A married couple who also earned R80 000 annually, but with the husband earning R60 000 and the wife R20 000, would pay at the end of the year only about half that paid by a couple whose incomes were exactly the same.

'The penalisation of married couples doesn't stop with the additional tax they have to pay,' said Mr Stretch.

'Many women find that on marriage they might actually lose their jobs or lose some of the benefits they previously received from their employers.'

A teacher, for example, might find once she was married that she was no longer regarded as a full-time employee.

'In addition she might have had a housing subsidy before marriage, but on marriage this falls away as she is no longer regarded as the breadwinner.'

Govt principle on joint taxes slammed

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1/10/85 Mercury

Mercury Reporter

A SYSTEM which tended to encourage people to divorce for tax reasons was 'most undesirable' and it was regrettable that important social principles could be overridden by the Government for financial reasons, the executive director of the Natal Chamber of Industries, Mr Roland Freakes, said yesterday.

He was reacting to a report in the Mercury in which Mrs Joyce Atkinson of the Durban branch of the Women's Bureau of Southern Africa reported a steady stream of telephone calls and letters last month from women attacking the joint taxation system and wanting to know if divorce was a 'good idea'.

'It seems,' said Mr Freakes, 'that the Government rejects the principle of separate taxation on the grounds that it will lose revenue.

'One can only regret that an important principle is overridden by purely financial considerations.'

And with reports of tax collections this year already in advance of projections, 'perhaps it is time the Government took another look at this issue', he said.

He said the chamber had criticised joint taxation for a long time and a system which tended to encourage people to become divorced and then get taxed separately could only be described as 'most undesirable'.

Queries

But hopes by working married couples for an early review of joint taxation appear unfounded until after the presentation of the Margo Commission's final report on taxes in June next year.

A Ministry of Finance spokesman said that 'because the minister receives queries and questions about this subject' he had called for 'further information' on joint taxation before recent National Party congresses.

The spokesman said it was unlikely the minister, Mr Barend du Plessis, would make any statement on possible changes to the system until the final report was presented.

Mr Ken Hobson, chief executive of the Durban Metropolitan Chamber of Commerce, said the chamber supported the principle of separate taxation but believed that such taxation should be on the basis of total income as opposed to earned income.

Range of taxes to finance

TMA discusses 'own affairs'

STAR 11/10/85 320

By Stuart Flitton, Municipal Reporter

Wide-ranging taxes to finance regional services councils (RSCs) and the technical aspects of the administering of "own affairs", were two of the important points raised at the Transvaal Municipal Association congress in Klerksdorp this week.

Mr Eddie Dednam, Director-General of Public Finances, said state services provided by central, regional and local government should be included in the proposed RSCs' sources of revenue, which would partly come from taxes on services.

Mr A Cornelissen, director-general (Administration House of Assembly), said local government would be transfered from Provincial Administrations to Ministers of the Ministers' Council.

He said in the meantime, from a date this year still to be announced, the Administrators would consult with own affairs ministers before giving rulings concerning local authorities.

Mr Olaus van Zyl, immediate past president of the TMA, said an important part of the congress was the explanation of the distinction between the running of own and general affairs.

He said it had not been generally expected that all state services would be taxed to finance RSCs.

"Now that Mr Dednam has said service taxes would probably be ½ percent and turnover taxes ⅛ percent, individual business people will be able to do a few calculations as to how much they will be paying," Mr van Zyl said.

Mr Francois Oberholzer, chairman of the Johannesburg City Council management committee, said it had been a surprise that mines, which were already highly taxed, might be taxed to finance RSCs.

"The upgrading of ser vices will cost millions of rands throughout the country. Local authorities will have to make their contributions and this will affect the individual ratepayer.

"The needs among emerging (black, coloured and Indian) local authorities are so great that ours pale into insignificance," Mr Oberholzer said.

He said the collection and distribution of money by RSCs would prove the sincerity of white local authorities to do something for their neighbours.

Mr Oberholzer said reasonable people would not object to help financing RSCs.

"The causes of unrest are not so much political as economic," he said.

Mr Allan Barrable, chairman of the Benoni Town Council management committee, said he believed the Government would relax some taxes when the new RSC-funding taxes came into effect.

Argus 16/10/85

Taxman takes hefty whack of mines' profits

820

SOARING profits by several South African gold mines were whittled away by a leap in taxation in the September quarter.

Three major mines today reported a big jump in the price they received for their gold sales — up from around R18 000 a kg three months ago to as much as R20 400 a kg.

- Just over R68 million was paid out by **Hartebeestfontein**, a 44 percent jump on the R47 million paid in the June quarter.

Working profit from gold, uranium and other income rose to R106 million from R90 million. But after the State taking its haul, earnings dipped by 15 percent to R33 million from R38 million.

- Another giant mine, **Randfontein**, saw its tax bill rocket by 88 percent to R33 million after R17,6 million in the previous quarter.

Gold revenue rose to R162 million from R152 million but net profit was 17 percent lower at R64,7 million (R77,7 million).

- **Western Areas** reported a R12,6 million gold profit after a R2 million loss in the June quarter. So more than R6 million went in tax, compared to a R440 000 credit previously.

Net profit of R12,8 million, however, was two and a half times higher than the June profit of R4,9 million.

Both Randfontein and Western Areas say they have entered into forward contracts for part of their future gold and uranium revenue.

The latter says a "significant" part of its gold production is involved and it hopes to stabilise revenue and reduce the company's vulnerability to operating losses.

- **Loraine** and **Hartebeestfontein** are also going for hedging deals. Loraine says it has sold part of its production for as much as R24 265 a kg in September next year.

- **Investec Bank** and **Metboard** have merged to form a new investment banking group with a market capitalisation of R100 million.

The new Bank Controlling Company (BCC) will seek a JSE listing early next year and about 40 percent of the shares will be offered to institutions and the public.

Tom Hood

R646-m to be paid back to taxpayers

ARGUS 28/10/85

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Financial Staff

MORE than R646-million is to be given back to taxpayers in the next four months from the repayment of the 1979 loan levy.

This is about R195-million more — a jump of 43 percent — on the payout of R451-million last February.

The tax man owes about R472-million — R157,4-million to individual taxpayers and R314,4-million to companies — from the 1979 levy.

In addition, when cheques are paid out they will include seven years of interest at five percent a year.

No date is fixed yet for repayment, which must by law be done before the end of the current fiscal year, on February 28.

DEADLINE

Refunds this year were posted on February 18, only 10 days ahead of the deadline.

Loan levies were paid by 1 321 570 individuals and 53 243 companies in 1979 but some repayments have already been made to women who got married, emigrants and deceased and insolvent estates, a spokesman for the Department of Finance in Pretoria said today.

Total levies collected amounted to R503,5-million, including R180,8-million from individuals and R321,7-million from companies.

Two more loan levies remain to be repaid.

REFUNDABLE

The 1980 levy, which raised R240-million, is due to be repaid before February 1987.

This is made up of R174-million from individuals and R66-million from companies and R157,6-million is still due to individuals and R64,9-million to companies.

The only other levy remaining to be repaid is the 1983 levy, which took R220,1-million from 1 286 326 individuals — companies did not pay. The amount refundable stands at R214,7-million.

Cape Times 29/10/85

'Little sense' in RSC tax plan

Municipal Reporter

THE government's new Regional Services Council (RSC) system for local government should be financed by a "visible" surcharge on GST, according to the Cape Town Chamber of Commerce.

The chamber has rejected the government's plan to fund the new system by imposing two new taxes on businesses — a regional services levy or payroll tax, and a regional establishment levy or turnover tax.

An editorial in the chamber's latest Weekly Bulletin says that in the current economic climate, "any form of additional taxation of the business community must be avoided at all costs".

Taxing a company on its wage bill "would exacerbate an already severe unemployment problem" and "made little sense" at a time when the government was having to raise emergency funds to create jobs.

The chamber objects to the turnover tax, which is calculated on GST collected by traders and on floor-space occupied by non-traders, because of the difficulty in ensuring that both classes of businessmen will make an equal contribution.

The application of the taxes to all levels of production and distribution would have a "cascade effect", with tax being payed on tax.

The collection of taxes at a local level would result in a "proliferation of taxing authorities", which would increase the cost of collecting the taxes.

The "best solution" to financing the new system "would be to broaden the base of the GST", the chamber says.

Cape Times 29/10/88 320

Tax concessions to some people over 65

PRETORIA. — Certain taxpayers over the age of 65 will no longer have to pay a portion of their tax as provisional tax, the Minister of Finance, Mr Barend du Plessis, announced yesterday.

He said in a statement that a system would be introduced in February whereby people over 65 would not be obliged to pay provisional tax if their total taxable income for the year of assessment did not exceed R20 000 and consisted only of investment income, salary and pension.

Provisional tax was sometimes regarded as an additional levy and elderly people often made "unwise investments in tax-free instruments to prevent their registration as provisional taxpayers", the statement said.

The concession would not apply where: The taxpayer is a director of a private company or a closed corporation; the taxpayer derives income from carrying on any undertaking; or the taxpayer derives income otherwise than by way of remuneration as an employee, any pension or annuity, dividends on shares in a company or building society or rentals from the letting of fixed or other property. — Sapa

Taxman to repay 1978/79 loan levies

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STAR

By Michael Chester

More than 1 million taxpayers stand in line to share in a R600 million cash bonanza from the taxman in the next few months.

30/10/85

The pay-out is the amount collected by the Minister of Finance in the 1978/79 tax year through a 10 percent loan levy which was imposed with assurances that all would be repaid within seven years.

The repayment deadline expires on February 28, but already the Department of Inland Revenue is on standby for the green light from Mr Barend du Plessis to start computer printouts of cheques that will be posted to taxpayers.

Officials doubt that cheques will go out in time for Christmas shopping but believe the cash will start flowing in the New Year.

R425 MILLION

Businesses will benefit most from the bonanza. About 53 000 of them will share R425 million in the repayment of the loan levy that was added to company tax — R315 million in levies, plus interest fixed at 5 percent a year.

But more than 1 320 000 individual taxpayers will also be[illegible] sharing over R157[illegible] that was added to personal income tax and which 35 percent interest has boosted to more than R212 million.

The size of the pay-outs will depend on the size of their taxable income in 1978/79. The average cheque will be about R160, counting all wage brackets, but top money-spinners can expect cheques running into thousands of rands.

MORE PAYMENTS

The 282 000 taxpayers earning between R1 000 and R2 000 a month will share about R95 million — an average of R337 each.

Economists are not ruling out the possibility that the Minister of Finance may follow through next year with the early repayment of the R157,6 million that individual taxpayers forked out in loan levies in 1979/80.

That depends on his strategy in setting about trying to refloat the economy with a mild stimulation of consumer spending. He has already dropped hints he may ease the overall tax burden in the next Budget.

Taxpayers 'can expect relief in next budget'

News 13/11/85

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Argus Correspondent

PRETORIA. — Individual taxpayers can expect lower direct taxes in the next Budget, says the senior deputy-governor of the Reserve Bank, Dr Japie Jacobs.

He could also foresee further cuts in the Reserve Bank's prime overdraft rate and was confident about rescheduling foreign debt.

"The tax burden and distribution rests too much on the individual and the Budget may be aimed at spreading the burden," he added.

R500-m scheme

Speaking at the launch of a townhouse complex in Lynnwood Manor, Dr Jacobs said said the idea behind the seven percent cut in the Reserve Bank's prime overdraft rate, the surcharge on imports and the R500-million programme to create jobs was to gradually stimulate the economy.

Exports were rising markedly and were "expansionary". He could therefore foresee a Budget which adopted a "remarkably stimulatory approach".

● Reform not cheap, says PFP — Page 19

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FRINGE BENEFITS

A very private arrangement

Sir — Four years ago MPs were placed on a car-purchasing scheme by government. In terms of the scheme an MP could borrow up to the retail price of an Audi 100 at 8% a year interest. He had to repay this loan over 48 months. At the same time he was given a car allowance which covered his monthly repayment with something over to pay for petrol. I had no wish to borrow money from government so purchased my own car and was paid the full allowance which has been R473 a month. The 48 months expired at the end of October and a new scheme applies from this month.

The new scheme allows an MP to buy a car and borrow up to R25 000 at 18% interest. He will be paid R922 a month allowance whether he buys a car for R10 000 or R25 000. If he does not buy a car but keeps his old one, his allowance is only R168 a month. In my case, my car was bought in February of this year so I am forced to change it. What is more, if I pay for the car myself I no longer get the allowance in full, just the R168 a month. I am therefore forced to borrow the money from government and every other white MP is currently in the same position. Thus if every one borrows the maximum, some R4,5m of taxpayers' money will be paid out.

Why should the payment of a car allowance be dependant on borrowing money? I certainly use my car extensively for my parliamentary duties. MPs with large country constituencies do up to 25 000 km a year in this way so an allowance is fair but the workings of the mind that relates thus to borrowing money is beyond me.

What is more, I understand that this scheme is based on a scheme given to civil servants.

Makes you think doesn't it?

John Malcomess, MP, Port Elizabeth, Central.

John Malcomess will probably be pilloried for exposing this cosy little scheme. Are there others?

He is to be commended for doing so, not only because he may well risk the annoyance of his caucus colleagues, but he confirms what many people outside the circle of light of the public sector have been suspecting for some time, that eight months after the implementation of fringe benefits taxation, the promised principle of equality of misery under the country's tax laws is pure cant.

As John Malcomess's letter shows, the new parliamentary car scheme virtually forces white MPs to buy a new car. The scheme pays an MP R922/month regardless of the value of the vehicle purchased. But it penalises the individual who does not utilise the scheme.

In both private and public sectors alike, employees believe the grass is greener on the other side of the perks tax fence. Nothing is done for this perception of inequality by the adoption, for privileged public sector employee classes, of one-off ad hoc perks schemes.

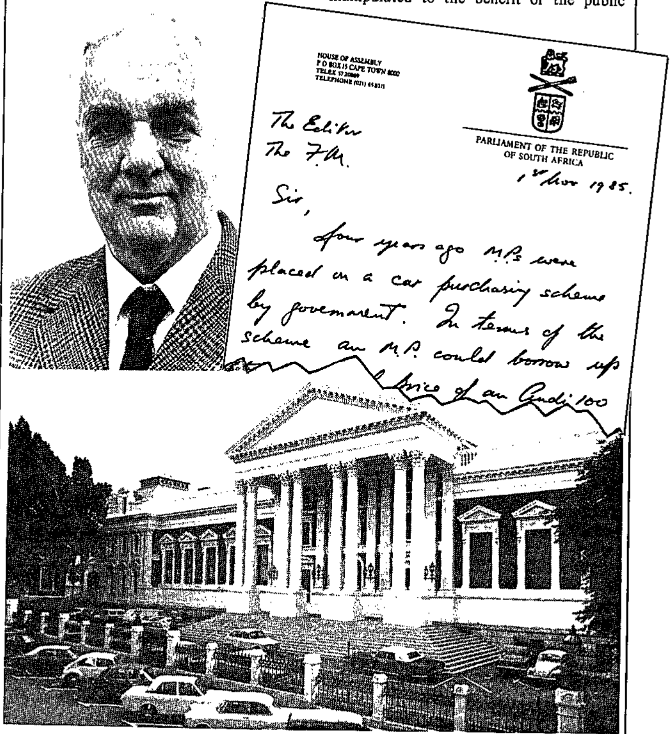
This scheme highlights the dubious nature of Finance Minister Barend du Plessis' undertaking he made to the *FM* last year: that "perks tax would be implemented with equality." Where did it originate? We should be told, or people will believe this is yet another case of the authorities' swashbucking attitude to the tax system.

Carl Schweppenhauser, Commissioner for Inland Revenue, questioned about the MPs' car scheme, tells the *FM* that: "The whole question of the taxation of fringe benefits forms part of the terms of reference of the Margo Commission and members of the public are free to make representations." This has become the pat reply of politicians and bureaucrats to any criticism of anomalies in the tax system.

Was Margo consulted?

This strikes us as odd. For in the eight months since the Budget there have been numerous examples of fiscal fiat without deferring to the sensibilities of the Margo Commission. Was Judge Margo consulted about the 10% imports surcharge, or the relief granted to over-65 taxpayers, or higher customs duties on high-tech goods? Was Judge Margo consulted about the revenue effect of recent heavy fuel price increases — gst plus customs duty? Was Judge Margo consulted about ad hoc additions to public sector spending estimates contained in depression relief schemes, totalling about R500m?

The car scheme for white MPs serves as a striking illustration of how perks tax can be manipulated to the benefit of the public



John Malcomess . . . questions MPs' car scheme

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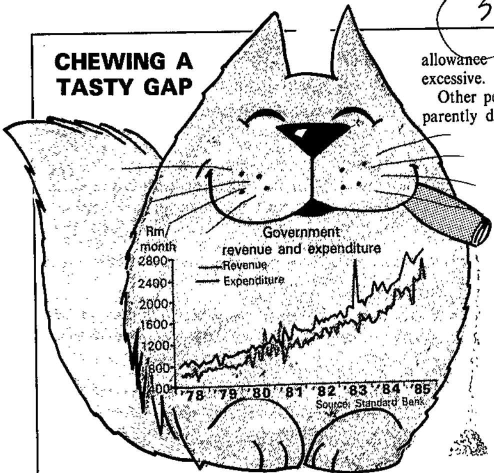
CHEWING A TASTY GAP



sector. A four-year car scheme for MPs expired in October 1985. In terms of this, the MP was given a loan up to the value of an Audi 100 motor vehicle, to be repaid over 48 months at 8% interest. The white MPs' car allowance under this scheme was R473/month.

The new scheme applies to a loan up to the value of R25 000, to be repaid at 18% interest (equal to the "official rate"). The monthly car allowance, regardless of the value of the car actually purchased, is R922/month. The MP is effectively forced to buy a car under this scheme: if a new car is not purchased the allowance is only R168/month.

Should all white MPs contract the maximum loan amount, some R4,5m of taxpayers' money is used. The total amount across the public sector could be significant as the *FM* understands that the MP car scheme is based on a scheme available to certain public servants.

Since the loan of R25 000 is charged at the official rate of 18% it will not fall for taxation in terms of perks tax. Taxation of the monthly car allowance, Schweppenhauser assures the *FM,* is identical "to similar schemes in the private sector." The one difficulty of the MP scheme is that, depending on the value of the vehicle purchased, the allowance could be deemed to be excessive.

Other perks tax areas have apparently developed to favour the public sector. For housing benefits underwritten by employers, the seven-year phasing-out concession, which taxes only 10% of the taxable benefit this year, is available only to some taxpayers. It is clearly available to the public sector as a whole, and to parastatal employees, but has only limited application in the private sector.

In essence, to qualify for the benefit by being "approved," the scheme must have been in existence before March 1984. Because of the uncertainties in perks tax law before then, most private sector companies did not have schemes and were penalised for waiting for clarification of the law.

Schweppenhauser says 700 privately administered schemes have been approved to date, a poor percentage of SA's 170 000 registered companies. He nevertheless says that the housing phasing-in concession "is enjoyed by a considerable number of private sector employees."

He argues that the benefits under the civil service scheme are "modest" compared with those under many private schemes. An example he gives is the maximum loan subsidised under the civil service scheme of R50 000, applicable to all staff categories.

During this year, a number of ad hoc tax exemptions have been handed out to certain members of the public service. From the timing and nature of the announcements it can be construed that the benefits are designed for the appearance of being tailored for specific circumstances rather than part of a general policy.

Judges, for example, are exempted from tax on an allowance of R3 000/year and the State President is exempted from tax on all remuneration.

Schweppenhauser argues that the tax laws governing travel benefits, houses and cars do not discriminate between the sectors. On the question of travel benefits, the law gives special treatment to travel facilities granted to an employee, his spouse or minor child by an employer who is engaged in the business of conveying passengers for reward by land, sea or air. Sats is a prime example.

Kessel Feinstein's Raymond Fine notes that phasing-in provisions apply to the taxable portion of any travel allowance given to a holder of public office. However, private sector employees do not qualify for a phasing-in concession on a portion of a travelling allowance if the commissioner says the allowance is excessive in relation to 1985.

Furthermore, holders of public office are exempt from tax on R2 500 of allowances or 5% on remuneration for certain designated outlays. Schweppenhauser comments: "This is not an exemption as the provision relates to expenditure on hospitality, that is, entertainment expenses, and the expenditure must be incurred."

"The provision is the counterpart of a similar provision applicable only to the private sector." Here Fine notes that holders of public office are *also* exempt from tax on any allowance given to defray expenditure incurred "for purpose of their office."

Ernst & Whinney's Chris Hassall, like Fine, says that, by and large the perks tax law has done much to iron out inequities between the sectors. There is some balance between the special benefits available to the public sector, for example, and the sometimes large private sector housing benefits.

Hassall says the biggest inequity remaining is the difference between private and public sector retirement benefits. The maximum tax-free lump sum in the private sector is R80 000 or R3 000 multiplied by the number of years the retiring employee was a member of the fund.

In the public sector a retirement lump-sum payment is totally tax-free regardless of the amount. This fact is not generally known to the public but should be brought to its attention because of the large amounts of money involved. It is not unusual for a retiring public sector employee to be paid R100 000-R200 000 tax-free. Private sector contributions to funds by both employee and employer are subject to limits. In the public sector both amounts are unlimited, so it is unwise for an employee not to load contributions as retirement approaches.

No tax system is perfect and injustices and anomalies in tax law are as inevitable as taxation itself. The difficulty is that tax is now part of the fabric of modern society and is perceived almost in as many different ways as there are members of society.

In a country where the enfranchised minority pays the vast majority of taxes the sovereign power remains with the electorate. To that extent the burden on Pretoria for administration of a tax system that treats all alike is prescriptive. ■

Fine

Schweppenhauser

Hassall

R600 m Christmas bonus for taxpayers

Mercury 19/11/85

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JOHANNESBURG—President Botha revealed plans for a R600 million Christmas bonus for millions of taxpayers and companies last night.

Mercury Correspondent

Speaking to leading businessmen, bankers, and civil servants at a reception by the Commission for Administration, Mr Botha announced that the repayment of the 1979 loan levy would be advanced from February, 1986, to December this year to improve cash flow for companies and individuals.

An amount of R216 million, including interest and capital, would be paid to individuals and R432 million to companies.

In addition, the President said, the official interest rate used for the quantification of specific fringe benefits would be decreased from 18 percent to 15 percent with effect from December 1, decreasing the tax burden on people who received loans from employers at less than 18 percent.

The 7 percent levy on income tax would also be discontinued from March 1, next year, decreasing the maximum tax rate to 50 percent and costing the Government R500 million.

Ideas

Mr Botha asked for ideas from the business community on the Government's privatisation programme, calling on leaders to talk on the matter to the Minister for Administration and Economic Advisory Services.

The President said there appeared to be an opinion that the present low rand-dollar exchange rate could be judged independently from other financial variables, and that it 'primarily resulted from recent socio-political developments in South Africa'.

'Too many of us are at present suffering from a bad attack of economic pessimism representing a mistaken interpretation of our present situation.'

What South Africa needed, he said, was 'a healthy dose of realistic expectation in view of the undeniable strength and potential of the economy'.

'We are now reaping the benefits of sacrifices in the economic and financial field,' President Botha said.

He assured the businessmen and bankers that the Government was 'particularly mindful to see that the excessive demand, with the consequent adverse effect on inflation, will not develop again'.

ARGUS 19/11/85 (32c)

THE ECONOMY

Botha's tax relief package

The State President has announced a series of measures to bring relief to the economy. Sapa reports from Johannesburg

THE State President, Mr P W Botha, has announced a package of financial measures to bring relief to the economy.

They include:

- The scrapping of the seven percent levy on income tax from March 1 and the lowering of the maximum income tax rate to 50 percent;
- Reduction of the interest rate at which fringe benefit taxation is calculated on certain loans received from employers, and on certain other benefits, from 18 percent to 15 percent;
- An early repayment of the 1979 loan levy.

Addressing the Commission for Administration, Mr Botha said the 1979 loan levy would be repaid in December this year, instead of February 1986.

This would involve a cash injection of R648 million into the economy.

He said the repayment consisted of R216 million in interest and capital to individuals and R432 million to companies.

He said the adjustment of the interest rate for calculation of fringe benefits would benefit homeowners and participants in schemes aimed at encouraging investment in shares.

Mr Botha said the reduction was in line with undertakings the government had made when it had imposed fringe benefit tax. The step had been taken in the light of the fall in interest rates.

The State President said the seven percent levy on income tax would be scrapped from March 1 next year, involving a loss in income of R500 million for the government in the next tax year.

This would have the effect of bringing the maximum income tax rate down to 50 percent. Mr Botha said this step had also been taken in terms of a government undertaking.

"We are now reaping the fruits of sacrifices in the economic and financial terrain," Mr Botha said.

He gave assurances that the government keeps a diligent eye on financial developments.

"We are especially taking care to prevent a repeat of excessive demand with its resulting negative influence on inflation," the President said.

Mr Botha said the government was aware of the heavy taxation burden on the public.

The Margo commission on tax structure had made good progress and the government was continually investigating ways of introducing taxation relief within the limits of economic change.

"It is already known that the government, on reaching certain monetary and fiscal goals at the end of July this year, adopted a course of moderate stimulation of the economy.

"Because fiscal measures can only be adopted with the approval of Parliament, the government's room for manouevre is limited.

"Against this background, however, I am pleased to announce that my colleague, the Minister of Finance, is considering certain steps that will bring a measure of relief," Mr Botha said.

He went on to announce the package of taxation relief measures.

Earlier, Mr Botha countered criticism of "unrealistic" bureaucratic growth and statements that the low rand exchange rate resulted mainly from socio-political developments.

The State President said employment in central government and provincial administrations had grown by 1,6 percent over the 21 months since June 1983.

The figures included a 14 percent growth in the number of black teachers, as well as a 9,5 percent and a 6,4 percent increase in the numbers of coloured and Indian teachers respectively.

"Against this background, it is clear that the accusations of a growing bureaucracy do not match up to the facts.

"Where there has been growth, it has taken place in key services providing development services to South Africa."

On the exchange rate, Mr Botha said it was well known that, over a number of years, adverse local and international circumstances had inhibited the growth potential of the economy.

This had resulted in, among other developments, the steep fall in the rand's value, and a "vulnerable" position in foreign reserves and in the current account of the balance of payments.

The rand had fallen from a peak of 1,36 dollars in January 1981 to 42 cents in January this year.

"This was a gradual depreciation of 94 American cents over a period of four years. Today, the value of the rand fluctuates between 37 and 39 American cents, which is only marginally less than the 42 American cents of January this year.

"I therefore trust that the often emotional debate about the rand/dollar exchange rate will henceforth be conducted on the basis of all relevant facts and in their true perspective.

"I am confident that, like so often in history, times of economic hardship will provide the opportunity for initiative and creativity," Mr Botha said.

Too many people were suffering from a "bad attack of economic pessimism," he added.

This was a mistaken interpretation of the present economic situation and was "unhealthy" for an economic revival.

"What we all now need instead, is a healthy dose of realistic expectations in view of the undeniable strength and the potential of our economy," he said.

Christmas cheer for taxpayers . . .

ARGUS 19/11/85

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Argus Correspondent

JOHANNESBURG. — President Botha's R648-million Christmas bonanza was given a rousing welcome by all sectors today.

Economists, business leaders, consumers and even political opponents say last night's promises of tax pay-outs and cuts are badly needed to breathe some life back into the economy and to give the country a psychological boost.

If the economic relief is coupled with tangible progress on the political reform front, the opinion is that South Africa's overall position could show dramatic improvement in 1986.

Right thing to do

Mr Rudolf Gouws, senior economist at Nedbank, said he was glad about the announcement. "It is the right thing to do at this moment, although it does make it even more imperative that the Government contain its expenditure. If we couple the announcement with positive political news then I think it could help to turn the national mood," he said.

Mr Andre Hamersma of Standard Bank said that while the measures did not amount to much it was nice to hear a positive announcement for a change. The package increased the risk of high inflation, but it also gave the country a much-needed psychological boost.

Mr Chris Ball, managing director of Barclays National Bank, said: "The tax measures will certainly help to relieve the financial pressures on many families. They should also help to restore confidence, which is low. Now we need to see action to tackle our problems with the rand exchange rate and high inflation."

Needs shot in the arm

Mr Conrad Strauss, managing director of Standard Bank, said: "The economy needs a shot in the arm, and this will help provide it."

Mr Harry Schwarz, Progressive Federal Party spokesman on finance, said the tax surcharge concession was obviously being announced now in an attempt to create a more optimistic attitude among businessmen for next year.

Mr Botha announced the package when he addressed business leaders from both the private and public sectors at a special reception given by the Commission for Administration.

The repayment of the 1979 loan levy has been brought forward from next February to next month, meaning the early pay-out of R216-million to individual taxpayers and R432-million to companies.

The 7 percent tax levy will be axed on March 1, leaving about R500-million more cash in the pockets of taxpayers in the 1986/87 tax year and bringing the top marginal rate back to 50 percent.

The official interest rate peg that determines the level of perks tax will be lowered from 18 percent to 15 percent from December 1, chopping the tax rate on fringe benefits.

December 14

About 1,5-million taxpayers can expect the postman to deliver cheques from the Department of Inland Revenue by December 14.

● The loan levy repayments will range from around R60 to more than R1 000, depending on 1979 incomes, The Argus Financial Editor writes.

Mr David Clegg, of the accounting firm Arthur Young, estimates the approximate repayments, excluding interest, for the different 1979 income groups will be: R5 000 — R40; R8 000 — R90; R13 000 — R220; R20 000 — R450; R25 000 — R700; and R30 000 — R1 000.

● See Page 15.

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Trade unionists glum over 'relief'

Labour Reporter

TRADE unionists are less than euphoric about the economic relief package announced by President P W Botha this week.

None of the measures would have any significance for workers at the lower end of the economic scale who were already the hardest pressed by inflation and the depressed state of the economy, they said.

Repayment of the loan levy would not affect blacks as they had not paid it, the scrapping of the seven percent levy on income tax next year would benefit only those paying significant taxes and the watering-down of fringe benefits tax helped only those receiving fringe benefits.

Hardest hit

"It seems the steps have been taken to placate businessmen but do not take into account the needs of the workers who have been hardest hit by the recession," said Mr Jan Theron, general secretary of the Food and Canning Workers' Union.

Mrs Dulcie Hartwell, general secretary of the National Union of Distributive Workers, said the loan levy repayments were of little value to lower-paid workers.

"What they will get back, even with interest, will be worth less than what they gave in 1979 and because they are so badly paid their repayments will be minuscule anyway," she said.

"The only benefit they'll get is that the repayments will be worth more now than they would have been in February next year."

Mrs Florence de Villiers, of the Domestic Workers' Association, said she hoped employers would not be selfish with what they received and remembered the plight of people who worked in their homes and helped maintain their standard of living.

"Inflation hits the lowest-paid workers most and they have also been hit with increased transport costs, rents and school fees.

"We would welcome it if employers passed some of these benefits on to their employees," she said.

Buying power

A Labour and Development Research Unit spokesman said he could see nothing of benefit for workers in the relief package.

"Workers' buying power has been falling quite dramatically in past months and this will do nothing to help them. Apart from the mineworkers, I don't know of one wage settlement in the past five months which has kept pace with the rate of inflation," he said.

GST should have been cut — Schwarz

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CAPE TIMES **Staff Reporters** 21/11/85

A SIGNIFICANT omission from the State President's package of financial measures to bring relief to the economy was a reduction in general sales tax, the PFP's spokesman on finance, Mr Harry Schwarz, said yesterday.

He said a reduction in GST "would have helped all income groups and would have been something which the public would have welcomed".

The injection of the loan levy funds into the pre-Christmas trade "demonstrates the worry of the government about the effect of its past policies which have contributed to the high level of unemployment and as such towards the unrest situation".

The reduction of the fringe benefits interest rate had been expected in view of the drop in the level of other interest rates and was not likely to have a great impact, Mr Schwarz said.

Mr J R Wilson, president of the South African Federated Chamber of Industries (FCI), said that against the background of the low levels of confidence in industry, Mr Botha's announcement was most welcome.

"It should make a substantial contribution towards creating a climate of greater optimism in the country. The FCI remains convinced that any policy package aimed at promoting more rapid growth will have to go hand-in-hand with greater progress in generating concrete results on the political front."

Mr Andrew Peile, president of Cape Town Chamber of Commerce, said the repeal of the 7 percent levy on income tax from March 1 was a very important relief measure.

Water, electricity cheaper for local authorities

Levies on employers will fund new RSCs

(320) S few 22/11/85

By Michael Tissong

The new Regional Services Councils (RSCs) would be funded by a services levy on salaries and wages paid by employers within a region, the Deputy Director-General of the Department of Constitutional Development and Planning, Mr Pieter Oelofsen, said yesterday.

Mr Oelofsen told the founding conference for the Urban Treasurers' Association (UTA) in Sandhurst that additional funds would come from a "regional establishment levy on business and industrial concerns based on the sale of goods on which sales tax is payable".

"Central Government is the largest employer in the country and will therefore make the biggest contribution to the income of the RSCs," he said.

The conference, which was sponsored by the multinational American computer corporation NCR, was attended by township mayors, councillors and town treasurers from black town councils around the country.

PENALTIES

Mr Oelofsen said the RSCs would also derive their income from levies for services to local authorities, penalties payable for offences in terms of the Regional Services Councils Act and loans.

He said the RSCs would provide services such as water and electricity to local authorities at a cheaper rate because the services would be provided in bulk and would be cost-effective.

Mr Oelofsen said the RSCs would be comprised of councillors from member local authorities, community councils and management committees.

"The councillor of an RSC will therefore be responsible to the local authority that he represents in the RSC.

"The number of votes of a local authority represented in an RSC will be calculated on a financial basis, depending on its relative contribution to the total income of the RSC."

Film-maker Jamie Uys was the master of ceremonies at the floor-wetting of M-Net's new headquarters in Randburg.

Floor-wetting party heralds creation of SA pay-TV service

M-Net, South Africa's first independent, all-entertainment, pay-TV channel, held a floor-wetting party last night at the site of its new headquarters in Randburg.

Total costs of the building will be R6 million, with a further R7,5 million in video and computer equipment.

The service will start broadcasting near the end of next year, initially presenting 40 hours — and later 65 hours — of entertainment programmes a week.

To receive the exclusive service, viewers will need a special decoder. The scrambled signal will be beamed over [illegible] and UHF frequencies to the metropolitan centres of Johannesburg, the Reef and Vereeniging. Three months later it will be extended to Pretoria and will then expand nationally.

Subscribers will get recent cinema films — a movie a night — plus film classics, comedies, international and local sporting events, concerts and children's programmes.

The company launching the new service, Electronic Media Network (M-Net), was set up by six newspaper publishers.

Basson robbed

CAPE TOWN — A member of the President's Council, Mr Japie Basson, of Tamboerskloof, was robbed of about R100 this week.

Police said Mr Basson was attacked by four men on his way home. He was not hurt. — Sapa.

[illegible] riots — [illegible] Minister

Tax concessions: Take them with a pinch of salt

W/t Argus 23/11/85 320

MONEY AND YOUR LIFE

Martin Spring

GOOD news this week from the State President, with his announcement of early repayment of the 1979 loan levy, a cut in the official rate used for calculating tax liability of certain fringe benefits, and the scrapping of the income tax surcharge as from March 1.

The loan levy is a kind of compulsory saving imposed by the Government in certain tax years. We had one last year.

The Government takes the money and spends it — but it is committed to repay taxpayers within seven years.

The levy is expressed as a percentage of income tax liability for the year, though sometimes those paying small amounts of tax are exmpted.

The 1979 levy, for example, was at 10 percent of income tax liability that year.

A loan levy is an excellent form of medium-term borrowing from the Government's point of view, because it forces taxpayers to accept a rate of interest far below what the Treasury would have to pay if it borrowed equivalent money on the free market.

When your 1979 loan levy is repaid to you, the amount you receive will include interest at 5 percent a year.

If the Government had borrowed that money on the capital market in 1979, it would have had to pay nearer 9 percent for seven-year money.

From your point of view, the loan you were forced to make has turned out to be a dismal failure as an "investment".

Inflation has destroyed more than three-fifths of the purchasing power of your capital over the seven years, and the tax-free interest you receive will only replace about half your loss.

The reduction in the official rate used to calculate the tax value of certain perks from 18 to 15 percent is a small but useful concession to any employee who has a "soft" or low-interest loan from his employer.

For example, if you are paying interest at 10 percent on such a loan, whereas you have been taxed on the difference between 10 and 18 percent — 8 percent — you will now be taxed on the difference between 10 and 15 — 5 percent.

As the official rate is always well below the rate you would normally have to pay as an individual to borrow, it is tax-efficient to take as much of your remuneration as you can in the form of interest rate subsidy on soft loans.

This is especially true while perks tax is still only be phased in, as you will only be taxed on a proportion of the tax value, not the full difference between the rate you pay and the official rate.

Note, however, that the passing-in advantage will not apply to new loan schemes or where it is clear that you are substituting an interest rate subsidy for salary that you would otherwise have received.

The scrapping of the 7 percent income tax surcharge as from March 1 will have the important effect of bringing down the maximum marginal rate of tax to 50 percent.

There is some evidence that 50 percent is a psychologically important level which, once breached, produces great emotional resistance among taxpayers, who resent giving *more* than half their additional earnings to the Government.

A maximum rate of more than 50 percent drives them to seek more leisure rather than more income, to become increasingly dishonest in tax matters, and to devote a large amount of time to seeking legal ways of avoiding tax — all to the disadvantage of the country and, ironically, reducing tax revenues.

There is much speculation that the tax concessions announced by the State President will be followed by major tax reforms in the Budget, such as index-linking of tax rates to prevent inflation's automatically generating huge extra amounts of money each year for the Government to spend; introduction of separate taxation for married men and women; and scrapping of estate duties.

You would be advised to take it all with a pinch of salt.

Government spending, already excessive, seems certain to go much higher next year. If that is to be financed, and major tax concessions are to be made as well, where is the extra money going to come from?

Out of higher taxes of other kinds, unfortunately.

● Martin Spring is editor of personal Finance Newsletter.

Gold mines may finance tax cuts

Arg 30/11/85

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DEREK TOMMEY
Financial Editor

A major question in financial and business circles where is the Government to get the extra cash it needs to be able to reduce personal income taxes in the next Budget — as it has hinted it will do.

Commerce, industry and agriculture are doing badly at the moment and there seems little hope of squeezing additional revenue from them.

However, there is one sector which is enjoying record profits — the gold mining industry — and it seems increasingly likely that the Government could attempt to raise extra revenue from it.

Mr Rob Lee chief economist at the Old Mutual, is one who believes that the gold mining industry could make a bigger contribution to the exchequer.

He said today that in investment circles the liklihood of an increase in mining taxation had been considered a possibility for some time.

"I think the Government would like to give the tax-payer a bigger tax cut than the abolition of the 7 percent surcharge," he said.

"The gold mines have received a windfall from the rise in the South African gold price, which they have not fully shared with the Government. It would like more of it."

Mr Louis Fourie, investment manager at the National Mutual, said he thought the gold mining industry was being specially favoured by the current mining tax structure, and said this was not in the country's interests.

"The concessions afforded the industry had distorted the economy and caused too much of the country's resources to be devoted to gold mining," he said. "This had made South Africa too dependent on gold. This emphasis on gold mining had also contributed to inflation.

"The only beneficiaries of the higher gold price had been gold mining shareholders.

"It is something that definitely must be addressed," he said. "But any change in the basis of mining tax would have to be phased in gradually to avoid disruption,."

Mr Fourie's remarks come at a time when the Government is facing growing pressure to reduce the South African income tax rates which are now among the highest in the world.

But to make the reductions worthwhile it will have to go much further than merely doing away with the 7 percent surcharge which has already been announced.

Income tax rates have not been adjusted for inflation since the 1970's and, with inflation still rising at 16 percent, drastic cuts in the tax rates would be necessary if the public were to receive any benefit.

But to cut personal income taxes significantly the Government would have to find revenue from other sources, and the gold mining industry which has been enjoying record profits recently would seem a prime target.

Although the gold mining tax rate, after taking into account the 25 percent surcharge, is around 70 percent, quarterly figures show that the average rate for the industry is actually only about 40 percent.

Heavy investment and capital allowances mainly account for the difference between the 70 percent and 40 percent tax rate.

It has been suggested that changes should be made in the way the mines are allowed to write off their capital expenditure. A slower depreciation rate would considerably increase the mines' taxable incomes and their tax payments.

If the Government could increase the tax rate actually paid from 40 percent to nearer 50 percent, it would receive an additional R1 billion a year in tax revenues.

This would make it much easier for the Government to cut income taxes.

It has also been argued that at the country's present state of development, it would be more beneficial to lower income taxes and stimulate stimulate personal saving and consumption than to further extend the gold mining industry.

Cape teachers paid

4/12/85 BUS DAY

CAPE teachers whose November salaries were withheld have been paid, after they threatened to take legal action.

A spokesman for the 2 000-strong Western Cape Teachers' Union said the union instructed attorneys to act on behalf of all teachers whose pay had been withheld for allegedly refusing to administer exams.

The teachers include the staff of Harold Cressy High School in Cape Town, about 27 teachers at Cathkin Senior Secondary School in Heideveld and a number of teachers at Alexander Sinton Senior Secondary School in Athlone. — Sapa.

No change in tax from gold

BUS DAY 4/12/85

STEPHEN CRANSTON

DESPITE a rand price of gold that is likely to continue at record levels next year, total tax receipts from gold are not expected to increase.

In fact, as a proportion of total state revenue, gold mine tax receipts will decline.

They now account for about 10% of the R30bn tax receipts, but will probably be down to 8,5% next year.

Louis Geldenhuys, economic consultant at stockbrokers George Huysamer and Partners, estimates that gold receipts will be R3bn, rather than the official estimate of R2,44bn.

First-quarter 1986 tax receipts will show an increase on the corresponding period in 1985 because the tax surcharge increase from 20% to 25% was imposed at the end of March this year.

Kohl's standing in polls rises

● KOHL

BONN — Chancellor Helmut Kohl's government, buffeted over the past year by scandals and low popularity ratings, has made a powerful comeback in opinion polls as West Germany gears up for a year-long election campaign.

An authoritative survey by ZDF television this week said Kohl's Christian Democratic party (CDU) had moved ahead of the opposition Social Democrats (SPD) for the first time in nine months and that the Chancellor's personal appeal was rising.

But CDU officials seized on another outcome of the poll as even more encouraging.

It indicated that optimism about the country's economic prospects is sweeping the country and fears about unemployment are receding.

"The poll reflects a substantial shift in the mood of the population towards greater confidence in the future. That will work in the government's favour and carry us through the next election," said a senior aide to Kohl.

The ZDF poll said the CDU now enjoyed 45% support compared with only 40% to 42% in the summer, while the SPD had slumped from 47% to 44% in one month.

The apparent change of mood, also reflected in another poll published yesterday, has dampened spirits in the SPD as the party prepares to open its campaign for the general election, scheduled for February 1987.

Johannes Rau, the SPD's candidate against Kohl, will present his policies in a speech in the town of Ahlen on December 16.

Prices rising for printing and packaging

4/12/85 BUS DAY

LINDA ENSOR

PRINTERS and packaging manufacturers foresee increases of more than 10% in the prices of printed matter and paperboard packaging early next year.

Commercial printing, newspapers, books, magazines, cartons, wrapping and printed stationery are likely to succumb to the inflationary spiral, according to the SA Printing and Allied Industries Federation.

Across-the-board weekly wage increases of R17,50 for skilled workers and R12 for unskilled workers in the industry are due to come into effect from January 1.

Mondi Paper and Sappi Fine Papers recently increased the price of fine papers and Sappi has indicated that the price of various coated-paper grades will shortly increase by 11%.

Regular adjustments needed

Bus Day 4/12/85

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Short-term insurance feels the bite of GST

ANDRE VAN ZYL

INFLATION and general sales tax have had a big impact on the short-term insurance industry, says Santam Insurance MD C J Oosthuizen.

And he expects premiums to be adjusted in March or April in an effort to counteract these factors.

Oosthuizen says Santam paid out R277m in claims, or about R1,1m every working day, with the average claim having increased by 20% during the year to September 30.

"We think the inflation rate is about 16% a year, but the inflation rate in the motor industry, which accounts for 50% or 60% of all claims, has been about 32% over the past year.

"The other big area for claims is burglary and theft of high-cost tradable items such as video machines and hi-fi equipment.

"In these instances there have been substantial cost increases and, as a result, a measure of under-insurance.

"Then there is the GST factor, the real impact of which is not yet fully appreciated.

"The bulk of our claims for 1985 were not in the form of cash paid to the people concerned, but cash paid for the replacement of stolen items or repairs to motor vehicles — both attracting 12% GST.

"Thus the R277m paid out included about R33m which went to the Receiver of Revenue.

"The Revenue authorities naturally expect to collect any additional GST from the moment it is introduced, but insurance companies have contracts which were established with the lower tax rate in mind, and therefore just have to carry the additional expense," says Oosthuizen.

He says premiums should be revised regularly — at least every six months — in order to overcome the effects of inflation and GST changes.

Santam increased its premiums in May last year, but Oosthuizen says the increases have not been sufficient because of costlier claims this year.

BUSINESS DAY, Friday, December 6 1985

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Old Mutual pleads for tax reform

CHRIS CAIRNCROSS

OLD MUTUAL yesterday castigated government for adopting tax policies that discouraged personal saving and capital formation.

Chairman Jan van der Horst told OM's annual meeting in Cape Town it was of fundamental importance that progress be made in creating an environment to stimulate personal and corporate saving.

Capital formation would have to play a much greater role in the economy because of the withdrawal of loan facilities by foreign banks and the lack of new investment.

He said it was unfortunate such woes had befallen SA at a time when the level of savings, especially of individuals, had fallen to an all-time low.

In the early 1970s, personal savings had amounted to more than 7% of gross domestic product (GDP). By 1984 this had dropped to 1,4%.

Personal savings had amounted to R1,5bn last year, including premiums of R5,4bn paid to life insurers.

This meant there had been a net dissaving of nearly R4bn, if the contribution made by the life assurance industry was excluded.

"This is to my mind a sorry, but not surprising, state of affairs.

"If saving is to be encouraged, it must offer an after-tax return that exceeds the rate of inflation, or else the savings actually diminish in terms of purchasing power with the passage of time."

Van der Horst said that for years the situation had existed where tax on full investment income had made it virtually impossible for anyone except those paying very low rates of tax to obtain a positive taxed return other than by investing in assets showing capital appreciation.

He suggested tax should be levied on investment income only to the extent that it exceeded the rate of inflation.

He called on the authorities to stop taxing dividends paid to shareholders because it constituted a punitive form of double taxation.

The life assurance industry, with the pension fund industry, was the only major savings medium still showing a positive rate of saving.

The long-term and contractual nature of their business enabled them to invest in long-term assets in a manner not open to banks, building societies and other institutions with essentially short-term obligations.

Through these and other long-term investments, the industry had made a major contribution to the provision of long-term capital for government and private enterprise.

"It is very much in the national interest that long-term saving through life assurance and pension funds should be positively encouraged by fiscal means.

"Moreover, the current trend towards more severe tax treatment of life assurance business needs to be halted and reversed."

Van der Horst said: "I want to state more specifically that I believe the trend that has occurred in recent years to impose heavier tax on the life assurance industry and to curb its activities in various ways is particularly unfortunate."

The arbitrary change in the life assurance tax formula in 1982 had led to a 33% increase in the rate payable on behalf of policy-holders, quite apart from the simultaneous increase in company tax rate.

In this year's Budget, an equally arbitrary levy had been imposed upon life assurers, resulting in a further increase of 37,5% in the rate of tax payable.

"As for individuals, it is particularly unfortunate that in terms of legislation passed earlier this year, they are themselves taxed on the proceeds of all but very small, new pure endowment policies, which amounts to double taxation," Van der Horst said.

● VAN DER HORST

Basic strengths can counter capital withdrawal

BUS DAY 6/12/85

THE fundamental strengths of the economy must be mobilised in a long-term strategy to counter the negative impact of the actual and threatened withdrawal of foreign capital.

Spelling out the components of his strategy at the OM meeting yesterday, chairman Jan van der Horst, called for:

☐ Stringent discipline in government spending. He said unless the authorities were able to reverse the trend of an increasing government share in the economy, they would not be able to lower the tax burden on the private sector, thereby hindering sustained economic growth.

☐ Privatisation. This involved allowing the private sector to perform services currently provided by government and the sale of state-owned productive assets.

☐ Tax reform. Van der Horst said that apart from securing a lower overall tax burden, the Margo Commission (on tax reform) had an historic opportunity to restructure the tax system to encourage efficiency and improve incentive.

He said the withdrawal of capital had made improved incentives for domestic saving particularly crucial.

☐ Urbanisation. Properly handled, Van der Horst said the natural economic process of urbanisation could provide a major stimulus to economic growth.

☐ Deregulation. Wherever possible, official restrictions and hindrances on the free movement of capital and labour must be removed.

Black Sash warning on unjust taxation system

(320) STAR 11/12/85

READERS' VIEWS

The Black Sash hopes that those people who are tempted to sign the petition being circulated by Public Tax Action will think twice before doing so. It calls for the abolition of personal income tax and its replacement by a tax on consumption (GST).

If personal income tax were to be abolished an additional R7 billion would have to be found at current levels of government spending. GST would, therefore, have to be almost doubled.

A tax on consumption might be equitable in a society where no one has an income below the Household Living Level, but it cannot be just when there are such extremes of wealth and poverty.

Reform of the taxation system must begin with the principle that there should be no taxation without representation. The black majority in this country has no representation in the central structures of government where the decisions are made as to how revenue will be spent.

It is wrong that PAYE is being deducted from the wage packets of black workers who have no vote. It is wrong that black people are forced to pay GST.

It would be even more unjust were they to be expected to pay increased levels of GST in order to relieve the wealthy of their tax burden.

Sheena Duncan

National President
Johannesburg

SEE LETTERS
Page 24

BUS DAY 10/12/85 (320)

PFP slams tax bite

GERALD REILLY

GOVERNMENT was the prime beneficiary of inflation, PFP finance spokesman Harry Schwarz said in Pretoria yesterday.

This was clear, he said, from the huge increase in income tax collections in the first eight months of the financial year compared with the same period last year.

According to the Department of Finance, collections for the eight months to October amounted to R9,147bn. This was R2,533bn greater than for the same period last year.

Finance Minister Barend du Plesssis estimated total collections for the 1985-86 financial year at R15,531bn.

GST collections also showed a sharp rise compared with last year, from R3,255bn to R4,599bn. Estimated collections for the whole of the financial year amount to R8,32bn.

Schwarz said that, because of inflation and bracket creep, the State was taking ever larger amounts of pre-tax incomes.

That inflation was "government's best friend" was also borne out by the fact that "good" money borrowed by government was being paid back in inflation-eroded "Barend du Plessis money."

12/12/85 BUS DAY

Taxpayers lose out on levy — Goodall

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● GOODALL

GERALD REILLY

GOVERNMENT had borrowed dirt-cheap money from taxpayers and repaid it seven years later with a third of its buying power destroyed by inflation, PFP finance spokesman Brian Goodall said in Pretoria yesterday.

Referring to the repayment of the 1979 loan levy, he said the amount involved, with the addition of 5% simple interest a year, amounted to about R630m — R420m to companies and R210m to individuals.

If the money had been invested in tax-free Post Office or building-society shares, it would have earned more than twice as much, Goodall estimated.

Companies earned R106,6m in interest and individuals about R56m; so individual taxpayers had been deprived of at least R60m over the seven years, while government had enjoyed the use of bargain money.

Goodall added that if government planned to impose further levies, taxpayers were entitled to a market-related rate.

There is speculation that the 1980 levy, which falls due for repayment in February 1987, could be paid out before then as part of government strategy to stimulate the economy in an attempt to contain unemployment.

In 1980, individuals paid R157 107 505 and companies R64 781 068. Interest was at 5% non-compound.

In 1983, government borrowed another R214 160 252, paying 8% a year interest — less than half the ruling rate at the time.

About 1,1-million cheques are being posted to taxpayers this week.

Big business puts pressure on Govt for tax relief

STAR 12/12/85

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By Michael Chester

The Minister of Finance has come under heavy pressure from the private sector to ease the tax burden on consumers in the next Budget.

With the clout of big business, the Association of Chambers of Commerce has urged Mr Barend du Plessis to "operate with a hacksaw rather than a scalpel" with tax cuts.

A tax protest is also being stirred by a non-political group under the banner of Public Tax Action. The group has set out to collect at least 250 000 signatures in the Transvaal alone towards a petition to the Minister demanding sweeping tax reforms. It plans to extend the campaign to the rest of the country as well.

A major grievance is the increase in the burden carried by individual taxpayers — in the past five years up from R2,1 billion R9 billion — while companies' share of the total tax load has shrunk from 41 percent to 22 percent.

Though bankers forecast a tough Budget as a result of South Africa's international debt problems, Assocom argues that the only way to turn the economic tide is by implementing a more liberal fiscal and monetary policy to raise the level of demand and employment.

Deprived

It insists in a year-end business review that the Minister has to put cash back in the pockets of the people to enable them to buy all those goods which they have been deprived of during the past two years or more.

"This will make factories productive again, restore jobs and take protesters off the township streets," says Assocom.

"A revival in our domestic economy will be a strain on the current account of the balance of payments and much of the current surplus will probably go to repay debts.

"The cutting of taxes means current State expenditure, too, will have to be reduced. This will have to be accompanied by the privatisation of many of the functions which are now performed — possibly at high cost — by the Government and local authorities."

Economists have been encouraged by the commitment by the State President, Mr P W Botha, to remove the seven percent surcharge on income tax, which he estimates will save taxpayers about R500 million next year. But they argue that more will be needed to end the tax protests especially if, as is widely predicted, inflation worsens next year.

Mr Brian Goodall, MP for Edenvale and the Progressive Federal Party spokesman on taxation, intends to rally full-scale opposition pressure inside Parliament to demand major tax concessions.

● See Page 21.

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Twin ogres keep the hard-working family man in poorhouse

Pay rises don't keep you ahead of inflation

Most taxpayers have become bewildered to find the harder they work and the more they earn the worse off they seem to be, says Miss Jane Ashburner who runs the remuneration division at P-E Corporate Services.

"The mystery deepens when the experts use jargon such as 'bracket creep' or 'fiscal drag' but really it's quite simple — they're trapped in a Catch 22 dilemma.

"The first ogre is inflation, which gnaws away at living standards, but an even worse ogre is our tax system which strips away rands faster the harder one tries to increase gross income to stay ahead of the price spiral.

"South Africa has a tax revolt on its hands because of the sharpness of the upward curve in the marginal tax rate that reaches a point where the taxman snatches 50c from every rand an unmarried person earns above R3 500 a month.

"The married person does not reach the ultimate 50 percent marginal tax rate until income goes over R5 000 a month — but very often that is the combined income of a husband and wife, which the taxman insists on lumping together.

"Lower down the income scale, more and more taxpayers are pushed up the tax ladder — nearer and nearer the supertax bracket — the faster they try to keep pace with inflation with pay increases.

Middle-income taxpayers are on the brink of revolt. The Minister of Finance is under intense pressure from all sides to find a new formula to end a Catch 22 phenomenon. MICHAEL CHESTER looks into the logic behind the growing discontent.

"It is the middle-income family that suffers most and is most baffled and frustrated. Something in the tax structure is going to snap. The sooner the better."

To illustrate the Catch 22 syndrome — and steer clear of the fiscal drag mumbo-jumbo — Miss Ashburner takes the case of a person on a middle-income gross salary of R2 500 a month five years ago.

He forked out R5 000 in tax that year — at an average tax rate of 16,7 percent. His annual take-home pay was R25 000, just enough to cover all living expenses.

Now...

If his pay packet grew at 12 percent a year in the struggle with inflation his gross salary in 1985 stands at R3 916 a month but his annual tax bill has raced to R12 500 because the marginal rate ladder has propelled his average tax rate to 26,6 percent.

If one assumes his living expenses kept in step with inflation they now total R39 500. Result: while he balanced the budget in 1981 he is running R5 000 short in trying to pay all his bills in 1985.

Mr Costa Divaris, another top tax planner, brings out more anomalies in trends.

Five years ago individuals paid R2,1 billion to the Department of Inland Revenue — a relatively modest 16 percent of total tax revenue.

Because of the quirks of the marginal rate ladder as salaries battle it out with the cost of living index, individuals will be stripped of R9 billion in the 1986 tax year. That 16 percent share of the burden has mushroomed to 32 percent — and that's before GST — up from only R1,6 billion in 1981 to R8,3 billion.

What also looks weird — and is the subject of lots of controversy — is that the share shouldered by companies has shrunk. In 1981 company tax totalled R5,2 billion or 41 percent of the total tax burden. In 1986, on current estimates, taxes will have grown to no higher than R6,1 billion — bringing the company share down to only 22 percent.

The reasons are not too hard to find. Though the company tax rate is pitched at 50 percent, leaving aside loan levies and surcharges, the corporate financial wizards burn the midnight oil to find loopholes to dilute tax liability.

As Mr Divaris puts it, while big business is a big complainer about the tax system it is also a big beneficiary.

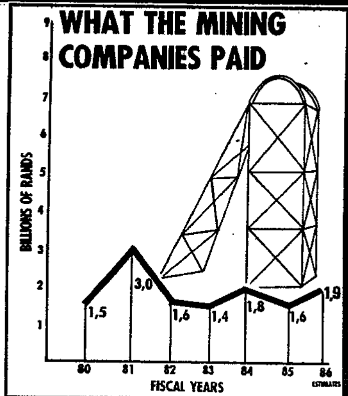
Not that the benefits are equally shared by companies.

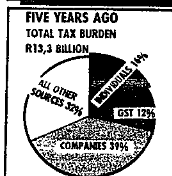
The major tax concessions — are enjoyed by the big mining and industrial corporations, farmers and exporters.

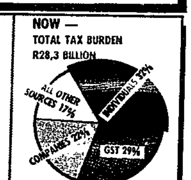
Small businesses — wholesalers, retailers and service and property companies — often end paying their full whack out of profits.

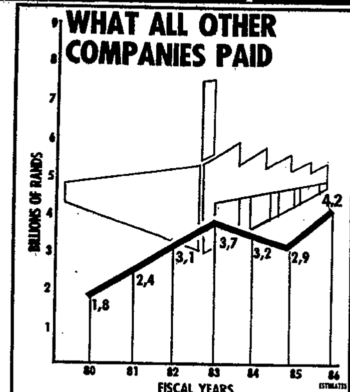
Professor Àttie de Vries, of the Bureau for Economic Research at Stellenbosch University, always with an ear close to the inner sanctums, forecasts that the Minister of Finance is likely to tackle the company tax anomalies when he scrapes away to find the cash to finance tax cuts for individuals in the next Budget.

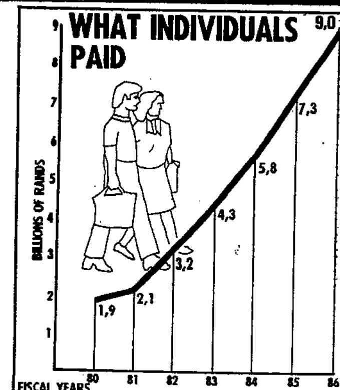
The professor predicts that Mr Barend du Plessis will search for a formula that will pitch the really *effective* tax rate for companies at about 40 percent.

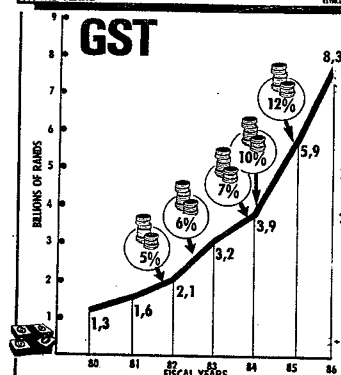












'Slash taxes' — call to help the consumer

ARGUS 12/12/85

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Argus Correspondent

JOHANNESBURG. — The Minister of Finance has come under unprecedented pressure from the private sector to ease the tax burden on consumers in the next Budget.

The Association of Chambers of Commerce has urged Mr Barend du Plessis to "operate with a hacksaw rather than a scalpel" on tax cuts.

A tax revolt is also being stirred by a non-political group under the banner of Public Tax Action.

The group has set out to collect at least 250 000 signatures in the Transvaal alone towards a petition to be delivered to the Minister to demand sweeping tax reforms.

Though bankers forecast a tough Budget as a result of South Africa's international debt problems, Assocom argues that the only way to turn the economic tide is by introducing a more liberal fiscal and monetary policy to raise the level of domestic demand — and, in turn, employment.

Houses, cars

Assocom insists, in its year-end business review, that the Minister "has to put cash back in the pockets of the people to enable them to buy all those goods of which they have been deprived during the past two years or more — houses, furniture, furnishings, clothes and footwear, not to mention cars".

"This will make our factories productive again, restore jobs and take protesters off the township streets," says Assocom.

"A revival in our domestic economy will be a strain on the current account of the balance of payments and much of the current surplus will probably go to repay debts.

"The cutting of taxes means that State expenditure, too, will have to be reduced. This will have to be accompanied by privatising many of the functions which are now performed — possibly at high cost — by the Government and local authorities."

R500-million

Economists have been encouraged by the commitment by the State President, Mr P W Botha, to remove the seven percent surcharge on income tax, which he estimates will save taxpayers about R500-million next year.

But they argue that more will be needed to end the tax revolt, especially if, as widely predicted, inflation worsens next year and cuts even deeper into living standards.

Mr Brian Goodall, MP for Edenvale and the Progressive Federal Party spokesman on taxation, intends to rally opposition pressure inside Parliament ahead of Budget Day to demand major tax concessions.

● See Page 32.

Tax revolt on the cards?

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BUS DAY 3/12/85

Business Day Reporter

ARE South Africa's overburdened taxpayers planning a tax revolt?

Petition forms lashing out at the income tax system and calling instead for a consumption tax have been widely distributed in Johannesburg.

A group calling itself Public Tax Action is behind the campaign, which, it insists, is not politically motivated but is aimed "solely at instituting a simplified, just tax-system".

The marginal tax system, says the petition, is "grossly unjust and discourages hard work and initiative — in fact it could be described as socialistic. It is also too complex and clumsy to be effective".

The campaign appears well-organised. The petition form — in an envelope printed with the words Public Tax Action — is accompanied by a postage-paid return envelope, addressed to an Auckland Park private bag number. Petitions, say the organisers, are to be forwarded to the Finance Minister.

BUSINESS

Argus 12/12/85

ECONOMY

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Income tax revolt looms for South Africa — expert

MICHAEL CHESTER
Argus Correspondent

JOHANNESBURG. — Most taxpayers have become bewildered to find the harder they work and the more they earn, the worse off they seem to be, says Miss Jane Ashburner, who runs the remuneration division at P-E Corporate Services.

"The mystery deepens when the experts use jargon such as 'bracket creep' or 'fiscal drag'. But it's really quite simple. They have become trapped in a Catch 22 dilemma.

"The first ogre is inflation, which gnaws away at living standards. But an even worse ogre is our tax system, which strips away rands the faster one tries to increase gross income to stay ahead of the prices spiral.

"South Africa has a tax revolt on its hands because of the sharpness of the upward curve in the marginal tax rate that reaches a point where the taxman snatches 50c from every single rand an unmarried person earns above R3 500 a month.

"The married person does not reach the ultimate 50 percent marginal tax rate until income goes over R5 000 a month — but very often that is the combined income of a husband and wife, which the tax-man insists on lumping together.

"Lower down the income scale, more and more taxpayers are pushed up the tax ladder — nearer and nearer the supertax bracket — the faster they try to keep pace with inflation with pay increases.

"It is the middle-income family that suffers most and is most baffled and frustrated. Something in the tax structure is going to snap. The sooner the better."

To illustrate the Catch 22 syndrome — and steer clear of the fiscal drag mumbo-jumbo — Miss Ashburner takes the case of a person on a middle-income gross salary of R2 000 a month five years ago.

He forked out R5 000 in tax that year — at an average tax rate of 16,7 percent. His annual take-home pay was R25 000, just enough to cover all living expenses.

Now, if his pay packet grew at 12 percent a year in the struggle with inflation, gross salary in 1985 stands at R3 916 a month.

But his annual tax bill has raced to R12 500 because the marginal rate ladder has propelled his average tax rate to 26,6 percent.

If one assumes his living expenses kept in step with inflation, they now total R39 500. Result: while he balanced the budget in 1981, he is running R5 000 short in trying to pay all his bills in 1985.

Mr Costa Divaris, another top tax planner, brings out more anomalies in trends.

Five years ago, individuals paid R2,1 billion to the Department of Inland Revenue — a relatively modest 16 percent of total tax revenue.

Because of the quirks of the marginal rate ladder as salaries battle it out with the cost of living index, individuals will be stripped of R9 billion in the 1986 tax year. That 16 percent share of the burden has mushroomed to 32 percent.

And that is before general sales tax has been counted up from only R1,6 billion in 1981 to R8,3 billion.

What also looks weird — and the subject of lots of controversy — is that the share shouldered by companies has actually shrunk.

In 1981 company tax totalled R5,2 billion, or 41 percent of the total tax burden. In 1986, on current estimates, taxes will have grown to no higher than R6,1 billion — bringing the company share down to only 22 percent.

The reasons are not too hard to find. Though the company tax rate is pitched at 50 percent, leaving aside loan levies and surcharges, the corporate financial wizards burn the midnight oil to find loopholes and allowances to dilute actual tax liability.

As Mr Divaris puts it, while big business is a big complainer about the tax system, it is also a big beneficiary.

Not that the benefits are equally shared by companies.

The major tax concessions — which can be found via routes that range from capital expenditure projects to complex financial packages for mergers and joint ventures — are enjoyed by the big mining and industrial corporations, farmers and exporters.

Small businesses — wholesalers, retailers and service and property companies — often end paying their full whack out of profits.

Professor Attie de Vries, of the Bureau for Economic Research at Stellenbosch University, always with an ear close to the inner sanctums, forecasts that the Minister of Finance is likely to tackle the company tax anomalies when he scrapes away to find the cash to finance tax cuts for individuals in the next Budget.

The professor predicts that Mr Barend du Plessis will search for a formula that will pitch the really effective tax rate for companies at about 40 percent.

Tax experts in the private sector believe that, whichever route the taken by the Minister, concessions will be crucial, especially to relieve the burden on middle-income families who have become the main Catch 22 victims.

BUS DAY 13/12/85

SA's burden 'very heavy' but ...

Barend rules out tax relief

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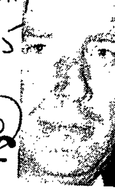

● DU PLESSIS

GOVERNMENT would like to see the heavy burden on SA taxpayers relieved, but not at a time when Pretoria could ill afford it, Finance Minister Barend du Plessis said yesterday.

Du Plessis told SABC Radio he believed SA's tax rate was "very heavy".

The drought, low maize price, low dollar price of gold and unexpectedly low mineral prices on overseas markets had to be taken into account.

"All of these factors have an effect on our ability as a country to make life easier for the people in SA.

"We have gone through a very difficult period and we are not through it yet," Du Plessis said.

Predictions of a 3% growth rate next year brought the prospect of life becoming a "bit easier" for the man in the street.

"Obviously, when we talk about a real growth rate of 3%, then we must see it in its full perspective," Du Plessis said.

"That is that there will be growth in the population, so that the increase in the overall wealth will be spread.

"But at least I think we can find consolation in the fact that a 3% positive growth rate is much better than the negative growth rate that we have had to suffer this year."

South Africans would have to "bite through this difficult period", he said.

"And there will be better and more lucrative opportunities for those people who are properly equipped to avail themselves of them."

It was important for the country to invest in upgrading the skills of its people so they could become attuned to the needs of the economy.

"So ultimately, in the kind of society we have, we are intent on preserving the basis of free enterprise," the minister said.

It was extremely difficult to find a consensus among the various interests in SA.

"No-one can say that, under extremely difficult circumstances, we have totally mismanaged the economy," he said.

The rand's performance was being closely watched and money supply was under control.

If money supply was allowed to get out of hand, "galloping inflation" would result. — Sapa.

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BUS DAY 20/12/85

TAX/Ken Boggis

Sales tax shuffle

NO ONE is quite sure of the steps to this familiar dance. Are they one step forward, a shuffle to the side and one step backward, or vice versa? At present the choreography is being looked at by the Margo Commission and, who knows, maybe the routine will be smoothed out and simplified.

If not, then perhaps more steps backward might suddenly find their way into the shuffle which could become an undignified scramble into reverse.

For instance, once the turnover of a business selling goods reaches R10 000 a year, it has to register as a vendor for sales tax purposes.

The intention of the R10 000 limit is to reduce administration and, probably, also to ensure that every Tom, Dick and Harry does not have a vendor's registration certificate which could be used to evade the sales tax. But if these are the objectives, the R10 000 limit is ridiculously low.

Difference

Neighbouring Zimbabwe — with a much smaller economy and a similar system of sales tax — recently raised its turnover limit to Z$50 000 (some R80 000 at the last look at the forex rates!)

The effect of the limitation can be seen if one takes a business with a turnover of R125 000 a year which operates on an average profit mark-up of 25%.

Assuming all sales are taxable, then (if the business were not registered) it would have to pay tax to its suppliers on purchases of R100 000 — i.e., R12 000 tax. If registered, the business would charge tax on sales of R125 000, amounting to some R15 000.

The difference in tax between registered or not is the gross profit of R25 000 at the current rate of 12%, which is equal to R3 000 a year. Where exempt items are sold (e.g., basic foodstuffs), the figure would be less than R3 000 a year, equivalent to R250 a month.

Consider the administration involved, both for the Receiver and for the business. The Receiver has to issue and process return forms monthly (Inland Revenue can make the accounting period longer).

The businessman has to produce his registration certificate to each supplier and to quote it every time he makes a purchase.

He has to have a system that distinguishes between sales revenue that is taxable and that which is not (his tills may need to be modified to that end) and tax has to be shown as a separate item on each invoice or cash slip.

All this for tax of only R250 a month! The additional administration for all concerned probably costs as much or more. Not only that, but inaccuracies — both accidental and deliberate — mean that further tax might be lost.

If registration were confined to those businesses with a large turnover, the logical next step would be to impose the tax at the wholesale stage instead of the retail stage, as at present.

For example, in the retail sector much of the grocery trade goes through large chain stores, where profit margins tend to be low because of fierce competition.

If sales tax revenue was seriously affected by changing to this system, the rate of tax could be raised marginally to compensate.

This system is used in Australia, and at a stroke would cut out an enormous amount of work that is both time-consuming and unproductive.

Unearthed

From the Commissioner's point of view, it would surely be easier to control a smaller number of large businesses than a large number of businesses — many of which are small.

More effective control would start to dispel the tales of the missing millions, some of which have recently been unearthed, but no doubt more — like the missing Kruger fortune — still lie undiscovered.

So to raise the R10 000 turnover limit would be to change the present sideways shuffle into a step forward. To leave it as is would be a backward step indeed. To advance to a wholesale basis might be two steps forward!

Another possible step forward would be the following:

Our sales tax system is broadly designed so that tax is paid by the end user. But in practice it is not as simple as that, because many inputs are nevertheless "taxed".

For example, tax has to be paid on petrol purchased and a business then builds this tax into the selling prices of its products. The same is true of advertising expenditure.

A "tax-on-tax" effect is the result, which apart from anything else is inflationary. When one considers that an estimated R3bn is spent on petroleum imports annually, the element of double taxation must be considerable.

One way of eliminating the problem would be to allow a business to acquire all its inputs exempt from tax. This would ensure that the tax is paid only when the goods reach the final consumer.

An alternative solution would be a Value Added Tax-type system. Although a business has to pay tax on its inputs, it is allowed to set-off this tax against the tax charged on its output.

Perhaps our committee on choreography could come up with a few of these new steps in the sales tax shuffle.

Even if they don't, there is nothing stopping the Minister of Finance leading his partner the Commissioner for Inland Revenue (or is it the other way around?) into a few more intricate steps — but let's make sure that they are steps forward and not backwards.

☐ *Ken Boggis is manager in charge of sales tax at Deloitte, Haskins & Sells.*

TAXATION FIN M4IC 27/12/86

Behind PE clamp 320

The thinking that prompted Finance Minister Barend du Plessis' notorious after-dinner speech on May 24 may have been explained. He says in a letter to the Life Offices Association (LOA) that the clampdown on pure endowments (PEs) announced that night will raise the fiscus at least R100m over the next 10 years.

The amount is less than 0,33% of this year's total tax haul. If this was the price for effectively ending one of the few savings products yielding real returns, it is a worrying facet of economic planning.

It may never be known whether the feared "loss" of revenue was the main reason for Du Plessis' clampdown. Also not known — as it can never be measured to any certain degree — is the detrimental effect it will have on personal and corporate savings.

The main criticism at the time was that it was disastrous virtually to ban an attractive savings tool in an economy with low savings ratios.

Apart from beneficial fiscal effects, the clampdown ended perceived abuse of PEs. Evidence indicated that PEs were used extensively in ways not foreseen. Examples were schemes for property, planned emigrations and business expansion.

Critics contended that the law could have been cleaned up to end these "abuses," but the measures went a lot further. Because PEs carry little and often no life cover, despite their qualification as an insurance product with all its tax and other advantages, returns are the highest of all insurance products. Not needing the usual health requirements, PEs sold to a much larger market than most insurance products.

When Du Plessis announced the clampdown, the insurance lobby and other interested parties argued furiously. The original proposals were toned down in the law passed on July 24.

The industry's main argument was that savings are the foundation of economic growth: SA's economic climate, combined with a tax system under investigation, did not encourage a high savings level.

In his letter Du Plessis says: "In 1981-1982 PEs constituted half the life insurance industry's taxable new business. Later statistics showed that new business of this kind almost trebled in less than three years to a premium value of some R300m a year, bringing total accumulated monies over this period to R1,5 billion.

"In theory, therefore, if the position were exploited to the hilt by policyholders of merely 10-year contracts with a premium of more than R100 000 a year, the block of annual business in 1984-1985 alone could constitute a loss of fiscal revenue of R100m in the following 10 years."

What moves the insurance industry will make to redress penalisation of PEs is open to speculation. To quote from Juta's new publication, *In touch with the Sixth Schedule*: "One of the reasons why the tax rules governing life policies are so often drastically changed is because the life insurance industry is 'too' successful. And one of the reasons why it is so successful is because it has always turned tax changes to its own advantage. It has consistently used tax changes as opportunities to:

- ☐ Create new products and services;
- ☐ Exploit new opportunities;
- ☐ Open new markets; and
- ☐ Re-establish contact with existing clients."

The news that the tax revenue effect was behind the PE clampdown may cause scorn in the insurance industry. But Pretoria was also alerted to high commissions attaching to big PE sales. So politics of envy may have played a part. ■

Financial Mail December 27 1985

MARIUS VAN BLERCK 27/12/85 (320) FIN MAIL

IN MY OPINION

Lifo reserve trouble

Marius van Blerck, of Arthur Andersen & Co, Cape Town, is a chartered accountant with a post-graduate degree in taxation. He is working on a study of the tax consequences of capital investment in South Africa.

The 1984 amendments to the Income Tax Act provided that lifo may not be used in future, but allowed companies to determine a "lifo reserve" on opening stocks for the first year of assessment ending on or after April 1 1984. This reserve in effect qualifies as a "permanent" deduction from stock and will only be reduced in limited circumstances.

The lifo reserve can create major problems in the course of takeovers, mergers and reorganisations, as it is not transferable from one company to another. Even if a company purchases the entire stock holding of another, the attendant lifo reserve cannot be transferred and will be lost forever to both companies. Given the material nature of the lifo reserve, especially when companies had used lifo for a number of years, the consequent unnecessary tax liability may be enormous.

The 1984 amendments did provide for limited transferability of the reserve, but for all practical purposes the concession is no longer of value as it required acquisition to have taken place before promulgation of the 1984 Income Tax Act.

It would be a welcome measure if this concession were to be amended to apply to future acquisitions.

Naturally, the Commissioner for Inland Revenue might want to tighten up the provisions relating to management and control of companies and eliminate the now-obsolete reference to the requirement that trading stock be valued at lifo.

There appears to be no reason why, having imposed provisions to limit abuse, the concession should not be extended at least to cover transactions between companies owned 100% within the same group. Consideration could be given to extending the concession and adding anti-avoidance provisions.

Our artificial and awkward tax system, whereby company earnings are effectively taxed twice and corporate groups may not set off tax losses incurred by group companies against taxable income earned by others, distorts the workings of our economy. Recession will exaggerate these problems. Non-transferability of the lifo reserve will prove a major hindrance to efficient re-organisation of groups of companies.

27/12/85 BUS DAY (320)

TAX/Trevor McGlashan

Avoid this Action

RECENTLY many taxpayers have received a letter from "Public Tax Action" through the post. The intention is that the recipient should sign a petition attached to a very simplistic plea and thereby add his cross for a change in the present tax system from a tax on income to a tax on expenditure.

The explanation accompanying the petition fails to disclose who the promoters of the petition are, which seems most peculiar indeed.

Most petitions are very clearly promoted by a vested interest (no matter how large or small) who are quite open and proud of the aim that they wish to preserve or institute. Public Tax Action is a private bag number in Auckland Park.

Target

In principle, we should all be for active participation by the public in tax matters, but this petition seems to have a number of flaws and anomalies.

First of all, as already mentioned, who are the promoters? *Taxgram* — part of the Juta Tax Library — in its November 1985 issue, claims that the petition is associated with LUASA (The Life Underwriters' Association of South Africa) and Professor Brian Kantor, of the University of Cape Town, and now an adviser to the Margo Commission — which is the ultimate target of the petition.

Secondly, the whole subject of an income versus an expenditure tax is very technical and highly controversial. Tax specialists internationally have argued for and against both systems; but perhaps the most telling argument is that most countries do have small (and in some cases not so small) indirect expenditure taxes, such as VAT or GST.

An expenditure tax as envisaged by Public Tax Action would be a substitute, for income tax would be levied on every non-saving transaction.

Nonetheless, recipients of the petition are expected to add their signature to a list when no doubt less than 1% of the signatories would be able to adequately describe exactly what they are petitioning for and how it would operate.

This sort of petition is hardly likely to influence the decision of the local branch of the Housewives' League, let alone a much more technically competent body like the Margo Commission. The end result is that the petition is unlikely to generate anything more than revenue for the Post Office.

Thirdly, and this is the best part, the petition claims to be non-political! Have the organisers of the petition never heard of the Boston Tea Party or the French Revolution? No doubt, if they have, they regard both these passing incidents in the history of Western democracy as purely political issues entirely unrelated to tax matters.

Loopholes

The true facts are that tax *is* politics and to try and deny this is to be either devious or very Machiavellian.

Governments are political animals. They are the institutes that levy taxes. Pressure groups all have vested political interests which may or may not coincide with the ruling party in government.

These vested interests lobby in order to get parliament to favour them — one has only to look at the special loopholes created in our Income Tax Act to see this. None of these loopholes was created by a benevolent government disguised as Father Christmas trying to bring goodwill and cheer.

The opposite is, in fact, the case: a particular power group lobbied for and won each concession in order to benefit itself.

So if the petition organisers really are "non-political," it seems hard to understand why they were not prepared to stand up and be counted by name.

After all, a petition organised and signed by leading businessmen who run the large organisations and institutions would carry far more weight, since the less-informed signer would at least know with whom he is aligning himself.

Instead, we have an unheard-of body called "Public Tax Action" asking people to append their signatures for heaven-knows-what ultimate goal.

Public interest in public affairs is all very well and to be admired. But it must be an informed public that participates, otherwise the whole matter boils down to emotionalism, such as has run rampant in the US recently where an uninformed public is being asked to petition for disinvestment in SA without knowing, or caring, about the real outcome — and that is pure political manoeuvering on a par with the behaviour of Public Tax Action.

Bulging

Imagine the scene for future budgets. The Minister of Finance arriving at Parliament with his briefcase bulging with petitions: one asking for total tax exemption for those families having more than two-and-a-half children; one asking for a rebate for persons with one blue eye and one green eye (and they can well get all such lucky individuals to sign their petition, and what minister could resist a request made by all those who fall within such classification?); and one pleading for higher taxes on all institutions earning more than R2m pre-tax profits?

The list would be endless and the end-result an Income Tax Act even more complicated than at present.

The aim of the Margo Commission is surely to have exactly the reverse happen — fewer privileged groups and a more simple system, taking into account the real political nature of taxation?

TAXATION — 1986

AUG - DEC

these groups in a better place to challenge the market leaders.

Allianz Life, local subsidiary of Europe's largest composite insurer, Allianz, entered the market seven years ago, when it bought Shield Life — renamed Allianz. Four years ago it bought Rand Life, a merger concluded in all but the formalities now awaiting processing in the office of the Registrar of Financial Institutions.

If the latest merger is concluded, shareholders will be the Allianz-Rand grouping, Volkskas Group and the Rembrandt Group, says Allianz MD Ron Cuthbert. Present shareholder Avbob will drop out.

Cuthbert, who was MD of Rand Life, took over as MD of the Rand-Allianz life operation. He retired in 1984 but was invited to return on the resignation of MD Peter Lamprecht in May.

Momentum Life is also the result of a previous merger. Its component parts are Monument Assurance and Afrikaanse Verbond Life Assurers, which merged in 1972. In 1977, this absorbed the local subsidiary of Yorkshire General Life Assurance, itself a merger of Yorkshire Insurance and General Life Assurance.

Assets of the Momentum-Allianz combine will include R143m from Allianz, R92m from Rand and R97m from Momentum. This totals R332m, but a revaluation to market levels of Momentum's investments and a contribution of fresh capital will raise the base to nearly R400m. ■

1/8/86

FIN MAIL

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WHO EARNS WHAT

The statistics on taxpayers' income distribution by racial group for the 1984-1985 fiscal year released by Finance Minister Barend du Plessis highlight some important trends.

By remarkable coincidence, the largest number of coloured, Indian and black taxpayers all fell into the R8 000-R9 000 category. The majority of whites, by contrast, fell into the R20 000-R25 000 group.

White taxpayers in the R7 000-R30 000 range totalled 852 185.

The latest research by Unisa's Bureau of Market Research on taxpayers by region indicates other important trends.

No less than 42,5% of assessments issued in 1980 fell in the PWV area. Between 1970 and 1982, the growth in assessments of whites, coloureds and Indians was highest in Natal at 53% above average, followed by the eastern Transvaal. The lowest growth at 42% of average was in the OFS, rich in tax-favoured farmers.

It may seem questionable that the table shows only 204 taxpayers with incomes in excess of R250 000, when SA is reputed to have well over 10 000 millionaires. But it is characteristic of most tax systems that the wealthiest can most easily reduce their taxable income.

Indeed, many millionaires may be among the 27 681 taxpayers who recorded nil income, or the 9 269 recording a loss for the year. Personal incomes can be stockpiled in companies, and other kinds of legal personae. Use of *inter vivos* trusts to delay the payment of tax is now commonplace. ■

TARGETING TAXPAYERS

Number of taxpayers in each income category

	Whites	Coloureds	Indians	Blacks
Loss	8 896	125	212	36
Nil	20 073	3 885	2 298	1 425
0 - R1 000	14 788	2 008	952	1 157
R1 001 - R2 000	16 781	3 124	1 230	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	24 448	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

NOTES

1. Figures exclude taxpayers under Final Deduction System.
2. Figures for 1984-85 fiscal year.

FIN MAIL 1/8/86

MOSES MAUBANE

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Looking at priorities

Moses Maubane, former MD of African Bank, is a man in limbo. His career is on hold while the Commercial Branch investigates the bank's foreign exchange dealings. Since his suspension together with eight colleagues, on May 22, Maubane has relinquished his directorships of the SA Perm, Johnson & Johnson and Premier Group Holdings.

"I made the decision to step down of my own volition," he said from his home in Atteridgeville, near Pretoria, where he lives with his wife and three children. Maubane, who acquired diplomas in accountancy and bookkeeping in the early Sixties, has worked under constant pressure ever since — as freelance writer, secretary, sales supervisor, accountant, university lecturer, Nafcoc executive and banker. Now he has nothing to do but attend to his personal concerns until investigations are concluded.

Maubane

What has he been doing with his time? "I've been praying," he said. A committed Christian Scientist, he has fallen back on his faith in previous life crises. He described the interlude as "opportunity to reassess life's priorities. One of the things you have to learn to is love your enemies."

The officer in charge, Brigadier Nollie Hulme, tells the *FM* it is difficult to predict how long investigations will take because documentation constantly has to be referred to auditors. He expects, however, that it will be at least another few months. ■

1/8/86

TAXATION

FIN MAIL

Unheralded carrot

A new regulation adds to the activities qualifying under the enhanced marketing allowance, one of the Income Tax Act's most enticing tax breaks. Arriving unheralded and unannounced in Government Gazette 10340, a schedule creates two new service industries qualifying for double tax deduction of costs.

The two new categories are for agents who "recruit" foreign investors, and businesses providing transport for such foreigners. The concessions are extremely broad (see table). The clauses need only be gazetted, not passed through Parliament. Observers feel there was no overt lobbying for the new break, arguing that its initiation is grounded in current political straits.

Use of the word "recruitment" regarding foreign investors connotes that policymakers are now desperate. The clauses could spur taxpayers to the ranks of unofficial government agents.

The operative words in the clause on recruitment of foreign investors are "assessing and obtaining" foreign investment opportunities. In the opinion of Fisher Hoffman Stride's Solly Gerber, a taxpayer need only prove that an opportunity has been assessed, not that business has been written as a result, to obtain the double deduction.

In the transport clause, read in conjunction with general provisions pertaining to the marketing allowance, all costs incurred in marketing the transport service would qualify. The transport clause applies to expenditure on both domestic and international services.

Sats and SAA do not pay tax, so fail to qualify for the tax break. In effect, 200% of qualifying costs under both clauses may be deducted against income. In practice, at the 50% tax rate, expenditure becomes costless, provided the agent has sufficient profits to absorb the allowance.

Gerber argues that in contrast to transport costs, all costs incurred under the recruitment clause qualify for double deduction — including entertainment, accommodation, telecommunications, office overheads, salaries and wages.

A businessman who travels to London and New York expressly to recruit foreign investors obviously qualifies. However, if he meets an investor in SA at his behest, the costs incurred would also qualify. The clauses offer potent tax planning opportunities.

A parallel or secondary business — especially for an import-export business — to take advantage of the new clause is easy to create. A businessman who regularly travels abroad or meets foreigners on business or holiday in SA will have a new (and potentially costless) insertion in his conversations.

One point worth noting in the broader context of tax principles is the apportionment of costs. Generally, if a cost is not incurred wholly under a qualifying section, it may be disallowed, or at best apportioned in a manner deemed fair by the authorities. The new clauses, however, provide ample room for apportionment of costs. ■

Additional schedule under Section 11 *bis* (4B) of the Income Tax Act

Trade recognised as an export service industry	Nature of income	Whether person carrying on the trade will, in the appropriate circumstances, qualify for the enhanced marketing allowance
Persons acting as agents in recruiting foreign investors to the Republic	Income derived in the form of commission and fees from foreign investors for assessing and obtaining investment opportunities for such investors in the Republic	Yes
Persons providing transport facilities	Income derived from the provision of transport facilities to foreign users, in an export country or between the Republic and an export country, provided such income is subject to tax in the Republic	Yes

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1/8/86 OD (321)

DAILY

Parity soon in teachers' pay

PRETORIA — Full parity in salaries for teachers of all population groups would be introduced from December 1, the Minister of Education and Development Aid, Dr Gerrit Viljoen, announced yesterday.

A statement by the Bureau for Information on behalf of Dr Viljoen said:

"I have pleasure in announcing that, following on a cabinet decision, full parity in salary for all teachers of all population groups will be introduced with effect from December 1 1986.

"This final step in the government's programme is of particular importance for black education.

"The teachers in the categories affected by this final step of parity comprise a total of about 81 000 teachers in the employ of the Department of Education and Training and the education departments of the self-governing national states."

The Minister for Administration and Economic Advisory Services in the office of the State President, Mr E. van der Merwe Louw, had announced that funds had been made available by the government for the elimination of disparities in salaries of personnel of different occupational groups, Dr Viljoen said.

Teachers in categories affected would receive either one or two salary notches to bring them to parity with their colleagues in other departments. — Sapa

Report on tax reform completed

Argus 6/8/86 320

By TOS WENTZEL
Political Correspondent

THE report of the Margo Commission into the country's tax structure and tax reform has been completed.

It will be handed to the State President, Mr P W Botha, later this month. A white paper giving the Government's attitude will then be prepared.

This was confirmed today by a spokesman for the Department of Finance.

The report and white paper are expected to be tabled in Parliament in the second session starting on August 18.

The commission, which was appointed in 1984, was under the chairmanship of Mr Justice Cecil Margo.

The report's recommendations are expected to lead to basic changes in the country's taxation system. The Minister of Finance, Mr Barend du Plessis, has already indicated that future budgets will be based largely on the commission's report.

CAPE TIMES 7/8/86

PC man testifies in fraud case

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Court Reporter

A MEMBER of the President's Council, Dr Ghoosain Mohammed, told the Regional Court yesterday he had known that about R98 000 tax money he had owed from 1975 to 1979 had been discharged.

Dr Mohammed was giving evidence in the trial of a former Receiver of Revenue tax official, Mr Jacobus Francois Erasmus Brand, 56, of Tafelsig Road, Loewenstein, who had pleaded not guilty to 19 charges of fraud involving R236 513.

Dr Mohammed said that in 1981 he was levied with an additional tax of R98 905.

On December 24, he paid the Receiver of Revenue R12 000. Mr Yusuf Armien, who looked after his financial affairs, told him the amount was excessive and advised him to stop payment.

He met Mr Brand briefly in May 1982, when Mr Armien brought him to Dr Mohammed's house. A few days later Mr Brand phoned him and asked for R2 000 in exchange for two post-dated cheques.

Dr Mohammed gave him the R2 000 as he had a "fear for the Receiver of Revenue". He had never heard from Mr Brand again and the cheques had been dishonoured.

Mr A L Laubscher was the magistrate. Mr A de Villiers le Grange appeared for the State. Mr J Rhoodie represented Mr Brand.

Argus 7/8/86

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Tax trial: Bid to give evidence in camera fails

Staff Reporter

A WYNBERG medical practitioner and former member of the President's Council failed in a bid to have his evidence for the State in a tax fraud case heard in camera.

He was giving evidence in the trial of former senior tax inspector Mr Jacobus Francois Erasmus Brand, who faces 30 charges of fraud and corruption involving R236 000 and 19 counts of illegally writing off back taxes for three businessmen.

Dr Ghoosein Mohamed asked to have his evidence heard in camera because he was unwilling to discuss his personal tax in public.

"Inhibited"

State prosecutor Mr A de Villiers le Grange asked that the case be held in camera because Dr Mohamed would be "inhibited" if the public remained in court.

Mr J Rhoodie, for Mr Brand, said people's financial affairs were made public daily in courts and an exception should not be made in the case of Mr Mohamed.

Magistrate Mr A L Laubscher ruled that the evidence be made in open court as he felt it was in the public's interest.

Mr le Grange said Dr Mohamed might be asked questions that could incriminate him in terms of the Bribery and Corruptions Act of 1967, and could be charged either as an accomplice or accessory.

Investigated

Mr Laubscher told Dr Mohamed that in terms of Section 204 of the Criminal Procedures Act he was obliged to give evidence, but if he answered honestly he might decide at the end of the trial to discharge him from prosecution.

Dr Mohamed said in his evidence that his tax affairs were investigated before 1981.

As a result of the investigation he received a reassessment in July 1981 and had to pay an additional R98 905 for the period 1971 to 1979.

Dr Mohamed said he made arrangements with the Receiver of Revenue to pay R1 000 a month and by December 1981 had paid R17 000.

He then instructed Mr Yusuf Armien to look after his financial affairs. Mr Armien said he thought R98 000 was excessive and asked for authority to negotiate with the Receiver of Revenue to have the amount reduced.

He told Dr Mohamed to stop the monthly payments until the review was completed.

In June 1986 Mr Armien brought Mr Brand to Dr Mohamed's house and introduced him as someone who worked at the Receiver of Revenue.

"They stayed very briefly. I would describe the visit as a social call," Dr Mohamed said.

A few days later Mr Brand telephoned him to ask if he would change two postdated cheques for R2 000.

"I agreed to change the cheques as I have a fear for people in the Revenue Department," he said.

In August 1982 two inspectors of the Receiver of Revenue told him the R98 000 had been discharged and he was no longer liable to pay the amount.

Mr Mohamed denied all knowledge of the back taxes being written off. He denied that Mr Brand discharged the amount in return for the R2 000 he had lent him.

Asked why he gave R2 000 to someone he had met only once, Dr Mohamed again said he feared people in the Revenue Department because of the previous investigation into his financial affairs.

Dr Mohamed said that when he cashed the two cheques — for R1 000 each — they were dishonoured and returned to the drawer.

Dr Mohamed later paid the tax in full.

The hearing has been postponed to October 6.

FIN MAIL 1/8/86

SUGAR SALES

The GST plea

Local sugar sales are taking a pounding — at a time when the domestic market, at both industrial and retail levels, is becoming increasingly important to the industry. Relative sales percentage changes over the past seven years reflect the increasing importance of this.

During the 1977-1978 season, domestic sales contributed 53% of industry income. However, since export prices began to fall six years ago, the industry has had to turn increasingly to the local market for its income. Last season, local sales contributed 77% of total income.

Translated into revenue, the figures tell a similar story. In the past five years, proceeds from local market sales totalled just over R3 billion, while export earnings over the same period barely approached R1 billion.

The steadily rising local sugar price is a major force behind the slowing sales pattern — as South African Sugar Association (SASA) officials confirm. The over-the-counter price of 2,5 kg of white sugar in Johannesburg is now R2,40. Industrial users pay R758/t.

This year, for example, the domestic sugar price was increased by 15%. Annual increases of this order have become an accepted pattern in the industry — although SASA is quick to point out that the long-term trend in price increases is below that of the CPI.

With the negative impact of a sluggish economy, high unemployment and the unrest situation disrupting the distribution pipeline and preventing sugar from reaching all its markets, sugar sales last season were down by 1,5% on the previous year.

Seen against the background of a positive 2,7% average growth in the long-term sales trend, and the growing importance of the domestic market in revenue terms, the slide is disturbing.

SASA's national marketing and communications manager, Frans Oosthuizen, says he does not expect this year's sales to be any better than 1985 — and if the political situation deteriorates, sales could fall even further.

"Quite frankly, one does not know what to expect for the rest of the season. With retail consumer expenditure down 7% in real terms, we will be doing well if we merely retain the same level as last year."

Given the high profile of the domestic market, falling sales are likely to have a significant impact on the industry's total earnings this season. However, with the industry's extreme sensitivity to criticism that it uses the price-controlled local market to make good total losses, SASA is unlikely to approach the government for a further price increase to compensate for shrinking sales volumes. "We will simply have to live with it," says Oosthuizen.

What is more likely is that SASA will step up pressure to have sugar added to the list of basic foodstuffs which are exempt from GST. That way it can be assured of an immediate 12% price reduction to help stimulate sales. ■

GLOBAL MARKETING

Hitting the target

The world is becoming ever more homogeneous as people come to demand the same kind of products wherever they may be.

LES PH

Les Phipps, assistant manager (advertising) for the *FM* and *Business Day*, died peacefully at Montana Guest Farm, Magaliesberg, on Sunday. He was 62.

He was born in London in 1923, and his first job — which he took at 15 — was with Afrikaanse Pers Beperk (APB), which ran an operation in London at that time. During World War II Phipps served with the RAF after which he rejoined APB as office manager.

He came to SA (to work here for APB) in 1964, and was appointed Advertisement Manager of the *Financial Gazette* has donated 20 000 ... heat to Mozam... ...adian High Com...

With most of the black reaction to the NSC Bill now with the Department ...

BUS DAY 7/8/86 (320)

PW to see tax report

Business Day Reporters

THE Margo Commission's report and recommendations on tax reform and a new tax structure for SA will be completed and delivered to State President PW Botha by the end of next week, officials in Finance Minister Barend du Plessis' office said yesterday.

The report will be reviewed by the State President and Du Plessis, among others, who will issue a White Paper on government's response.

Both the Commission report and government's White Paper are expected to be tabled in Parliament at the end of the month, according to a spokesman for Du Plessis. The Commission's recommendations will then be made public.

Johannesburg tax experts said none of the report's details had been disclosed. One authority reported, however, that the lengthy paper included several dissenting reports.

The Margo report, originally promised by the end of June, has been eagerly awaited since the Commission was appointed more than two years ago.

BUSDAY

Thursday, August 7 1986

Tax burden has soared

Alarm over spread of bureaucracy

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THE "plethora of bureaucracies" spawned by the policy of separate development is something that is truly alarming to South African businessmen, Building Industries Federation executive director L E Davis said yesterday.

He told the South African Institute of Public Administration's annual conference in Pretoria that the proliferation of government had resulted in an unacceptable increase in the tax burden, which in turn would have a serious detrimental effect on the long-term growth-potential of the SAeconomy.

Davis said there were "some significant figures" that lent credence to oft-made claims that South Africans were over-governed.

There were in South Africa, including the independent and non-independent homelands, about 156 government departments, each presumably under the control of a minister. There were about 1 190 members of parliament, all of whose salaries were paid by the SA tax-payer, "subject, of course, to adjustments from time to time".

He said the composite picture of the "ministerial elite" in the country read something like this: Eleven presidents/chief ministers/prime ministers; five departments of transport, five departments of foreign affairs, five departments of law and order, five departments of posts and telecommunication, 12 departments of works, five departments of national security, five departments of labour/manpower, three departments of justice, one department of Mineral and Energy Affairs, 14 finance/budget departments, one department of the environment, 11 departments of interior/home affairs, 18 departments of health and welfare, 14 departments of education and culture, 13 departments of urban affairs/local government/housing, 14 departments of agriculture and forestry and nine departments of economic affairs and trade and industry. — Sapa.

Dodgers' days are numbered, warns Mr Justice Margo

Tax cheats cost R11-bn

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8/8/86 STAR

By Frank Jeans

Tax evasion in South Africa has hit the staggering figure of R11 500 million a year — but the days of the "deliberate cheats" are numbered, Mr Justice Margo warned yesterday.

Speaking at the annual conference of the South African Property Owners' Association (Sapoa) in Johannesburg, Mr Justice Margo left no doubt in the minds of delegates that the days of "deliberate cheats" and the "taxpayer in the twilight zone" are numbered.

He also referred to the British system, which allows the names of tax dodgers to be published, and said: "We think we have some answers, but anyway, there will be substantial changes in this direction in the future."

Mr Justice Margo, who heads a commission of inquiry into South Africa's tax structure, said: "Imagine what we could do with that amount (R11 500 million) coming into the national Budget."

Or — as one observer pointed out later — what it could mean in tax cuts.

However, home owners should not expect tax relief on bond repayments.

Replying to a questioner the judge said: "The question of tax deduction on bond interest has been investigated, but in the Government's view there is very little chance of this happening."

Separate taxation problems

While Mr Justice Margo was understandably guarded, in order not to pre-empt publication of his commission's findings, he gave some other indications on what is in store under a new tax set-up.

On the question of the "marriage penalty" in the tax system, and the need for separate taxation without regard to sex, there are problems in the South African context as a result of more and more black people coming on to the tax register.

"There are complexities in this area," said the judge. "There is the problem of what the black man terms as marriage. Is it by custom, or is it formal?"

The commission has also taken into account measures such as tax on expenditure rather than on income, whereby the more you spend the more tax you pay, and conversely save on tax through less expenditure.

The concessions area, too, has obviously been brought under the Margo Commission microscope, and while there is much relief through the capital equipment investment allowance, the judge said some major corporations were making millions in profits — but under this concession were paying no tax. "This won't continue for much longer."

On the persistent inflation problem, the tax man just cannot find an answer. "This is the cancer which is destroying the very substance of the economy," the judge said. "You can apply panaceas, but you can't cure the disease through tax measures."

Argus 8/9/86

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Crackdown on R11-billion tax dodgers

From FRANK JEANS,
The Argus Correspondent

JOHANNESBURG. — Tax evasion in South Africa has hit the staggering figure of R11,5-billion a year, but the days of the deliberate cheats are numbered, Mr Justice Cecil Margo warned at the annual conference of South African Property Owners' Association in Johannesburg.

The judge left no doubt in the minds of Sapoa delegates that the days of the "deliberate cheats" and the "taxpayer in the twilight zone" are numbered.

He also referred to the British system whereby the names of tax dodgers are published and said: "We think we have some answers but there will be substantial changes in this direction in the future."

Mr Justice Margo, who heads a parliamentary commission into the whole tax structure, said: "Imagine what we could do with that amount coming into the national budget."

Or, as one observer was quick to point out, just think what it could mean in tax cuts.

However, homeowners should not expect tax relief on his bond repayments.

Guarded

Replying to a questioner, he said: "The question of tax deduction on bond interest has been investigated, but in the Government's view there is little chance of this happening."

While Mr Justice Margo was guarded so as not to pre-empt publication of his commission findings, he gave other indications on the new tax set-up.

On the question of the "marriage penalty" in the tax system and the need for separate taxation without regard to sex, there are problems in the South African context as a result of more blacks on the tax register.

"There is the problem of what the black man terms as marriage," said Mr Justice Margo. "Is it by custom or is it formal?

The commission has also taken into account measures such as tax on expenditure rather than on income, whereby the more you spend the more tax you pay and, conversely, a tax-saving through less expenditure.

The concessions area, too, has been brought under the Margo microscope and while there is much relief through the capital equipment investment allowance, Mr Justice Margo said some major corporations were making millions in profits, but under this concession were paying no tax.

"This won't continue for much longer," he said.

On the persistent inflation problem the taxman cannot find an answer.

"This is the cancer which is destroying the very substance of the economy," he said.

"You can apply panaceas but you can't cure the disease through tax measures."

8/8/86

TAXATION FM · 320

Big Brother's sticks

Tax authorities are increasingly resorting to punitive measures to gather arrears. The latest development is to issue garnishee orders on defaulting taxpayers (see page 37). So it is not surprising that tax-saving ideas and schemes have almost become a national sport; and seminars on tax and related areas are often sell-outs.

Consultants note that queries to corporate taxpayers on previous years' assessments are increasing, particularly on forex and lifo. Both involve large amounts and both have been the subject of recent tax and other rule changes. Further lifo tax changes are expected when parliament sits again later this month.

There are increasing reports of investigations into perks tax returns. But that personal taxpayers who overpay PAYE by R1 000 or more are subject to automatic audit, is not widely known. Whether such an audit is a rule now applied for normal random audit selections, or if it is only done if perks tax fiddling is suspected, is not clear.

But the private-sector dissatisfaction with an unstable tax system, and curiosity on how to deal with it, are developing. A lecture held by the SA Fiscal Association dealt with the reporting of unprofessional conduct by the Commissioner for Inland Revenue to relevant professional bodies.

This new rule, unprecedented in the West, was contained in the 1986 Income Tax Bill. Finance Minister Barend du Plessis said it would only be used in the most extreme cases.

BSP Seminars is giving lectures on company law in August-September. Its brochure emphasises areas of concern regarding income tax, GST and other imposts. It advises, for example, that companies in groups "probably overpay substantial amounts of tax through ignorance or poor tax management."

The seminar also covers two killers of entrepreneurial endeavour: perks tax on company loans and tax on share incentive schemes. The number of important changes to accounting disclosure is mentioned in a brochure entitled "Can earnings be manipulated without this fact being disclosed in financial statements?"

The use of accounts to manipulate tax liability is rumoured to be a topic of special investigation by the Margo Commission. But the SA Institute of Chartered Accountants denies knowledge of this; confirmation awaits publication of the report. This may happen during the coming short session of parliament, when another 1986 Income Tax Bill is also expected, mainly to pass the new perks tax company car table.

The 15% interest rate applicable to personal income tax arrears has also fallen under the spotlight. The rate has applied since September 1984, when it was increased from 8% — and has stuck through banks' prime rate striking 25% and falling back to 14%.

What irks many is that the 15% is not tax-deductible; but interest earned on cash to be refunded is taxable at marginal rates. On the other hand, from next year, provisional taxpayers will for the first time be paid interest on tax overpaid.

The highest legal interest rate, 10% a month on late or incorrect GST submissions (with a maximum of 100%), continues to spawn GST-avoidance schemes. One of the most popular is deferral of GST by use of a purchasing company within a group. ■

MARGO'S LAST LAP

FM. 8/8/82 320

The Margo Commission on tax, due to report at the end of June, has "almost completed its labours." It is meeting twice a week until August 22 to iron out differences of principle between commission members.

The completed report, now running to about 30 chapters, will then be handed to State President P W Botha. He will decide whether it should be tabled in parliament, or on other appropriate action.

Parliament is due to sit again for a short session (about six weeks) from August 18. With luck, the eagerly awaited report will be unveiled then. Implementation, or otherwise, of the commission's findings could have a profound effect on the development of SA's economic wealth for decades.

The commission has considered hundreds of submissions from the public and organised commerce and industry. It has also sifted through dozens of reports from specially appointed sub-committees and sent members abroad to see how others suffer from tax.

DAILY

DD 9/8/86

320

Margo: tax evasion now R11 500m a year

JOHANNESBURG — Tax evasion in South Africa has hit the staggering figure of R11 500 million a year — but the days of the "deliberate cheats" are numbered, Mr Justice Margo warned here.

Speaking at the annual conference of the South African Property Owners' Association in Johannesburg, Mr Margo left no doubt in the minds of delegates that the days of "deliberate cheats" and the "taxpayer in the twilight zone" are numbered.

He also referred to the British system, which allows the names of tax dodgers to be published, and said: "We think we have some answers but anyway, there will be substantial changes in the direction in the future."

Mr Margo who heads a commission of inquiry into South Africa's tax structure, said: "Imagine what we could do with that amount (R11 500 million) coming into the national Budget."

Or — as one observer pointed out later — what it could mean in tax cuts.

However, home owners should not expect tax relief on bond repayments. Mr Margo said: "The question of tax deduction on bond interest has been investigated but in the government's view there is very little chance of this happening."

While Mr Margo was guarded, in order not to pre-empt publication of his commission findings, he gave some other indications on what is in store under a new tax set-up.

On the question of the "marriage penalty" in the tax system and the need for separate taxation without regard to sex, there are problems in the South African context as a result of more and more black people coming on to the tax register.

"There are complexities in this area, he said. "There is the problem of what the black man terms a marriage. Is it by custom or is it formal."

The commission has also taken into account measures such as tax on expenditure rather than on income, whereby the more you spend the more tax you pay, and conversely save on tax through less expenditure.

The concessions area too, has obviously been brought under the Margo Commission microscope, and while there is much relief through the capital equipment investment allowance, he said some major corporations were making millions in profits — but under this concession were paying no tax. "This won't continue for much longer," he said. — Sapa ting Rozanne into his car. in happier days. 10.57 pm to 1.15am.

Judge corrects tax report

9/8/86 STAR 320

It was impossible to tell how much money was lost through tax evasion in South Africa, Mr Justice Margo said last night.

Correcting an impression reported in *The Star* yesterday, Mr Justice Margo said he had not stated at the South African Property Owners' Association conference on Thursday that the days of tax dodgers were numbered.

"I said it was impossible to tell how much money was involved. Authorities in Europe, who have written on the subject, estimate the loss in various countries to be between 7,5 percent and 30 percent.

'UNDERGROUND ECONOMY'

"I said: 'Just imagine what the loss would be in South Africa if it were in fact 30 percent of the budget'. It would amount to a staggering figure of R11 000 million. Of course, Revenue could never recover 100 percent of tax lost through evasion.

"I told the conference there was no doubt that loss was taking place through cheating, and the best method of dealing with that was by better inspections and more thorough investigations. I would think, if our recommendations are accepted, that a lot more tax will be recovered in future. Apart from cheating, I mentioned that there was the informal, twilight, underground or grey economy.

"I would not have said that dodgers days are numbered. As an advisory body, we have no power to say this."

Mr Justice Margo was quoted as saying the British system allowed names of tax dodgers to be published.

"In fact, I told the conference: 'In Britain, Lord Keith, a judge in the House of Lords, was heading a commission on tax evasion and his commission recommended that the names of tax evaders be published. But the legislature had not accepted that'."

Mr Justice Margo was quoted as saying that "in the Government's view" there was very little chance of tax deduction on bond interest happening.

"This was actually my view. I cannot speak for the Government as I am totally independent of them."

The article said some major corporations were making millions in profits but paying no tax under the capital equipment investment allowance, and quoted the judge as saying this would not continue much longer.

"What I said was that through the exploitation of the investment allowance, many companies making millions in profits had got away with paying very little tax. But the investment allowance has been abolished.

"Another allowance, known as the Initial Allowance, provided concessions which resulted in reduced tax payments. This will not continue much longer because the Initial Allowance ends on December 31."

And on the question of inflation, he said the tax man could not find a complete answer — "although the expenditure tax goes a long way towards meeting the problem". The article had said the tax man could find no answer to the inflation problem.

Problem seen with too many exemptions

Bus

320

10/8/86

GST heading for scrapheap — Barend

ANTHONY JOHNSON

GENERAL Sales Tax (GST) is likely to be scrapped or drastically reduced early next year.

If it is retained in a reduced form, all exemptions from the tax will probably be eliminated.

Minister of Finance Barend du Plessis said in an interview in Durban yesterday that if GST was retained at all, his department would recommend to the Cabinet that all existing exemptions be eliminated across the board.

Du Plessis said the Margo Commission, entrusted with reveiwing the entire tax system, was due to complete its report within days. He expected draft legislation encompassing its recommendations to go to Parliament early next year.

Describing GST as a "wrong tax", he said too many exemptions in the past had resulted in the need to raise it to unacceptably high levels.

He felt it was only fair that low-income earners exempted from personal tax should at least make some contribution to state coffers in the form of indirect tax.

Speaking earlier at the National Party's Natal congress, Du Plessis:

☐ Indicated he was in favour of tax breaks for top earners by raising the threshold for those who paid 47,5% tax from R60 000 to R80 000, R100 000 or R120 000.

(President P W Botha announced last month that that cabinet ministers' pay and allowance package would be increased by 35% from R84 920 to R114 930).

● To Page 2

VAT WAITING IN THE WINGS ...

Economics Reporters

GOVERNMENT sources yesterday indicated that GST could only be reduced, or abolished, if the action was accompanied by the introduction of another indirect tax, probably value added tax (VAT).

VAT emphasises tax on production rather than consumption and is imposed at all levels of the production and distribution process. In effect, however, it ultimately taxes consumption since producer taxes are built into the end retail price.

The sources also said the proposed turnover tax for Regional Services Councils could fall away, with GST, and be replaced with the new system.

They did caution, however, that the Margo Commission had not yet made a final decision — it was looking at alternative taxes — and differing views on tax reform would have to be reconciled.

A cut in GST would cost the fiscus heavily — every 1% cut in the rate

● To Page 2

CANADA'S ... bridge is to ... Platinum on ...

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Du Plessis and

Black pupils stay away

Taxes: What Justice Margo really said

ARGUS 12/8/86 (320)

The Argus Correspondent

JOHANNESBURG. — It was impossible to tell how much money was lost through tax evasion in South Africa, Mr Justice Margo has said.

Correcting an impression created in a report from Johannesburg published in The Argus last week, Mr Justice Margo said he had not stated at the South African Property Owners' Association conference on Thursday that the days of tax dodgers were numbered.

"I said: 'Just imagine what the loss would be in South Africa if it were in fact 30 percent of the budget'. It would amount to a staggering figure of R11 000-million. Of course, Revenue could never recover 100 percent of tax lost through evasion.

"I told the conference there was no doubt that loss was taking place through cheating, and the best method of dealing with that was by better inspections and more thorough investigations. I would think, if our recommendations are accepted, that a lot more tax will be recovered in future.

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And on the question of inflation, he said the tax man could not find a complete answer — "although the expenditure tax goes a long way towards meeting the problem". The article had said the tax man could find no answer to the inflation problem.

Minister: cut in GST likely next year

DD 15/8/86

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Dispatch Correspondent

DURBAN — General sales tax is likely to be scrapped or drastically reduced early next year.

If GST is retained in a reduced form, all exemptions from the tax will probably be eliminated.

The Minister of Finance, Mr Barend du Plessis, said in an interview yesterday that "if GST is retained at all," his department would recommend to the cabinet that all existing exemptions to the tax be eliminated across the board.

Mr Du Plessis said the Margo Commission of Inquiry, entrusted with reveiwing the entire tax system in South Africa, was due to complete its report "within days" and that he expected draft legislation encompassing its recommendations to go to Parliament early next year.

Describing GST as a "wrong tax," he said too many exemptions to the tax in the past had resulted in the need to raise it to unacceptably high levels.

Mr Du Plessis said he felt it was fair low income earners exempted from personal tax should make some contribution to the state's coffers in the form of indirect taxation.

Speaking earlier at the National Party's federal congress here, Mr Du Plessis also indicated he was in favour of tax breaks for top earners by raising the threshold for those who paid 47,5 per cent tax from R60 000 "to R80 000, R100 000 or R120 000".

He hinted that married couples should not expect major tax relief when the long-awaited Margo report was finally published and noted that tax concessions had already been granted to working wives earlier this year and that he was in favour of "keeping a balance" between the two-breadwinner family and highly productive single breawinners who sometimes did the equivalent of two jobs.

He stressed that the total contribution to the states' coffers had to be maintained if services [illegible] rorate married couples.

Speaking earlier, the deputy Minister of Finance, Trade and Industry, Mr Kent Durr, said he was in favour of a lower rate of GST where all items were included.

"The problem with the current tax system is that there are too many exemptions.

"In principle, it is our view that we should seek a simpler tax system with lower rates with everyone in," he said.

Mr Durr said that "at this time of tax reform and review" the government would attempt to provide as much tax relief as possible for the disadvantaged.

However, Mr Du Plessis warned that people calling for an overall reduction in the tax burden would have to live with fewer services.

The loss of revenue that would result from any tax exemptions for wives would probably have to be made up by the husband.

This was interpreted by delegates as a signal that separate taxation was not on the cards for

Argus 15/11/86

VAT may replace GST — Du Plessis

320

THE prospect that the 12 percent general sales tax will be replaced by a more comprehensive but lower value-added tax (VAT), in next year's Budget has been heightened by remarks by the Minister of Finance, Mr Barend du Plessis.

He told the National Party's Natal congress in Durban yesterday that the tax system was wrong. He said: "We must not again start on the slippery slope of tax concessions."

The Progressive Federal Party spokesman on finance, Mr Harry Schwarz, said this was typical of the haphazard way the Government ran the economy.

Mr du Plessis said one reason why GST had to be at its high level was because it helped compensate for the many concessions taxpayers enjoyed.

It was preferable that everyone paid his or her fair share of tax so rates could be lower. Many people who should be paying tax were not.

TREASURY UNHAPPY

This is not the first time that Mr du Plessis has indicated that he wants to change the GST system and it is known that the Treasury is unhappy with several aspects of it.

One reason is that it is believed that a substantial portion of GST is not finding its way to the Treasury.

As GST is collected only at point of sale and a many goods are exempt from the tax, there is plenty of scope for the dishonest trader to fiddle his GST returns and retain a fair amount of the tax for himself.

Spot checks by officials from the Department of Inland Revenue have confirmed in many instances that retailers were understating their sales and underpaying GST.

Another reason why the Treasury is unhappy with the tax is its high rate of 12 percent. This is a punitive rate, especially on "big-ticket" items and could possibly be blamed for part of the depressed conditions in the retail trade.

VAT, on the other hand, is levied at all stages of the distributive processes. As records

(Turn to Page 3, Col 6)

VAT may take place of GST

Argus 15/11/86

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(Cont. from Page 1)

would exist of all transactions, tax evaders were easily tracked.

The introduction of VAT would also give the Treasury a chance to extend the tax to all items, including basic foods which were exempt from GST, widening the tax net and enabling the tax rate to be reduced.

A tax rate of eight percent for VAT against the 12 percent for GST has been suggested.

But VAT has disadvantages.

It is a "cascade" tax with each producer in turn paying tax on his added value and its introduction could initially cause slight inflation.

The Argus Political Staff reports that Mr du Plessis's extraordinary announcement of changes when he expected to receive the report of the Margo Commission "within days", was typical of the haphazard way the Government ran the economy, according to Mr Schwarz.

Mr Schwarz warned that the public should not be deluded that the Government would abolish GST without introducing another form of indirect taxation, such as VAT. He said VAT was much more difficult to evade than GST.

(Report by D Tommey and D Braun, 122 St George's Street, Cape Town.)

N/M 19/8/86

(320)

may go

...eir act together

GENERAL sales tax is likely to be scrapped or drastically reduced early next year. But if GST is retained in a reduced form, all exemptions from the tax will probably be eliminated.

Parliamentary Correspondent

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Mr du Plessis said the Margo Commission, entrusted with reviewing the entire tax system, was due to complete its report 'within days' and that he expected draft legislation encompassing its recommendations to go to Parliament early next year.

Describing GST as a 'wrong tax', he said too many exemptions to the tax in the past had resulted in the need to raise it to unacceptably high levels.

Mr du Plessis said he felt it was only fair that low-income earners exempted from personal tax should at least make some contribution to the State's coffers in the form of indirect taxation.

Married

Speaking earlier at the National Party's Natal congress, Mr du Plessis also indicated that he was in favour of tax breaks for top earners by raising the threshold for those who pay 47½% tax from R60 000 'to R80 000, R100 000 or R120 000'.

And he hinted that married couples should not expect major tax relief when the Margo Report was finally published.

He noted that tax concession had already been granted to working wives earlier this year and that he was in favour of 'keeping a balance' between the two-breadwinner family and highly productive single breadwinners who sometimes did the equivalent of two jobs.

He emphasised that the total contribution to the State's coffers had to be maintained if services were not to deteriorate.

As such, the loss of revenue that would result from any tax exemptions for wives would probably have to be made up by the husband.

This was interpreted by delegates as a signal that separate taxation was not on the cards for married couples.

Speaking earlier, the Deputy-Minister of Finance, Trade and Industry, Mr Kent Durr, said he was personally in favour of a lower rate of GST where all items were included.

'The problem with the current tax system is that there are too may exemptions.'

'In principle, it is our view that we should seek a simpler tax system with lower rates with everyone in,' he said.

Mr Durr said that 'at this time of tax reform and review' the Government would attempt to provide as much tax relief as possible for the disadvantaged.

However, Mr du Plessis warned that people calling for an overall reduction in the tax burden would have to live with fewer services.

News of the minister's announcement of the likely scrapping of GST was greeted with scepticism by two tax experts in Durban last night, both whom believe if it was scrapped, valued added tax (VAT) would be substituted.

Mr Peter Bailey, tax partner with Cooper and Lybrand, said he could not see a total scrapping without alternative funding being introduced.

Mr Rob Stretch, tax partner at Ernst and Whinney, pointed out that VAT would tighten up end-user tax collection, especially in townships, which had proved difficult to police.

Incentive

Mr Stretch added that if the minister did increase the threshold of top earners to more than than its present R60 000 this would be welcomed, 'provided it gives them some sort of meaningful incentive'.

Mr John Pohl, executive director of the Natal Chamber of Industries, said his chamber believed the country was over-taxed and if in fact the Government was to do away with GST the withdrawal would very definitely be supported.

'If one tax is withdrawn one would be left with a vacuum and, as nature abhors a vacuum, something will have to be found to fill that gap,' he said.

A cut in GST would cost the fiscus heavily — every 1% cut in the rate would lose about R800 million in State revenue — making it unlikely that large cuts would be possible without an alternative source of revenue for the State.

15/8/86. FinMail

(320)

TAXATION

Margo Commission

The Margo Commission tax report is due to be completed within weeks, but chances are that it will only see the light of day in March 1987. Until publication of the report — or part of it — around the time of the Budget, taxpayers will have to hold their breath.

However, Margo has already influenced changes in tax law. A patent example is the granting to women of 20% of their income tax-free: Margo is said to be strongly in favour of overhauling the joint tax system.

Tax interest

Another example is the proposal to tax interest from independent homeland banks and building societies as if it is earned in SA. The principle is that the source of earnings should be ignored; a taxpayer should be taxed on worldwide income. In this case, it also means more cash for the South African fiscus.

There is widespread speculation in tax circles that the worldwide income principle is to be extended in this year's "second Income Tax Bill." This, it is understood, will be one of the first tabled when Parliament reconvenes on Monday. In 1970, the Franszen Commission on tax recommended a change to the worldwide basis, laying the ground rules for Margo.

In a related area, it is expected that companies earning (tax-free) foreign dividends will be hit. Many of these receipts are really payments of another kind, not true dividends. If they are taxed as normal income, such a company would expect a foreign tax credit.

There is also speculation that the Bill will contain amendments to cater for a mushrooming tax-film finance industry. Top marginal taxpayers are at no risk for amounts invested in film productions, but in some cases most of the budget is spent offshore.

Perks tax

Changes in perks tax are on the agenda, too. However, those expecting an extension of the initial allowance for manufacturers, which expires at the end of the year, may be in for a surprise. At last week's Sapoa conference, Judge Margo intimated that tax concessions deprive the fiscus of income.

The manufacturing investment allowance has already been terminated. There is much agreement that tax concessions should be replaced by cash grants.

Nobody really knows the cost of "tax expenditures;" most were won after lobbying by vested interest groups. ■

Hopeful buyers are 'holding back'

WM 16/8/86

(320)

Mercury Reporter

THERE has been widespread criticism by businessmen over the timing of the announcement that sales tax could be scrapped, and some companies said yesterday they had already noticed customers holding back on buying expensive items.

Mrs Margaret Hirsch, joint proprietor of the Hirsch group which specialises in sales of microwaves, fridges, video machines and television sets, said Finance Minister Barend du Plessis's remarks had given many consumers 'false hopes'.

Hoping

'Already, customers are definitely holding back. The only people who bought expensive appliances from us today were those who are emigrating.

'Many people are waiting, hoping that GST will be taken off,' she said.

'We get very annoyed when false hopes are created. Prices are going up at an alarming rate and if people do hold back in the hope that GST will go, they will lose out.'

Mr Brian McCarthy, chairman of the McCarthy motor group, said that in the light of the sensitivity of the market at the moment, the minister's hint was 'unwise' as it could lead people to wrong impressions.

'I think that customers considering delaying purchases in the hope of paying less would be totally misled.'

Mr Alec Rogoff, chairman of the Beare Brothers furniture group, said: 'I feel that if any hint is given that GST is going to be withdrawn, it should be accompanied by an announcement on what is going to replace it. Otherwise, it creates a feeling of uncertainty.'

Mr G Mundree, manager of video, television and hi-fi dealers Montgomery's Auditorium, said he believed the minister's remarks would have little effect on sales.

'People have become so used to prices going up all the time that they know they will eventually pay more if they delay buying something they really want.'

her admission to newspapers that her mother had allowed her to ... Wyman had been due back ... regretted having admitted their ...

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Criticism over tax uncertainty

Finance Editor

THE Government cannot afford to lose the R9,5 billion it expects to collect from general sales tax as it represents nearly one third of its annual working revenue.

But comments forecasting the scrapping of GST, made by Finance Minister Barend du Plessis and his deputy, Kent Durr, have come under fire from the Durban Metropolitan Chamber of Commerce because of the uncertainty over the question of tax.

'No one planning to buy a high-priced item, such as a car, will do so if he believes that the tax burden is likely to be reduced soon,' a businessman noted.

Economists consider that faced with business opposition to the taxes to finance regional services councils, the Government will bundle what it hoped to get from them and GST into a valued added tax (VAT).

VAT is imposed in the European Common Market and it forms an invisible tax levied at various stages of production. It is not favoured by business and industry because of the extra paperwork involved.

Tax specialist Costa Divaris said that introducing a new indirect tax would be a 'retrogressive step'. It would impose fresh costs on business, which is presently reeling under economic conditions worsened by Government policy.

'The business community has spent many years studying GST and has only recently comes to grips with the concept.'

There was little difference between GST or VAT. 'Under both systems, people get robbed,' he said.

The only way out of the present impasse was for Government to cut spending.

'They are sooner or later going to have to meet that challenge.'

Mining house economist Ronnie Bethlehem of Johannesburg Consolidated Investments said, conversely, that he 'took some heart' from the announcement.

A value-added levy was 'a much more comprehensive tax that leaves less scope for inconsistency, abberations and leakages', he said. 'Everyone has to pay'.

Mr Bethlehem supported a move toward lower direct income taxes and more indirect taxes like the GST and VAT that encouraged personal saving, particularly in an environment of foreign trade sanctions.

PFP finance spokesman Harry Schwarz said he could not believe Mr du Plessis would be talking about the Margo report before it had been released to Parliament or the public.

Mr Schwarz noted that the introduction of a modified VAT to replace GST had been advocated by his party for years.

'We were laughed out of Parliament.'

The Margo commission is understood to have considered, and possibly favoured, a VAT system.

Hopefu[l] buyers 'holding

Mercury Reporter

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Mrs Margaret Hirsch, joint proprietor of the

Buchanan holds that conflict is inevitable since the church reflects the conflict in the land. "I don't believe many blacks understand the depth of white fear and I don't believe many whites understand the depths of black anger and frustration.

"In any case, the Anglican church is a strange animal because of its history. Since the Reformation, there's been conflict between the Catholics and the Protestants which the church has held in an uneasy tension over five centuries.

"These ecclesiastical differences sometimes translate into political differences. The Anglican church has never trod a single path on any issue. It has always functioned within a framework of agreeing to disagree, which is both its strength and weakness. . ." ■

15/8/86
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FINMAIL

CLIVE KINGON

A taxing job

One of the main tasks of the new Commissioner for Inland Revenue, Clive Kingon, will be to evaluate the impact of the report of the Margo Commission on tax when it is presented to government within the next month or so. But Kingon's primary objective will be to continue improving the Department of Revenue's efficiency.

His main concern is the collection of the maximum tax at the least cost to the State. He concedes that productivity does not apply in the normal sense to a tax collector but notes that SA's Revenue's costs are but a small fraction of the total tax haul.

In its hunt for cash, Revenue has enlisted the help of over 100 chartered accountants over the past few years. Appointment of these new staff members has been fully supported by Finance Minister Barend du Plessis.

These young professionals are part of Revenue's new image. Kingon says that in terms of cost:yield ratio, their performance has been magnificent. The desire for better tax collection is also aided by Revenue's computer. It links the Pretoria head-office to 30 major offices country-wide.

Kingon is impressed by the computer's power and capabilities. "Estimating the effect of a change in tax rates which would

P.T.O

not possible, but the budget is constituted as follows:

	R
Staff	436 000
Administration	8 000
Printing	76 000
Equipment	20 000
Professional services	16 000
	556 000

Reference books/influx control

HANSARD

1161. Mrs H SUZMAN asked the Minister of Law and Order:

19/9/86

(a) How many (i) males and (ii) females were arrested by the South African Police for offences relating to reference books and influx control in each of the main urban centres of the Republic from 1 January 1986 up to and including the date on which arrests for such offences were suspended, (b) what was the total number of such arrests in the Republic during this period and (c) on what date were arrests for such offences suspended?

The MINISTER OF LAW AND ORDER:

(a) (i) and (ii)

East London	13
Bloemfontein	1 138
Johannesburg	223
Hillbrow	590
Sandton	44
Vereeniging	582
Krugersdorp	21
Roodepoort	211
Benoni	251
Brakpan	5
Germiston	650
Springs	19
Boksburg	44
Pretoria	7 555

(b) 13 481.

(c) 23 April 1986.

NOTE: No statistics with regard to males and females separately are kept by the South African Police.

Media: offences under emergency regulations

1169. Mr P G SOAL asked the Minister of Law and Order:

(1) Wether the South African Police have investigated any alleged offences by the media under the emergency regulations; if so, (a) in respect of which newspapers or broadcasting companies and (b) what offences were investigated in each case;

(2) whether (a) journalists and/or (b) newspapers have been charged with any offences under the emergency regulations as a result; if so, (i) what are their names, and (ii) with what alleged offences were they charged, in each case?

The MINISTER OF LAW AND ORDER:

(1) No

(a) and (b) Fall away.

(2) (a) and (b) No

(i) and (ii) Fall away.

L Mellet

HANSARD

1170. Mr P G SOAL asked the Minister of Law and Order:

(1) Whether the incumbent of the post of director of information for internal media at the Bureau for Information, whose name has been furnished to the South African Police for the purpose of the Minister's reply, holds or held any rank in the South African Police Force; if so, (a) what rank, (b) when did he attain this rank and (c) what is his name;

(2) whether this person has been seconded to the Bureau for Information; if so, from what date; if not, when did he cease to be a member of the Police Force?

The MINISTER OF LAW AND ORDER:

(1) Yes

(a) Brigadier

(b) 1 March 1986

(c) L Mellet.

(2) Yes, with effect from 1 April ~~1986.~~

Mines: taxable income

HANSARD 320

1172. Mr L F STOFBERG asked the Minister of Finance:†

What (a)(i) was the total gross taxable income of the mines in the Republic, (ii) was the prescribed percentage of income tax on mining profits and (iii) were the total sales of the mines concerned, and (b) was the effective income tax percentage paid by the mines concerned, in each of the 1982-83, 1983-84 and 1984-85 financial years?

The MINISTER OF FINANCE:

(a) (i) It is not clear what is meant by "gross taxable income". Income tax is calculated on "taxable income" as defined in section 1 of the Income Tax Act, 1962.

On the basis of assessments raised to date the total taxable income of the mines was as follows:

1982-83: R4 012 352 445
1983-84: R3 450 494 096
1984-85: R2 910 025 714

(ii) The prescribed income tax rates are as follows:

	Base Minerals			Diamonds		
Year	Basic	Surcharge	Total	Basic	Surcharge	Total
1982-83	42%	10%	46,2%	45%	15%	51,75%
1983-84	42%	10%	46,2%	45%	15%	51,75%
1984-85	50%	—	50%	45%	20%	54%

Gold mining companies are taxed at percentages determined in accordance with the following basic formulae:

Pre-1966 gold mines: $y = 60 - \frac{360}{x}$

Post-1966 gold mines: $y = 60 - \frac{\quad}{x}$

In these formulae y represents the percentage and x the ratio expressed as a percentage which the taxable income bears to the income.

To the percentages so determined the following surcharges are added:

1982-83: 15%
1983-84: 15%
1984-85: 20%

(iii) Statistics on which to base answers to these questions and (b) are not kept by the Department.

State of emergency: reports submitted for approval

HANSARD

1173. Mr P G SOAL asked the Minister of Law and Order:

(1) (a) What total number of news reports had been submitted to the South African Police by newspapers for approval for publication since the introduction of the state of emergency on 12 June 1986 and (b) how many such news reports had been approved by the police for publication as at the latest specified date for which information is available;

(2) what is the (a) rank of and (b) pos-

Clerical workers want tax scrapped

NATAL MERCURY 20/8/86

320

JOHANNESBURG—Four of the country's leading white-collar unions are urging the Minister of Finance to scrap fringe benefits taxation on low interest housing loans.

They are the South African Society of Bank Officials, the Building Society Officials' Association, Die Volkskas Amptenare Vereniging and Nedbank Staff Society.

Together, they represent more than 70 000 clerical workers.

'By imposing a punitive tax on low interest housing loans the Government is placing home ownership beyond the means of clerical workers,' says Sasbo general secretary Mr Ben Smith, whose union initiated the protest, in a letter to Mr Barend du Plessis.

'The Government has effectively stifled one of the most significant fruits of free enterprise.'

He goes on to say the tax was contributing to declining property values and the brain drain.

Utopian

'Helping South Africans of all races to own their own homes is one of the surest ways of restabilising South African society'.

'It is an internationally proven phenomenon that people with a stake in their countries become better satisfied with their lot, and thereby more secure and optimistic citizens. Given something of real value to lose, such people become more cautious about advocating radical causes which lean heavily on utopian promises which exist only in the minds of those elements bent on making South Africa ungovernable,' the statement said.

'In the past, only white South Africans had access to home ownership. In recent years the Government appears to have recognised this previous shortcoming and is now spending billions of rands in a crash programme to provide black and brown citizens with homes, many of which, hopefully, will be owned as opposed to being rented.

Modest

'Paradoxically, however, the authorities have through the introduction of a tax on fringe benefits, simultaneously made home ownership more difficult for the middle classes. Over the years, financial institutions have shown a willingness to make available low cost housing finance to their employees. In so doing they have a proud record of helping tens of thousands of South Africans to acquire homes of their own — an action which has positive ripple effects throughout the economy.

'This benefit added gilt to otherwise modest salaries and unquestionably provide greater stability to employment patterns.'

Pointing to Mr du Plessis's re-evaluation of fringe benefits tax on company cars following the tax's negative impact on the motor industry, Mr Smith called for similar measures on the tax on low-cost company housing loans.

'In addition to providing much-needed relief for clerical workers, this would stimulate both the real estate and construction industries,' the statement concluded. — (Sapa)

20/8/86 STAR (320)

BUSINESS

VAT will ease the tax man's burden

By Trevor Walker

The introduction of Value Added Tax (VAT) to replace the existing General Sales Tax (GST) will ease the problems of the hard-pressed office of the Receiver of Revenue, which is around 40 percent understaffed.

Although the Minister of Finance, Barend du Plessis, has yet to decide on the move, VAT is a more secure way of collecting indirect tax as it is levied at source and not at the point of sale, as with GST.

GST, despite its faults, has seen revenues from this source rocket to nearly R10 billion today.

There is no doubt the introduction of VAT would suit the new tax supremo, Clive Kingon. "We will be able to oversee and collect it," he said this week.

Kingon, 45 years with the Department of Inland Revenue feels very strongly that the Department has been run down over the years and even staff numbers are at ridiculously low levels.

The staff totals some 6 000 at the moment but Kingon asserts that by UK staffing levels, and the South African system is after all based on that of the UK, the department should have around 25 000 on its payroll.

But he'd settle for 10 000, yet in these economic times even this is impossible.

He points out that the biggest office, Johannesburg, has some 900 staff monitoring no less than 86 420 registered companies, plus a high proportion of the country's PAYE taxpayers.

By comparison Cape Town has a staff of 600, with 23 535 companies on register, Durban 600, with 25 014 while Nigel with a staff of 31 to monitor 525 companies. The smallest company register in the 31 offices of the Receiver of Revenue is that of Beaufort West with 221.

Kingon noted that there were a total of 230 609 companies registered in the Republic, while the total number of individual tax payers was 2 238 244. There are 154 098 PAYE employers and 260 54 GST vendors.

Individual taxpayers now make up the biggest slice of tax revenues at 50 plus percent, but this will change as companies can no longer claim the various allowances which enabled them to reduce their tax liabilities.

The estimated gold mines tax payements for the 86/87 financial year was R2,5 billion in the last budget as opposed to the R1,6 billion actual receipts the previous year.

Non-gold mining revenues were estimated at R5,8 billion compared with the previous actual of R3,77 billion, while individual tax receipts were set at R11,5 billion against R7,67 billion.

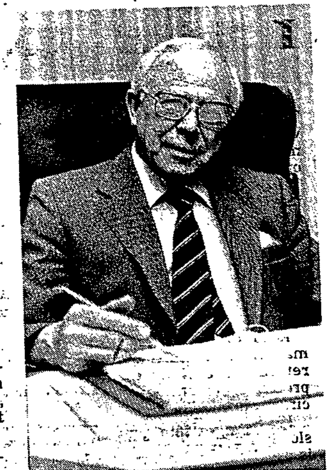
Kingon says, because the Civil Service generally employes matriculants, in-house training tends to take some time.

It also meant that at certain times no less than 10 to 20 percent of staff could well be on training courses. These in turn had to be conducted by experienced senior staff who might well be needed elsewhere.

Two years ago the Department was allowed to employ some 120 chartered accountants called up for military service. These people had been allowed to join the Department on a full time basis for four years.

The idea has proved very successful and it remained to be seen how many continue with the Department when their four-year term ends in about two years time.

With their access to housing loans, buying a house while "in the army" is a nice "perk", and might be enough to swing their decision in facour of staying on.



Clive Kingon, the new tax supremo

Park Ridge

JH Isaacs has been appointed sole leasing agent for the new Park Ridge office complex in Junction Avenue, Parktown.

The building is owned by the BP Pension Fund and is ready for immediate occupation.

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ed for 20 percent of production.

Star Screens' managing director, Mr Tony Evans, says: "Our expansion programme has been backed and financed by Scapa UK, so we can keep pace with the fast-growing technical development of the pulp and paper industry in southern Africa."

With the new loom, the company now has the capacity to make locally all the single and double layer fabrics used in the manufacture of products ranging from hardboard and cardboard to wrapping paper, newsprint and tissue.

BUDDAY

NEWS FOCUS

20/8/86 — 3.20

Tax experts look upon value-added tax with touch of scepticism

Economics Reporter

Some tax experts say it is certain that the removal of general sales tax (GST) would not mean lower taxes for consumers. In fact, some say the switch to a value-added tax (VAT) may provide government with an opportunity to increase the burden.

GOVERNMENT indications that it may swap General sales tax (GST) for some form of value-added tax (VAT) have left tax experts scrambling for answers to some unfamiliar questions.

They say it is certain that the removal of GST would not mean lower taxes for consumers. In fact, some say, the switch to a VAT may provide government with an opportunity to increase the burden.

"Government must have a very good reason to impose this tax — and that is to increase tax revenue," says Divaris-Stein's Costa Divaris, who points out that government considered and rejected a VAT system before it adopted GST eight years ago.

At this point, too, government officials have given no clues as to what form a VAT would take, if enacted. Some experts believe the Margo Commission has considered recommending a tax similar to the one implemented earlier this year in New Zealand; another says the new system could be modelled on VAT in France.

VAT varies in its application from country to country. In its broadest definition, however, it is a tax levied at every stage in the production process and passed ultimately to the consumer. Every taxpayer in the process except the consumer is rebated the tax paid on his purchases.

For example, if a manufacturer buys R100 of inputs for his factory, he must pay a VAT, say 15%, on the purchase price to the seller. If the same manufacturer sells his finished product to a distributor for R150, he must collect the VAT, again 15%, from his customer.

The manufacturer must give to Inland Revenue the difference between the VAT he collects — in this case, R22,50 — and the tax he paid on his purchase. In this way, government receives an incremental tax only on the value added to the product by the manufacturer.

The process repeats itself from distributor to retailer, and from retailer to consumer. Like the manufacturer, both distributor and retailer are refunded the VAT paid on their respective purchases. Only the consumer cannot recover his tax expense — unless the consumer is a foreign visitor.

The UK has one rate, currently 15%, charged on all goods. Other countries, like France and Ireland, have a system of multiple rates that range from 5% on basic foodstuffs to 35% on some luxury items. Such a system probably would involve greater administrative expense, both for industry and for government, and probably would take several years to implement.

Tax experts say, however, that Inland Revenue could gain several advantages by a move to VAT. First, it could reduce the revenue lost each year to tax evaders — retailers who charge their customers GST, but do not report tax collections to Inland Revenue.

With VAT, says Arthur Anderson tax manager Richard Rubin, "all that would be lost to evaders would be the profit at that last stage. There still would be means of avoiding the tax, but they would be less dramatic in their effect."

In addition, a new system could be more comprehensive in scope, eliminating the many exemptions that characterise GST. "The form GST has taken in SA has been determined on an *ad hoc* basis and people have tended to structure themselves around the exemptions," Rubin says.

Finally, government would experience a one-time revenue gain from the shifting of tax collection into the manufacturing end of the production process. Although consumers still would bear the ultimate tax burden, government would get the money sooner.

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Harsh penalties await those who do not comply

GST will still be around — experts

320

BUDAY 20/8/86

MICK COLLINS

DESPITE the anticipated introduction of value-added tax (VAT) by Finance Minister Barend du Plessis, general sales tax (GST) will be around for another three to four years, tax experts say.

And while GST is still a way of life, businessmen should be aware that penalties for failing to comply with legislation are harsh and costly.

Many companies are now commissioning independent reviews of their procedures to avoid falling foul of the Receiver of Revenue.

Ed Hoffman, a partner with accountants Peat Marwick, says the Sales Tax Act is a maze and is one of the most difficult laws to administer.

"Few companies have specialists in GST. Many managements have now called for independent reviews. The last thing they want is to be unpleasantly surprised by penalties because of an oversight uncovered by a snap inspection by the Receiver's office."

At 10% a month, a retrospective GST penalty can be as much as double the original tax.

"Some of our investigations have brought to light examples of firms in danger of incurring heavy penalties because GST is being incorrectly applied," says Hoffman.

The good news is that many investigations revealed over-payments of GST, which, when corrected, benefited cash flows.

Hoffman says one of the most common problems lies in the use of exemption certificates and interpretations by company buyers on what is exempt and what is not.

The Act's schedule 2 sets out exemptions for specific sectors such as manufacturing, commercial, mining and quarrying enterprises.

He says: "Our experience has shown that buyers are aware of exemptions applicable to their specific enterprise, but are quite unaware that within the exemptions there are non-qualifying goods."

If a tax investigation uncovers non-payment of GST on a non-qualifying item, the Receiver may calculate consumption of these items bought for three months or a year.

He may then extrapolate this back to 1978 and levy not only the GST but also penalties up to 100% for the entire period.

Hoffman says: "The incorrect application of GST for capital projects undertaken by a manufacturer for use in his own factory has in some instances led to overpayment of sales tax.

"This is a complex area which needs to be fully investigated." Fuel in bulk, such as piped gas, is also exempt, but if bought in cylinders, the tax applies.

Hoffman says: "As many vendors are not using their debtors' allowance correctly, they are paying GST unnecessarily." Contracts which carry escalation clauses, retentions, penalties and bonuses can also present problems.

Penalties for late performance do not affect the GST due. Tax is payable on the full amount of the contract irrespective of any deductions. Conversely, any bonus for early performance does not attract tax.

FIN MAIL 22/8/86

TAX REFORM 320

Goodbye, GST. . ?

Judging by hints from Finance Minister Barend du Plessis, GST could be radically overhauled or even scrapped. This stems from the all but completed report of the Margo Commission. If abolished, GST would most likely be replaced by a value-added-tax (VAT), the world's most widely used indirect tax.

The Sales Tax Act is difficult to interpret, making compliance complicated. But perhaps the most compelling reason for scrapping GST is the amount lost to tax evaders — at least R2 billion a year.

The idea of VAT was intimated, informally, by Judge Cecil Margo when the commission started work. In principle, VAT is applied at each point along the raw material-production-retail chain.

The consumer would still pay the same total — now 12% — but the tax authorities, rather than collecting it all from the retailer, would receive cumulative portions from each stage in the chain. Revenue would receive some of the tax earlier, for example, in the case of goods held in stock for a long time.

At the moment, a vendor who evades GST defrauds Revenue of the entire tax. Under VAT, a naughty vendor could only get away with the tax on the value he adds to the goods — the difference between his buying-in price and selling price.

Du Plessis also hinted that indirect taxes should be more broadly based. Judge Margo, informally, also argued that a characteristic of a good tax system is few, or preferably no, exemptions. The implication is that even if GST remains, exemptions may be abolished.

A recent series of seminars by Peat Marwick Mitchell illustrated just how complicated sales tax is. Many vendors are unaware of applicable exemptions; they are, too, unaware that a number of "non-qualifying goods" are listed under exemptions.

Centralised stores of large manufacturing companies are a vulnerable area. Materials bought for production, forming part of the finished product, are GST-exempt. But GST applies to goods bought for "own consumption."

Peat's Ed Hoffman says Revenue advises that a central stores department should buy all materials on a GST-exempt basis. As items are requisitioned for own consumption, GST is paid on an applied basis (indeed, the monthly return, VB5, provides for this).

Fuel in bulk, such as piped gas, is GST-exempt, but if it is bought in cylinders, GST applies.

But for one company, a certain gas, vital to its operations, was available only in cylinders. It had been paying GST on gas bought on a bulk basis for years. Representations to the Receiver led to the gas being classified as "fuel in bulk" and GST-exemption was obtained with a considerable saving.

Hoffman also pointed out that many vendors do not use the debtors' allowance correctly. They pay GST up-front (unnecessarily) on invoices — though they may wait 90 days or more for customers to settle bills.

Contracts carrying escalation conditions, retentions, penalties and bonuses are also a problem — especially if they extend over a number of years. Penalties for late performance do not affect GST due; it is payable on the full amount contracted irrespective of deductions by the buyer following late performance. But any bonus for early performance is GST-exempt.

Hoffman also highlighted firms that pay GST on GST-exempt transport. An "all-in" delivery charge including transport incurs a greater GST payment. So buyers should ensure that suppliers invoice separately for transport, since that element is GST-exempt.

Equipment or "hardware" for computers attracts GST; so do standard packaged "software" programs. But if a firm calls in experts to write and install custom-designed packages, this is not a "sale of goods." It is a service agreement, so GST-exempt.

The upshot is that GST is actually a transaction tax, not a sales tax; while the current 12% rate is much higher and its application much narrower than the intended idea of a "broadly-based low-rated indirect tax." ■

(320) BUSDAY 22/8/86

Tax Bill complicates debt problems

WASHINGTON — Despite a series of warnings from Federal Reserve Board chairman Paul Volcker, Congressional taxwriters, in their final compromise accord, have agreed measures likely to complicate a successful resolution of international debt problems.

The provisions run counter both to the thrust of Treasury Secretary James Baker's Third World debt initiative and to the trend of recent loan reschedulings for less developed countries. They mitigate against new lending to risky borrowers and tend to encourage banks to charge higher rates.

"These things are not welcome changes at a time when you need something in the other direction," says William Cline, a Third World debt expert affiliated with the Washington-based Institute for International Economics. "It's another adverse factor in the atmosphere weighing against new lending."

Although Volcker views the new measures as "counter-productive," passage of the compromise tax overhaul Bill by the full House of Representatives and Senate is considered almost assured and President Ronald Reagan has indicated he will sign the legislation.

The provisions in question would deny large banks a tax deduction for loan loss reserves and limit for all institutions tax credits on certain international loans. Although the latter measure will be phased in over eight years for credits to about 34 developing countries, the transition is considerably less generous than that initially proposed to Congress by the Treasury and endorsed by Volcker.

Initially, it appeared that the conferees would opt for the recommended more liberal phase-in period for cross-border loans, but at the last minute a change was made that basically put domestic considerations first. The taxwriters agreed to soften the loan-loss reserve provision for "troubled" banks (currently, mainly those with large exposure to farmers and the domestic energy sector) and to make up the lost revenues by tightening the measure relating to international advances.

The swop was necessary because lawmakers found it politically impossible to take concessions away from some other domestic interest group and give them to banks.

Analysts say major money centre banks are so heavily burdened with Third World debt that their behaviour won't be substantially affected by the unfavourable tax adjustments. "Our management won't be horribly influenced by it, but others probably will be," says John Garry, a Morgan Guaranty Trust senior vice-president with tax policy responsibilities. Citibank and other loan organisers will now probably have even more difficulty than before keeping dissident syndicate members in line, analysts say. — AP-DJ.

Assocom rejects VAT

25/8/86 BUS DAY (38) 320

THE Association of Chambers of Commerce of SA (Assocom) has released a report on their submissions to the Margo Commission opposing the introduction of value added tax (VAT) in place of the present GST.


● DU PLESSIS

This comes after comments by Finance Minister Barend du Plessis in favour of the abolition of GST.

The report, released in Cape Town, said Du Plessis seemed to have preempted the recommendations of the Margo Commission and announced publicly his preference for some form of value added tax (VAT) in place of the existing system of indirect tax. The Cape Town taxation committee, therefore, had forwarded the report to the Press. It was opposed to VAT.

General considerations submitted to the commission noted that both GST and VAT could be considered indirect forms of taxation, so the issue of replacing GST with VAT may be seen as a possible change from one form of indirect taxation to another form.

Some of the arguments set out are mutually contradictory and not conclusive or decisive.

Rejecting VAT, Assocom said it would re-emphasise the necessity to broaden the base of existing GST, thereby allowing the tax rate to be reduced — "a point made in Assocom's principal submission to the Commission." — Sapa.

VAT may not be cheaper than GST

By Reg Rumney 320 SMK 26/8/86

If you are putting off buying a new car in expectation of general sales tax (GST) being replaced with a cheaper form of tax, don't hold your breath.

That's the word from tax experts in the wake of Minister of Finance Mr Barend du Plessis' hint about the value added tax (VAT) system replacing GST.

Though feeling in the marketplace is strong that the Government is considering VAT, no-one can say definitely if and when.

The earliest likely date for introduction is thought to be after next year's Budget.

There's a big IF attached not only to VAT's introduction, and the timing of it, but also to whether it would mean consumers paying less tax.

Rumour has apparently been that VAT will be cheaper than GST.

But Mr Stefaan Minne of Arthur Andersen & Co said yesterday he was sceptical that VAT would mean cheaper final prices for the consumer, "because in the past taxes have not tended to come down".

He also questioned the basis of the assumption that VAT would be cheaper — that it would be more efficient.

New taxes in the past had started at a relatively low base, he said, and if VAT was effective in broadening the burden of indirect tax, this might mean that increases off that base would not be high.

But there were two question marks hanging over VAT's effectiveness in South Africa.

One was that a new system would involve start-up costs, the other was whether a complicated system like VAT would work here.

"We cannot be sure that an economy like ours with a large unsophisticated component is ripe for VAT. The extra income might not be as great as expected," he said.

A tax expert, who did not want to be named, said the introduction of VAT was speculation.

Even if VAT were introduced, there was no certainty as to which of the four or five systems in operation in the world would be chosen.

The Government might even choose to adapt an existing version.

But, he warned: "It would be typical of the Government to spring VAT on us at the last moment."

The thinking behind swapping VAT for GST is apparently that it widens the base of the indirect tax, and so makes it harder for the tax to be evaded.

VAT is collected at every stage of the exchange of goods and services.

In the UK system, the traders in the distribution chain do not bear the tax themselves, but pass it on to the consumer, who is at the end of the chain.

The manufacturer, wholesaler and retailer all act as collecting agents for the tax, a burden which with GST falls only on the retailer.

For the consumer, the final effect is like GST: you pay the tax.

Buying second-hand goods privately, however, would be cheaper, if South Africa followed the British VAT model, where private sales of second-hand goods are not subject to VAT, according to Mr Ken Walton, of Ernst & Whinney.

But, he said, buying a second-hand car from a dealer would mean paying VAT.

Cape Times 26/8/86 329

'Mistake to share out wealth through tax'

By AUDREY D'ANGELO
Assistant Financial Editor

IN SPITE of any constitutional safeguards, the chief executive of Assocom, Raymond Parsons, believes that as long as a central government can impose what taxes it sees fit minority groups will be threatened by "confiscatory levels of taxation.

"Introducing, for example, very high levels of taxation on particular business sectors — whether in mining, industry or commerce — could for all practical purposes become a close substitute for nationalizing such businesses."

Structure

He suggested that the best way to avoid this would be to build up a governmental structure made up of "a substantial number of autonomous, representative jurisdictions at local and provincial/state level joined into one at the national level."

To preserve their genuine independence, "each geographical level of government should in the main have its own sources of revenue and be independent of transfers from other authorities."

Parsons made these points in a speech at the weekend — the day after visiting Cape Town for talks with the Minister of Finance, Barend du Plessis.

This might give added significance to his remarks, at the opening of the Transvaal Association of Management Committees' local government and housing conference.

He said that the division of tax sources among the different levels of local government "will be a major issue in negotiation about an appropriate constitutional structure acceptable to all parties".

There was "much evidence in support of the proposition that the best means of redistributing income and wealth was to open employment opportunities and job advancement to all, regardless of race, colour, sex or creed.

"In turn, the best creator of jobs is rapid economic growth, which, according to World Bank studies, can best be promoted in relatively low tax countries."

Pressure

Parsons warned that it was likely that strong pressure to redistribute income and wealth through the tax system would "emerge in negotiations about the political future of the country".

But, he said, if political power — inside or outside the constitution — were used to coerce distribution, "the end result will be a serious deterioration of the productivity and stability of the whole economy."

This "would hardly constitute a very effective way of dealing with the poverty problem.

"If a society does not wish to lose such impressive producing power, it is up to its members to natotiate ways and means of sharing the fruits thereof in a generally acceptable manner."

Parsons said the task facing SA, at national and local level, was "to see to it that the best possible compromise is negotiated between our ultimate aims and our practical means for achieving them."

D W-J van Vuuren has been promoted to secretary of Federale Volksbeleggings.

Govt accused of 'taxing by decree'

STAR 28/8/86

320

Finance Staff

The Government's tendency to tax by decree without waiting for the findings of the Margo Commission on tax reform was yesterday criticised by Pim Goldby, one of South Africa's largest accounting practices.

Mr Graham Richardson, the partnership's national tax director said: "This is a disturbing trend. In the last 18 months since the Margo Commission began its work, several significant tax measures have been introduced by ministerial decree."

Among the measures introduced in the last 18 months are:

- Allowances for sporting or cultural sponsorships.
- Changes to the allowances for use of company cars.
- Payroll and turnover levies for regional services councils.
- An optional third provisional tax payment.
- Tightening up tax concessions on life offices' endowment policies.

Mr Richardson said that the country was increasingly witnessing a trend by Cabinet Ministers to set tax policy in significant areas by introducing new measures by decree.

"This tax-by-decree approach will inevitably rouse suspicion in some areas that tax policy is being used as an instrument of party political policy," he said.

"The other worry is that this trend is jumping the gun and anticipating the findings of the Margo Commission."

GST option for small businesses

29/8/88 Political Staff STAR 320

About 57 000 small businesses with annual turnovers of between R10 000 and R50 000 will soon be given the option of cancelling their GST certificates.

This was a result of the Government raising the turnover limit for exemption from the system, from R10 000 per annum to R50 000, the Minister of Finance, Mr Barend du Plessis said in a statement.

The purpose of the exemptions was to avoid small businesses going to the trouble and expense of collecting small amounts of tax.

"Such businesses pay sales tax on their inputs and what the fiscus loses as a result is the tax on the profit taken by the enterprise," the Minister said.

It had become clear that the R10 000 ceiling was too low. The law had been changed earlier this year to raise it to R50 000.

Inland Revenue had identified about 57 000 vendors whose registration certificates could now be cancelled.

Notices would be posted to them soon. They would have 10 days to decide. If they chose to cancel their certificates they would have to start paying GST on goods purchased for resale.

New, more comprehensive, registration certificates would be issued to the 205 000 vendors remaining on the register.

The tempo of tax inspections would be stepped up and thousands of businesses would be visited during coming weeks.

SALES TAX 320 Fin Mail 29/8/86

Leaflet anomaly

Taxpayers involved in sales tax disputes would no doubt welcome abolition of GST as mooted by Finance Minister Barend du Plessis recently. In many cases where the obligation to pay GST is open to interpretation, taxpayers cough up rather than risk substantial penalties.

One ongoing war of nerves concerns advertising leaflets.

In theory, GST is chargeable on distribution services, which include the insertion of leaflets in a newspaper, as well as "knock and drop" leaflets and any other service whereby advertisements are physically distributed.

If a supermarket chain, for example, decides to print 100 000 leaflets, it may contract the production to an advertising agency. If the agency bills the retailer for, say, R40 000, it would charge 12% GST, or R4 800, and pay this to the Receiver of Revenue.

If some other entity distributes the leaflet at a charge of, say, R5 000, 12% of this would also be collected from the retailer and handed over to the Receiver.

The Act defines an advertising service as any activity whereby a communication is directed or intended to be directed to the public, or a section thereof, through any advertisement in any newspaper, journal, pamphlet, leaflet, and so on.

Arthur Young's Sally de Boor says an insert through the medium of newsprint is clearly a communication as defined. But she says it can be argued that a leaflet distributed on a knock and drop basis could fall outside the definition.

Activity, says a Revenue spokesman, is the operative word in the definition. In the opinion of Revenue, a fee to a distributor, even for knock and drops, is rateable for GST purposes.

The issue was confused by a written ruling by the Johannesburg Receiver's office. Dated June 20 1986, this said "distribution by anyone of advertising leaflets/pamphlets is not regarded as a taxable service for GST purposes — as long as the distributor is not the entity responsible for the production of such advertising leaflets/pamphlets . . ."

The tax authorities in Pretoria have effectively overruled this: in-house clashes on interpretation of tax law are not unusual. But after the Johannesburg ruling, distributors did not collect GST for knock and drops. A number now fear if they are back-taxed they will be forced into bankruptcy.

Ernst & Whinney's Roger Bramwell comments that Pretoria's contention that the knock and drop distribution fee is taxable carries much weight. But, he says, the wording of the relevant section is loose. ■

N/M 30/8/86

Cheers

320

GST on liquor sales 'will be scrapped'

COLLECTION of general sales tax from the liquor industry, which has cost the State millions of rands in lost revenue through difficulty in its application, will be scrapped in favour of source-of-supply collection, according to Durban tax consultant Dr W A A Gouws.

Finance Reporter

The change would give Inland Revenue tighter control over the industry where mass avoidance of payment, malpractice and, in some cases, lack of understanding by black retailers of the law, have been impossible for the department to police.

It is estimated that consumers would have spent about R2,9 billion on liquor purchases in the 12-month period ending June this year, of which R340 million would be paid to the receiver in GST.

Empowered

A tax observer pointed out yesterday that if the system worked it would strengthen the Government's determination to replace GST with value added tax.

Dr Gouws, who made the proposals for a change in legislation through his representation of the Ukhamba Liquor Association, said the new Act would make it compulsory for GST to be paid on all liquor transactions from farmer to end-user.

The Act was also expected to include imported liquor through port of entry or from the homelands.

The Commissioner for Inland Revenue, Mr Clive Kingon, refused to confirm the change yesterday, but agreed that under the new law the Minister of Finance was empowered to change the method of GST collection in any industry.

He confirmed that discussions on GST had been held with the liquor trade but pointed out GST collection problems were being experienced in other trades.

Mr Fred Therman, chief executive operations of the Federated Hotel Industry of South Africa, said his association had become increasingly concerned over the number of unscrupulous practices within the trade.

Bottlestore owners were unfairly trading by either using GST as discount or pocketing the tax to undercut the competition.

'An honest liquor dealer looking for a 3% to 5% markup just can't compete against these practices,' he said.

'But the misuse is not just in black areas, it is also in white centres as well.'

Accurate collection by the Receiver has been made extremely difficult in townships where records of sales between wholesalers and retailers often reflect large variance.

The situation is being aggravated by some general dealers misusing GST certificates to buy liquor, while others buy from wholesalers using other dealers' certificate numbers.

Dr Gouws said the new Act would give enormous relief and off-load some of the cumbersome administration.

He said many black bottle store owners, because of poor interpretation of the Act, have been left with large GST debts and penalties, which would take years to repay and inhibit their companies' growth.

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Future financial planning in limbo

Margo report on tax is held up again

320 BUSDAY 1/9/86

THE Margo Commission report, expected to recommend sweeping changes to the tax system, will probably not be made public until the end of the year, Department of Finance sources said.

This postponement is the latest in a long history of delays for the tax reform project. A month ago, a spokesmen for Finance Minister Barend du Plessis said the commission's report was nearly finished, and would be delivered to President P W Botha in the first week in August.

The spokesman said the report would be tabled in Parliament, together with a White Paper outlining government's reactions to the commission's recommendations, by the end of August.

Business Day Reporters

The cause of the latest delay is unclear. Department sources said the commission was still trying to resolve important differences of opinion among its membership concerning the final recommendations.

Tax experts have said the report, as it now stands, contains as many as four dissenting opinions.

It also appears government is uncertain about how to respond to the commission's findings, and that some senior officials are reluctant to release the report in the current economic and political environment. Government may be wait-

To Page 2

Margo report delayed

320 BUSDAY 1/9/86

From Page 1

ing for a more favourable time to release the Margo recommendations.

Such indications would contradict a statement on Friday by Finance director-general Chris Stals, who said government officials, including himself, Du Plessis and Botha, had not seen the Margo report yet.

He said the commission's report was nearly finished, pending resolution of relatively minor details in the final draft.

Finance Minister Du Plessis has said several times that no fundamental reforms would be made to the country's financial administration until the Margo Commission made its final submissions.

Frustration created by the delay of the Margo report and of other important legislative issues have been reflected in growing signs of disunity at Cabinet level, with some ministers making little attempt to conceal their differences.

Rumours are also rife in Cape Town political circles that several of government's top economic planners — most notably Reserve Bank Governor Gerard de Kock — disenchanted with the way their advice is being treated, are now reviewing their position in the civil service.

De Kock denied on Friday he was planning to resign.

It seems other government efforts to effect major constitutional and economic changes have also come to a standstill.

Proposed legislation on both fronts have become logjammed, with no indications they will be dealt with in the near future.

It is becoming increasingly apparent the second session of Parliament is turning out to be nothing more than a costly exercise in futility.

Originally billed as necessary to deal with government's plans for including blacks into the highest level of government, via the National Statutory Council, the session is being used to deal with matters that could have been held over to next year.

Margo tax dispute may be submitted to Govt

Political Staff ARGUS 2/9/86 (320)

THE Margo Commission investigating the country's tax structure could submit majority and minority reports to the Government — the only way to resolve members' difference of opinion — Mr Justice Margo said today.

However, the commission hopes to have its work in the hands of the Government by the end of the month.

The Minister of Finance, Mr Barend du Plessis, has said in Cape Town that he has a special task force standing by to study the commission's recommendations.

"QUESTION OF PRINCIPLES"

The report would probably be released this year with a White Paper spelling out the Government's response.

Judge Margo, who heads the commission, said there was "a question of principles" in the deadlock among members.

If the differences could not be resolved a minority report would be submitted.

This appeared likely at this stage, he said.

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CAPE TIMES 2/9/86

Bean bonus

320 3U EG/NE

PRETORIA. — GST on dry beans has been abolished in accordance with a notice in the Government Gazette of July 4, 1986, the general manager of the Dry Bean Board, Mr Danie van Rensburg, said yesterday.

"The Dry Bean Board welcomes this decision and expects that this saving together with the reduction of the board's floor-earlier this year could contribute towards an increase in consumption of dry beans," Mr Van Rensburg said. — Sapa

... CONT

Wilson and his team spread their net even wider to include social workers, lawyers, doctors, agricultural economists, churchmen and community leaders — many of them black.

A black NG Kerk minister, for example, in a remote North-Eastern Transvaal town, read about the project in the local Press, wrote to the organisers and was soon co-opted on to one of the working groups.

On Friday the two-year phase of research and discussion will come to an end with a mammoth, multi-media conference in Cape Town to be attended by about 350 delegates from South Africa and a few luminaries from abroad.

Papers ranging from a migrant worker's autobiography to discussions of labour and unemployment, poverty and nutrition, housing, health and ecological issues will provide South Africa with the most extensive documentation yet on the subject.

The conference will also attempt to produce a definition of poverty in a country where the term can include anyone from a white pensioner living on dogfood and scraps in a Johannesburg rooming house to a black grandmother trying to scratch a living for herself and her extended familiy from the exhausted soil of a barren homeland.

For Wilson insists that they do not live in two separate economies.

"Our starting point," he says "has been that Southern Africa from the Cape to the Limpopo, including Lesotho and the independent homelands, is one single economy centred on the Vaal Triangle.

"Within it are different types of political boundary — but however important they may be to the poor who find themselves on the wrong side of that boundary, they are all secondary to the single economy."

With that he puts himself at odds with the old-time apartheid religionists who would bury the problem behind apartheid's borders.

Pressures

And, as an extension of his credo, he firmly rejects the oft-heard shibboleth that the poor in South Africa are the Third World's poor, owing their plight to Third World causes.

South Africans, he says, need to grow in their understanding of what poverty means — "we must look behind the headline causes.

"Some are global, but others are peculiar to this country. The people of the Ciskei for example are worse off than they would be without the pass laws.

"It is foolish to pretend that poverty is a purely South African phenomenon.

"But equally we mislead ourselves if we think it has nothing to do with the political system under which we live.

"Moreover, South Africa, unlike a country such as Tanzania, is at the end of a century of industrial revolution, sparked off by its mineral wealth.

"Poverty here is poverty within an industrial society. The poor either live in the cities or are dependent on them."

And here he touches on one of the major political questions of the next generation: the huge pressures of urbanisation working against the policies of apartheid.

Shrinking

"What we are seeing at the moment are the enormous inequalities between the insiders and the haves in the cities and the outsiders in the rural and homeland areas who are also the have-nots."

Now that the years of research into one of South Africa's most complex and many-faceted problems are over, it is difficult, but not unrewarding, to ask this concerned and engaging man to summarise some of its most surprising findings.

"Rural poverty. The people in the dorps and on the farms. We tend to see the problem in metropolitan or homeland terms.

"But the economy is receding from the small towns, leaving a residue of people who are either too old or too poor to get out."

The inquiry, which devotes 62 papers to area studies, has looked at towns like Willowmore, Hanover and Beaufort West and at the farms of Namaqualand.

"Any strategy must look to breathing new life into South Africa's shrinking platteland towns," he says.

"Then there is the whole ecological problem: the absence of any long-term planning about water needs, deforestation or over-population in the homeland and rural areas.

"This is one of the fundamental issues which South Africa must address in the next decade.

"We must look at the balance between man and the land and ask ourselves whether we are running the right kind of agriculture.

"One of the most serious things that has happened is our changing farming pattern.

"The platteland is not absorbing as much labour and people are being pushed off the farms and into the over-populated homelands.

"In the whole inquiry we have tried to create an interdisciplinary approach, because some of the most important problems in South Africa are falling between the cracks.

Cringe

"In our working group on food and nutrition we brought together doctors and agricultural economists.

"And we discovered that they can't begin to talk to each other. They just don't talk the same language...

"But when you talk about malnutrition in children, you have to talk about the distribution of food, about agricultural pricing policies and the rest.

"We can learn an enormous amount about food policy from work which has been done in the United States, Britain, Australia and the Third World.

"Sri Lanka, for example, has better nutrition for a country at its level of development than South Africa".

We may cringe at the comparison, but we should not ignore the lesson.

"Our conference film festival will have the theme, 'Signs of Hope', and we will show projects that work in China, Latin America, the United States and Africa.

"We are trying to launch a debate about what is happening in the rest of the world.

"One of our overseas speakers, Paul Streeten of the World Development Institute in Boston, is a pioneer thinker about development needs, Alan Gelb from the World Bank will draw lessons from Spain, and Wilfrid Beckerman, a leading British economist, will talk about the meaning of poverty in rich and poor countries.

"We have also tried to draw in lawyers to ask them about the law and the poor. And we have also looked at the education of doctors.

Scandals

"Does South Africa, for example, have a medical education which is of more benefit to Dallas than it is here. Which society are our doctors trained to serve?"

That question alone will probably unleash a furious debate.

But even that conflict is destined to pale into insignificance when participants in the inquiry — and the country at large — begin to come to grips with the fundamental question behind any investigation into poverty: what kind of country is South Africa and what kind of economy should it have?

That deceptively simple question is likely before next week is out to have the marxists, the social democrats and the capitalists at one another's throats.

Surely that divide is too great to be bridged?

Francis Wilson shrugs happily. "We want to stir things up in no uncertain terms.

"Before the inquiry ends in July next year we will produce a final volume, looking at suggested strategies and drawing it all together.

"But we're really not here to find a consensus.

"We will not pass resolutions at the conference, but will try to draw out the facts and throw out strategies that could well be contradictory. We are not here to find blueprints.

"There is a lot of discussion in South Africa about political attitudes, but because the differences are so basic, there is very little discussion about our economic structures and shapes.

"Insofar as we are capable of acting rationally, we must try to find ways and means of talking to each other."

But surely the predictable lack of a consensus is likely to have another, more serious consequence.

If South Africa is to begin to cope with an issue which Wilson regards as a "national scandal", much of the response must come

CONT...

DD 24/9/86 (320)

Spring: GST demand unfair

Dispatch Reporter

EAST LONDON — Given the present economic state of the country, it would seem "most unfair" of the Receiver of Revenue to expect small businesses to pay full general sales tax on their entire stock, the vice-president of the East London Chamber of Commerce, Mr Errol Spring, said yesterday.

Mr Spring was reacting to the recent announcement by the Department of Inland Revenue that businesses whose gross turnover did not exceed R50 000 a year would have their GST certificates cancelled and would have three weeks to pay full GST on their stock.

The announcement followed an amendment to tax legislation last month and sparked fears that the cash demand would cause many small businesses to go under.

MR SPRING

Yesterday Mr Spring urged all members of the Chamber of Commerce who were affected by the new legislation to approach the secretary of the chamber. He said it could then be arranged for the chamber to make a representation to the Receiver of Revenue on behalf of the businesses concerned.

"In the present economic climate, particularly in East London, it would be most unfair of the Receiver of Revenue to expect small businesses to pay GST on their entire stock," he said.

The Receiver of Revenue here, Mr A W Beckmann, could not be reached for comment yesterday.

Traders' tax net widened by new legislation

3/9/86 (320) BUSDAY

CHRIS CAIRNCROSS

DRAFT legislation widening the tax net to include the trading stock of small vendors exempted from having to register their operations with the Commissioner for Inland Revenue for sales tax purposes was tabled in Parliament yesterday.

Published in the Taxation Laws Amendment Bill, the legislation is designed to close a loophole caused earlier this year with the promulgation of the Sales Tax Amendment Act, which raised from R10 000 to R50 000 the turnover limit above which the Commissioner is obliged to register a vendor for sales tax purposes.

It is estimated that some 57 000 vendors are affected by this new turnover ceiling, in that they now face having their registration certificates cancelled. They will also no longer be entitled to acquire goods for resale free of sales tax.

In a memorandum attached to the Bill tabled yesterday by Finance Minister Barend du Plessis, it was noted that most of the vendors affected by the turnover ceiling will have trading stock on hand at the date of deregistration, which they would previously have acquired free of tax.

As they now no longer have to levy sales tax, it is proposed that they should now be liable to pay tax on such stock.

The Bill also introduces amendments providing that vendors who are deregistered will be required to pay tax in respect of any trading stock on hand when they surrender their certificates.

The tax will be payable on declaration within 21 days from the date of surrender.

It is also proposed that a vendor entitled to the exemption be required to display a prescribed notice on his premises indicating that his sales or taxable services do not attract tax.

The tax liabilities of a vendor are determined for a specific tax period, and the date on which tax is to be paid is related to the date on which the tax period ends.

The Bill now proposes that a vendor who has been deregistered because his turnover does not exceed R50 000 will have a tax period ending on the date he surrenders his certificate.

Du Plessis said in a statement released in Cape Town that some 205 000 vendors whose names will not be removed from the register will, in due course, be asked to provide their Receivers of Revenue with all the particulars necessary to enable new, more comprehensive, registration certificates to be issued to them.

With a view to ensuring the more efficient administration of the Sales Tax Act, Receivers of Revenue have started stepping up the tempo and nature of their inspection services. During coming weeks the premises of thousands of vendors are to be visited.

Du Plessis rethink on GST

320

4/9/86

MAX DU PREEZ
Political Correspondent

● DU PLESSIS

IN MANY respects general sales tax had failed, especially because the mistake was made to exempt some items from it, Finance Minister Barend du Plessis told the Free State National Party Congress in Bloemfontein yesterday.

Du Plessis said the exemption of fresh food from GST was a mistake.

The State lost R1,8bn through it, while the people who were supposed to benefit from it, did not. They mostly did not have fridges to store the food or did not live near enough a place where they could buy fresh food.

The State was now looking at ways of identifying needy people and helping them with food, medicine and cheap housing loans.

The Minister was replying to a motion asking for GST on medicine to be scrapped.

He said he could not support the motion, and his explanation was accepted by congress.

Govt fails to renew 'plant' tax allowance

320 4/9/86 Bus Day

Economics Reporter

GOVERNMENT has failed to renew the initial company tax allowance, scheduled to expire on December 31, on new plant and equipment investments.

The expiration of the allowance, which effectively accelerated the period in which a company could deduct depreciation expenses for tax purposes, could have dramatic effects on plans for new capital investment — if the measure is not reinstated.

The allowance was not included in the final version of the 1986 Income Tax Act and amendments voted into law on Tuesday in Parliament.

Newly-appointed Commissioner of Inland Revenue Clive Kingon said he did not know whether government had any plans to re-enact the allowance at some point next year. Kingon said Finance Minister Barend du Plessis was awaiting the recommendations of the Margo Commission before making a decision specifically on the measure.

The present tax allowance permits companies to deduct 50% of the cost of new manufacturing equipment and machinery from income in the year of the purchase. The remainder of the cost is depreciated on a straight-line basis over the declared life of the asset.

Similarly, a company can take 17,5% of the cost of buildings erected for manufacturing uses against income in the year of construction or purchase. The remaining 82,5% is deducted over 42 years.

The elimination of the allowance would force companies to deduct depre-

● To Page 2

Govt fails to renew allowance

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● From Page 1

ciation expenses for machinery, equipment and land from income solely on a straight-line basis over the life of the asset — removing the benefit that comes from taking more of the deduction sooner.

Arthur Andersen tax manager Graham Cochrane said government "didn't appreciate the full impact" of removing the allowance. "Industry is going to suffer far more than they envisaged."

Divaris-Stein's Costa Divaris, however, predicted that industry pressure would force Du Plessis to reinstate the allowance retroactively next year. He said: "I would be surprised if the industry lobby gives up on this. There must be something else in the offing."

Divaris said, too, that the absence of the measure would not have much immediate effect if business was unable to reinstate it, since capital investment was likely to remain at depressed levels in the next year.

Under terms of the expiring measure, companies that intend to take advantage of the tax allowance must have new machinery and equipment in use by year's end. Buildings qualifying for the allowance must be in construction by year-end, and in use by the end of 1987.

GST 'failed because of exemptions'

SMR 9/9/88

320

Political Reporter

BLOEMFONTEIN — General sales tax was not serving its purpose because too many products had been exempted, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Addressing the National Party's Free State Congress, Mr Du Plessis said the Government was considering introducing a new form of indirect taxation — and this time would allow no exceptions. Changes would not be made until the Margo Commission report had been finalised.

The purpose of GST had been to spread the tax burden and to reduce personal taxation, "but this has not happened".

The Government was committed to the principle of indirect taxation. All South Africans should make a contribution to the State's income.

When the new tax system was introduced, the Government would ensure there would be no exemptions, whether the tax was a form of GST or a value-added tax (VAT).

He could not support a motion calling for the lifting of GST on medicine. Delegates agreed to drop the motion.

5/9/86

FIN MAIL

HITTING TAX DOUBTS

(320)

Inland Revenue's staff of more than 100 newly-recruited chartered accountants are making an impact compatible with their years of careful training. Paid at market rates, these young professionals are working towards a standard of proficiency on a par with the private sector's tax-avoidance industry.

Perhaps they have a long way to go. But one notable aspect of Revenue's hit squad is its tendency to concentrate on a few important, and perhaps predictable, grey areas.

Arthur Young's Tom Wixley notes that detailed schedules are being requested for repairs and maintenance deductions. He advises that taxpayers should ensure careful documentation. Further, tax planning should be undertaken before any tenders are invited, especially for vacant premises or renovations.

It is of note too that, technically, secretarial and Johannesburg Stock Exchange fees are not incurred in production of income, so do not qualify as a tax deduction. Historically these expenses have been allowed as an integral part of a transaction. Wixley says, however, that there is no way of planning to divert an attack against deduction of such fees.

A new development, confirmed by the Commissioner for Inland Revenue's office, is that in terms of perks tax law, tax-free long-service awards will be a deductible employer cost.

The elusive definition for sales tax purposes of the "internal use" of goods has a new official meaning. Items made specially for internal use will only be taxable to the extent that raw materials were acquired tax-free. Direct labour and production overheads need no longer be included in taxable value.

Meanwhile, forex losses, sustained to the tune of hundreds of millions of rands in recent times, continue to raise doubts. Are they, or are they not, a "loss", in the tax sense?

FIN MAIL 5/9/86

TAXATION 320

Humdrum changes

The Taxation Laws Amendment Bill tabled in parliament this week is a mixed, uninspiring bag. It covers concessions to vested interests and issues overtaken by events.

Influence from the Margo Commission is notably absent. The Commission is apparently meeting to iron out what now appear to be serious differences of opinion among members.

Most changes are technical. For example, the bill proposes that building societies opting for a JSE listing can continue to offer tax-free investments.

The Act provides for the lower company car perks tax table, previously announced, effective from September 1.

The most notable sales tax amendments concern deductions for various cancelled agreements, for example, rental transactions. Cancellation of vendors' certificates — where turnover is under R50 000 — is provided for.

And valuation of stock on the lifo basis is also given attention. Perhaps mainly to avert the possibility of litigation by taxpayers, provision is made to delete redundant lifo transfer conditions. ■

(320)

W/K Argus 6/9/86 (320)

BUSINESS

Small traders face cash flow problem

Financial Editor

SMALL traders with a turnover of less than R50 000 could soon have a cash flow problem as a result of a change in sales tax collection.

Under the Taxation Laws Amendment Bill, which was approved by Parliament this week, they are no longer eligible to buy goods for resale free of sales tax.

Mr Graham Cochrane of Arthur Andersen says small traders will also have to pay sales tax within three weeks on all goods now in stock.

DISPLAY NOTICE

To obviate double taxation, traders will not be able to levy a further sales tax on these goods. They will have to display a notice issued by the Department of Inland Revenue stating that no sales tax has to be paid on the goods sold.

Mr Cochrane said this would reduce the administrative burden on the department by reducing the number of small traders collecting sales tax.

It might even lead to an increase in taxes collected as the number of payers was reduced and the possibility of tax evasion was curtailed.

CASH FLOW

Mr D Kruger, deputy director of Inland Revenue, said small traders who might have cash flow problems as a result of the new measures, or believed they should retain their GST exemption rights should approach their local Receiver of Revenue.

He could decide whether the exemption certificate should be withdrawn or not.

Mr Kruger said the capital allowances for investment in manufacturing had not been extended to 1987 as the Margo Commission would probably be making recommendations on this matter in its report later this year.

Sharp tax cuts could transform SA economy

By AZAR JAMMINE, chief economist of Econometrix, and NIC NEL, tax consultant

Tax reductions will kill inflation overnight and generate growth, the authors claim. A 9 percent flat rate of taxation plus a 'transaction tax' would bring in all the money the State needs, they say.

INTEREST in the findings of the Margo Commission of Enquiry into the Tax System is intense for the outcome could radically improve South Africans' living standards.

What follows is the substance of our original proposals to the Margo Commission — proposals which revolve around tax cuts and the proposition that tax cuts really do work.

We offer nine convincing arguments and we have volumes of detailed research available to back them up:

Our arguments are:

- The lower the rate of tax, the less upward pressure there is on prices. Low-rate, broad-based taxes are less inflationary than are high-rate, narrowly based taxes.
- The less the economy is taxed, the greater the amount left in the economy from which production can be generated in future years. Economic growth is thereby enhanced. This can result in an increasing stream of tax receipts generated at the new (lower) tax rates which will exceed the receipts which would have been obtained at the old (higher) tax rate.
- By removing the disincentives of high tax rates, cutting taxes enhances growth and increases fiscal revenues. Raising growth by increasing productivity and profitability works through the economic system exponentially, leading to a spiral of growth, both of the economy and of the fiscal revenues collected at the lower tax rates.
- The lower the company rate of tax relative to the individual rate of tax, the greater the potential for productive capital formation. In the interest of economic growth, individuals must be encouraged to spend — not save — and businesses to retain their capital for productive purpose. A lower tax rate on businesses as against individuals achieves this.
- Taxation is effectively a major cost to businesses and this cost is passed on to individuals in the form of higher prices. The major determinant of employment is a demand for goods and services which can be supplied at a satisfactory profit.

Permanent increases in demand are actually driven by factors controlled by producers — such as price levels, levels of investment and product variety/availability.

These factors, in turn, are influenced by producers' costs — one of which is the level of taxation. The lower the rate of taxation, the lower the level of prices, the higher the level of demand and the higher the resultant levels of investment, employment, incomes and economic growth.

- Taxation is not only a cost to companies but also a cost to individuals, because companies tend to pass costs on to the consumer. The lower his tax rate, the more disposable income is available to an individual.
- Government spending on current account tends to be inflationary and rarely has positive long-term effects for the economy. This is because government is not answerable to shareholders and is not motivated by profit. However, fixed domestic investment by government must be highly beneficial to the economy.

Direct government spending tends to require the maintenance of high tax rates and this tends to be inflationary because it increases unit costs of production. Borrowing by government is a squeeze of capital out of the private sector which tends to push up interest rates and stifle investment and economic growth in the long term.

Incentives are different and enable the market to contribute to the achievement of government objectives, voluntarily. It is for this reason that spending, for example, on black housing would be better applied in the form of a tax concession than in direct expenditure.

- There is a tremendous amount of vested interest among big institutions and business against tax and economic reform. Big business, particularly the life insurance companies and the mining houses and their representative bodies, carry a disproportionately low burden under the present system and are not immune to acting in their selfish sectoral interests.

Most of our biggest corporations pay less than 6 percent of their profits in tax. The combined payments of the life assurance companies last year was only R288-million — less than the R355-million GST paid on used cars in the same period.

- The corollary of all the above is that tax cuts really do promote economic growth, create employment, and, if correctly introduced, reduce inflation and increase fiscal revenue.

On all purchases

This brings us to the mechanics of how best to achieve tax cuts to the benefit of all concerned.

Our proposals for the tax system hinge on a tandem system of a combined transaction tax and a flat rate tax.

The transaction tax is a tax of small proportions, as regards rate, on all purchases of goods and services by all persons (including companies, trusts, businesses and individuals) in the economy.

Where the transaction is cleared by a bank or other financial institution, the tax is collected automatically — in the same way banks collect their charges.

An estimate of the current base of this tax is R3 400-billion a year. A rate of 0,74 percent will therefore collect R25-billion a year in fiscal revenues — two-thirds of the government's current revenue requirements.

About 80 percent of this revenue will be collected automatically by computer accounting through the financial institutions, reducing manual intervention and costs of collection to minimal proportions, compared with an ordinary tax and even a GST.

A prerequisite for the deduction of an expense for flat rate tax purposes is the payment of the transaction tax. This can be ascertained easily — if a cheque has been drawn, the transaction tax has been paid.

With developments in electronic banking, there may come the day when not even businesses will need to lodge income tax returns, other than a statement of assets and liabilities at book value.

With the special problem in South Africa of large numbers of semiliterate and unsophisticated taxpayers, the system of a withholding tax at source of remuneration, obviating any need for an individual to have to complete a tax return at all, must be very attractive.

The rates proposed are, initially, 0,74 percent for the transaction tax and 9 percent for the flat rate tax.

The transaction tax at this "high" rate is only a temporary tax measure, as an alternative to selling government assets, to finance the deficit in the first years of taxation cuts.

The 9 percent flat rate tax is an optimum rate and it is forecast that it will, within about five years, be sufficient to collect virtually all government revenue requirements.

Full amount

This, in turn, would enable the transaction tax, installed initially at 0,74 percent, either to be abrogated or to be held in place at about a tenth of that rate.

At the 0,74 percent/9 percent rates proposed, the combination of transaction tax and flat rate tax would have had the ability to collect revenues in the 1986 fiscal year of about R41-billion — the full amount of expected government expenditure this year.

We propose this tandem tax system as a replacement of income tax, GST, import duty and all other taxes, imposts and levies of a fiscal nature.

As against a VAT system, which would cost a fortune to install and require at least two years to be put in place, the tandem system we propose can slot in with the existing system, virtually overnight.

The systems we propose do not require new law, merely deletions from existing law.

Argus. 6/9/86 (320)

NEWS

R6-m facelift for Bellville Holiday Inn

By TOM HOOD, Property Editor

BELLVILLE's Holiday Inn is to be reconstructed at a cost of R6-million.

Nearly R4-million is being spent on repainting and recarpeting every bedroom suite and all public areas.

Structural changes designed by the project architect, Mr Barry Rutgers of Stauch Vorster, include moving one of the escalators so that the reception area can be extended to pavement level.

A new restaurant and cocktail bar are to be built on the ground floor.

SEPARATE ARCADE

The hotel, in the heart of Bellville's shopping and business district, will also have its second floor redesigned for ultra-modern conferences and banqueting facilities with a ramp for car launches.

The mall which runs through the building is being moved so that it becomes a separate arcade next to the building.

The entrance to Brendan's, the hotel's "action bar," will move to the back of the hotel so that customers need not go through the hotel foyer.

Just over R2 million is being spent on construction work. The contract has gone to Murray and Roberts.

UCT buys flats

Property Editor

THE University of Cape Town has bought another large block of flats in Rosebank, Sandringham Court, with a R1,5 million donation from Shell.

This covered the full purchase price and the university council says the donation was a "very generous and significant contribution."

The building will be used as a student residence and joins a string of buildings on Main Road, Rosebank, acquired by the university in recent years.

It is next to its Glendower Hotel and near its Kilindini residential building as well as the three residential towers of Tugwell Hall.

UCT expects to take occupation near the end of the year, said a spokesman. Some tenants have leases which will be allowed to expire while protected tenants will be able to stay on. The building will accommodate a maximum of 66 people.

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What it takes for tax probe to tick

REDISTRIBUTION of the burden can do a great deal to alleviate the notion that tax is too heavy, says Mr Justice Cecil Margo, chairman of the commission inquiring into taxation.

"As to whether the Government will accept our recommendations, I can't say. As an apolitical body we have stayed away except in the most obvious circumstances from political considerations. We have tried to bring tax and fiscal expertise to bear on our problems.

Unless political perceptions are overwhelmingly obvious or make a particular recommendation out of the question, we have not studied the political aspects. A lot of what we have done is so obviously right that it will be put into effect."

HELLOUISE TRUSWELL interviewed Mr Justice Margo on aspects of the commission's work and its modus operandi.


Mr Justice Margo ... ability to pay the criterion

WITH worldwide tax reform under way, task forces are debating how to diminish the tax burden. In the US, the UK, Ireland, Australia, New Zealand — and in SA.

So the announcement of another postponement of the Margo Commission report on tax reform was received with a modicum of gloom. However, the delay is hardly surprising, given the size of the 19-member commission's original brief: to investigate every aspect of tax in SA except Government expenditure.

Mr Justice Margo says: "We have done a bigger traverse of material than any other tax commission I know of."

The eagerly awaited report, expected to recommend sweeping changes to SA's tax system should be available soon. A White Paper covering the government's reaction to the recommendations, will follow.

Too little time

Was the brief perhaps too wide? No, he says, but the time was too short. "We have done this report in a little over 18 months of effective working time. It has been a gigantic job with an enormous volume of literature and research to be culled."

Differences of opinion among members are said to have impeded final recommendations. The report is said to contain four dissenting opinions.

Mr Justice Margo will not comment.

Relaxed and affable, he notes philosophically: "Among the members there are some outstanding intellects disposing of some exceptional expertise. Not all think alike. Each has a particular viewpoint. It's natural that there would be differences in a team of this size and ranging over the area we have traversed."

Smiling wryly, he says: "As chairman I try to use the obstetrical method — inducing in others what I can't induce in myself." He is unduly modest.

Consensus is that he is perfectly suited to the role of chairman, bearing gifts of wide-ranging experience, enviable equilibrium and an ability to focus incisively on critical issues.

What qualities does one need to chair with success a commission?

He replies: "Pressure, I think, is the wrong formula in all situations. One is dealing with competent, complex but diversified in approach people to bring to a successful conclusion an inquiry. If you are leading men in battle, the qualities and requisites of leadership are very different from those required when you are leading a team of independent experts who are all independantly minded and all fearlessly determined to express their own views.

"What counts is setting an example. Hard work. Dedication. Making contact. You must understand the problems."

More than anything else, he says, his is a management job. "It is an integration of a number of different disciplines from statistics to economics to law, to fiscal policy, to social studies. I am expert in none of those disciplines except possibly to some limited extent in the law. But I try to integrate all of them and the experts in them and weld them into one team."

What is his tax philosophy? Does he see tax parimarily as funding for government? Or is he something of a social democrat who believes in the redistribution of wealth where the rich must pay?

He believes in both, he avers. "The fundamental requirement of taxation is to provide sufficient revenues for government to give the goods and services the State is expected to provide for the public. But then the burden ought to lie upon those who can bear it.

"The doctrine of tax experts is that the ability to pay is the criterion of what is good in tax. An element of progressivity — paying more if you can afford more — has entered into all direct taxation."

In broad terms the commission's function has thus been "to redistribute the burden of taxation so that it lies more fairly and more comfortably on those who can bear it most".

He accepts that all governments have political motivations. "A particular lobby, for instance, may have such influence in the corridors of power that it persuades the Government that the recognition of its special needs is justified. Like the farmers in this country — probably with a great deal of justification. I don't know whether or not the executive government will follow this."

Are wealth creators who are pivotal to the economy, not being unfairly taxed?

"No, no," says Mr Justice Margo. "All people claim they have been unfairly taxed. All citizens. All businesses. When tax requirements get out of hand there is a general perception of unfair taxation."

But the rich man, the entrepreneur, the job creator, the wealth-maker is "a fundamentally important element in society like ours where jobs are so important. Initiatives an economic enterprises are the foundations of our developmen That man has to be looked after. Not nursed, but looked after.

Nevertheless, the issue is primarily the ordinary man, t whom maximum attention has been paid.

Mr Justice Margo emphasises he does not want to creat the impression that tax is an instrument by which you ca order social development or influence the economy to an great extent.

"Tax is an instrument based on an economy. Although yo can have a little give and a little yield here or there, in broa terms it is the economy that makes tax possible and not ta that makes the economy possible."

What about the introduction of value added tax, the silen tax as the French call it, a tax built into the price of goods as substitute for the iniquitous GST?

"VAT is recommended by the International Monetary Fun as being valuable in that when your indirect tax begins to ge too high, the temptation to evade it develops accordingly With GST the opportunity for cheating is very great. In VA there is a chain of transactions starting with the manufactur er vis a vis the wholesaler. The prospect of cheating at al levels of those transactions is less likely.

Does he support VAT? "That's still confidential," he replies

Company law

Mr Justice Margo also chairs the Standard Advisory Committee on Company Law. With so many developments i company law the committee is looking at a wide-rangin programme. One aspect is the establishment of a takeove panel.

"To regulate take-overs and mergers. To ensure fair pla for the minority shareholder. There are many other aspect we're looking at. The problem of insider trading where people with inside knowledge misuse that knowledge to trade to their advantage. It is most undesirable, but very few countries have really designed adequate legislation.

"We are looking at the freeing of restraints on the reductio of capital by companies. The modern tendency is no longer t have restraints on the retention of capital by companies. As long as liquidity and solvency remain you ought to be able t do what you like with capital — that is, as long as you don't prejudice your creditors. This has already taken place in the US and the UK."

Fees row looms for Indian teachers

7/9/86

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SUNTIMES

By GEORGE MAHABEER

A MOVE has been made to force all Indian teachers through legislation to pay union subscription fees, irrespective of whether they wish to belong to a teachers' organisation.

At its conference recently, the Teachers' Association of South Africa (Tasa) resolved to ask the Minister of National Education, Mr F W de Klerk, to consider introducing legislation in this regard.

It has meanwhile decided to bar more than 2 000 non-members from its activities.

Tasa president Mr Pat Samuels said he expected similar steps from other teacher organisations.

High-powered

About 8 000 of the 10 500 teachers employed by the Department of Indian Education, he said, were Tasa members. The subscription fee for each member was R8 a month.

"Teachers who are not members are riding on the backs of their colleagues," said Mr Samuels.

"Teacher organisations involve themselves in expensive, high-powered negotiations to bring about better working conditions and salaries."

Mr Mike Hart, secretary of the Maritzburg branch of the National Educational Union of South Africa, said Tasa was trying to infringe on individual rights.

"In fact, we feel it is a gross infringement. It will mean, it seems, that all Indian teachers will be forced to pay subscriptons to Tasa."

Barend opens hornet's nest with VAT talk

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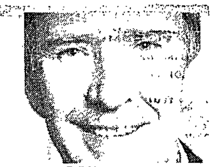

● DU PLESSIS

VALUE ADDED TAX

WHILE the possible introduction of VAT has been welcomed by some, many tax consultants are wary of the huge administrative disadvantages.

IAN MACKENZIE

MINISTER Barend du Plessis has stirred a hornet's nest by announcing a possible scrapping of sales tax and the introduction of a value added tax (VAT).

This was greeted with enthusiasm by many people, but with dismay by most tax consultants who realise what problems this would introduce.

There is a school of thought which suffers under the misconception that VAT has some magical quality which will cure all ailments.

In fact, VAT has only one material advantage over sales tax, and this is far outweighed by its administrative and other disadvantages.

This, of course, was the conclusion the Revenue department arrived at after investigations before the introduction of sales tax.

Collection procedures

Sales tax and VAT are essentially different methods of attaining the same goal — the collection of a broad-based indirect tax imposed on the supply of goods and services.

The main differences between them are the collection procedures and the consequent administrative requirements.

Much has been made of the apparent broader base of VAT, but what is overlooked is that this is only by definition.

Sales tax is already imposed on certain services and there is no reason from a tax point of view why the definition of taxable services should not be expanded to include, for example, professional services and construction services.

It is interesting to note that advertising services became subject to sales tax in January 1984, but in the UK VAT was first imposed on such services in May 1985.

The main advantage of VAT is the built-in pressure for compliance, because of the system of claiming credits or refunds of input tax against output tax.

Thus if the last retailer in a claim of transactions fails to record and pay over VAT on his outputs, the fiscus only loses effectively VAT on his mark-up — whereas under the sales tax system all is lost.

This has been alleviated to an extent by the recent increase in the level of turnover required for sales tax registration to R50 000.

It should be noted, however, that the experience of countries with VAT shows that evasion is still possible.

This comes back to the principle that the ratio of tax collection depends on effective policing by Revenue and on simplicity of legislation. The more complex the legislation, the more loopholes and opportunities for evasion arise.

Simplicity of legislation is the essential characteristic of any tax system, and particularly so in SA with its mixture of First and Third World elements of economy.

Certain aspects of our sales tax system do not meet this ideal, but VAT overall appears to fall far short of it and in fact is notorious for its complexities.

Apart from this, the main disadvantage of VAT is the enormous administrative, accounting and financial burden placed on the business sector, as well as the extra administrative burden on Revenue Department.

Calls have already been made by SA businessmen for a "collection commission" on sales tax to compensate for their administrative and financing costs.

With VAT they will suffer severe cash flow problems and financing costs for which they will want to be compensated.

Overcoming problems

Our existing system is by no means perfect, but we should rather work on overcoming its problems and broadening its base, instead of throwing eight years' learning and experience out of the window and starting again on something more complex.

The introduction of VAT will impose a considerable burden on our already depressed economy in terms of education costs (businesses and Revenue Department), revised accounting systems, new stationery and non-productive use of manpower which cannot be justified, and the mind boggles at the thought of the problems that will arise during the change-over period.

☐ *IAN MACKENZIE CA (SA), Higher Diploma Tax Law, is a member of accounting firm Arthur Young.*

10/9/86

GST move: some face bankruptcy

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Post Reporters

A NUMBER of small businesses in Port Elizabeth face bankruptcy with their GST certificates being withdrawn.

This means they will have to pay GST on their stock.

However, the Receiver of Revenue in Port Elizabeth, Mr P J Larkin, said the new legislation would not affect the buying public.

More than 1 500 letters were sent to small East Cape businesses by the Receiver this week, saying their GST certificates may be cancelled.

The letters, which follow an amendment to tax legislation last month, were sent to businesses whose gross turnover does not exceed R50 000 a year, Mr Larkin said.

The president of Assocom, Mr Rocky Ridgway, said today periodic increases in the annual turnover cut-off point for exemption from GST when buying stock were inevitable due to inflation.

While shops would be disadvantaged by having to keep stock on which they had paid GST, "one would hope a well-finanaced small business would not find it having a major impact".

But fears were expressed that the legislation would cause many "registered vendors" to go under, as only three weeks was given in which to pay full GST on stock.

Director of the Port Elizabeth Chamber of Commerce, Mr Tony Gilson, said the chamber questioned the wisdom of the move, especially when the tax structure in South Africa was the subject of investigation by the Margo Commission.

"No one knows whether we will have a GST or a Value Added Tax system, or whether the commission will propose amendments to the existing system.

"This move appears to be an *ad hoc* decision. We feel no action should be taken until the Margo Commission's findings are made known and its recommendations acted on."

According to Mr Larkin, the new legislation was introduced to cut down on administrative work for the Department of Inland Revenue as well as small business concerns.

He said 1 588 letters had been sent to registered vendors with an annual gross turnover of less than R50 000. These businesses had 10 days in which to appeal against a pending GST certificate cancellation.

Appeals would be sympathetically received, Mr Larkin said.

Businesses were given 21 days to furnish a final tax return form, pay any tax owing and to pay GST on stock deemed to have been sold on the date of cancellation.

Failure to comply carries a maximum fine of R500 or six months imprisonment — or both.

GST shock for traders

DURBAN — Hundreds of small Durban businesses learned this week that their GST certificates have been cancelled and that they have three weeks to pay full general sales tax on their stock — sparking fears that the cash demand will cause many to go under.

A letter from the Department of Inland Revenue, which was delivered to many businesses on Monday, states that the move applies to businesses whose gross turnover does not exceed R50 000 a year.

The letter, which follows an amendment to tax legislation last month, says: "You are hereby notified that it is my intention to cancel your registration certificate as it appears from my records that the annual receipts or accruals of your enterprise from the sale of goods does not exceed R50 000.

"Unless you show cause, within 10 days from the date of receipt of this notice, why your registration certificate should not be cancelled for the reason given above, you must surrender (return) the registration certificate to the Receiver of Revenue where you are registered as a vendor for sales tax purposes."

The business then has 21 days to furnish a final tax return form and pay any tax due. — Sapa

10/9/86 DD

GST refundable says Receiver

(323) **Dispatch Reporter** DD 10/9/86

EAST LONDON — General sales tax was refundable to a customer whenever a transaction had been cancelled, the Receiver of Revenue here, Mr A. W. Beckmann, said in an interview yesterday.

Mr Beckmann was asked to comment on a claim by an Mdantsane man, Mr Sonwabo Bennet Ndiki, who said he had been sold a defective television set by a Quigney shop and had been refused a total refund of his money by the owner when he returned the set last week. The owner of the business had offered to pay Mr Ndiki the purchase price less the GST which had been charged, he said.

In an interview yesterday the shopowner, who refused to disclose his name, said he had consulted a lawyer and had been told that he was entitled to withhold the GST because he had already paid it to the Receiver of Revenue.

Mr Beckmann said this was not correct.

"Customers are by law entitled to a refund of the full purchase price, including general sales tax.

"The businessman can claim back the general sales tax he has paid to the Receiver if the deal has been cancelled by the customer," Mr Beckmann said.

He said buyers who experienced problems with GST refunds when they cancelled their sale contracts with the sellers should contact the office of the Receiver for assistance.

"They should, however, bring their receipts along," he added.

10/9/86 BX5049 (300) 300

GST hits small businesses

DURBAN — Hundreds of small Durban businesses learned this week that their GST certificates have been cancelled and they have three weeks in which to pay full GST on their stock.

This has sparked fears of many firms going under because of the cash demand.

An Inland Revenue letter, which was delivered to many businesses on Monday, states the move applies to businesses whose gross turnover does not exceed R50 000 a year.

The letter, which follows an amendment to tax legislation last month, says: "You are hereby notified that it is my intention to cancel your registration certificate as it appears from my records that the annual receipts or accruals of your enterprise from the sale of goods does not exceed R50 000.

"Unless you show cause, within 10 days from the date of receipt of this notice, why your registration certificate should not be cancelled for the reason given above, you must surrender (return) the registration certificate to the Receiver of Revenue where you are registered as a vendor for sales tax purposes."

Failure to comply carries a fine of up to R500 or imprisonment up to six months, or both.

These businesses will now have to pay GST in advance when buying stock.

The move was attacked yesterday by the Durban Chamber of Commerce, which feels the sudden demand on small businesses for cash, which most do not have, is unfair.

President Brian Hill said: "It seems very onerous on owners of small businesses to ask them to pay tax on goods which they have still to sell.

"You would have thought they could have come to some compromise and allowed a period of time to pay the tax on stock." — Sapa.

Small traders ordered to pay GST

SAM 11/9/86 320

By David Braun, Political Correspondent

CAPE TOWN — Small traders who have been ordered to pay general sales tax (GST) on all their stocks within three weeks will be given an extension if they have any difficulties, the Department of Inland Revenue said today.

According to a spokesman for the Department the tax will have to be paid in all circumstances, but people will not be expected to have to produce instantly money they may not have yet.

Any trader experiencing difficulty in this regard should contact his local receiver of revenue to discuss a reasonable extension, he said.

Several small businessmen have become obliged to pay GST on their stocks because the Government recently decided to raise the turnover limit on small businesses exempt from collecting sales tax from R10 000 to R50 000 a year.

Traders in this category have been obliged to return their certificates which exempted them from paying sales tax when purchasing their stocks.

In future they will pay sales tax. They will not collect the tax from the public.

DISPLAYED

Signs, available from the Receiver, will have to be displayed on their premises informing the public that GST, having already been paid, is not payable on goods sold in their shops.

Mr Harry Schwarz, Progressive Federal Party spokesman on finance, reacted that the principle of raising the turnover level on businesses exempt from charging GST was good.

He said this would cut down administrative work for both the tax authorities and small businessmen.

● Small businesses countrywide are worried that the cash demand will cause many to go under.

A letter they received from the Department of Inland Revenue states that a business then has 21 days to furnish a final tax return form and pay any tax payable and that GST must be paid on the stock deemed to have been sold on the date of surrender of the registration certificate.

Failure to comply carries a fine up to R500 or imprisonment up to six months or both.

These businesses will now have to pay GST in advance when buying stock.

ATTACKED

The move was today attacked by the Durban Chamber of Commerce which feels that the sudden demand on small businesses for cash is unfair.

Said president Mr Brian Hill: "It seems very onerous on small businesses to ask them to pay tax on goods which they have still to sell.

"You would have thought they could have come to some compromise and allowed a period of time to pay the tax on stock."

The Johannesburg Chamber of Commerce, however, felt the move was intended, in the long run, to reduce the administrative burden on small businesses.

According to Mr M de Jager, general manager of the Johannesburg Chamber of Commerce: "It might have an initial impact on businesses, but the money is recoverable when their stock is sold.

"We have had calls from concerned people, but these people have been invited to make representation to the Receiver. If they explain their circumstances, I'm sure an exception would be made. I know of at least one case where the Receiver did not cancel a GST certificate because of the circumstances."

(320) DD 13/9/86 (320)

DAILY DISPA

800 to be hit by sales tax move

Dispatch Reporter

EAST LONDON — About 10 per cent of the 8 000 businesses on the Eastern Cape sales tax register would be affected by the announcement this month that those with a gross turnover of less than R50 000 a year would have their general sales tax certificates cancelled, the Receiver of Revenue here, Mr A. W. Beckmann, said yesterday.

"One must not lose sight of the fact that businesses with small turnovers will not have large amounts of tax due in any case," Mr Beckmann said.

Businesses which were affected by the announcement should not hesitate to contact the Receiver of Revenue's offices where everything possible would be done to accommodate their problems.

"We realise that these businesses have not budgeted for this sudden amendment to the tax legislation and we will do everything within reason to help," he said.

Mr Beckmann said that arrangements could be made for businesses experiencing problems paying the full GST on their entire stock within the three week period, to pay it in instalments.

"They mustn't hesitate to approach us if they are in dire straits; we can then discuss it with the sales tax section and work out something agreeable to all," he added.

'Gold bonanza': tax cut hopes

By BOB KERNOHAN
Business Editor

PLUNGES in the value of stocks on the world's financial markets and the current "gold bonanza" stand to benefit the South African man in the street.

But economists are uncertain what the precise benefits will be, although drops in income tax and increased Government spending are likely spin-offs.

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Gold's increasing value — it was trading at close to $420 an ounce as markets closed last night — was bolstered this week when stocks took a nose dive on the world's leading financial centre, Wall Street in New York.

Repercussions of the massive slide — which began a week ago and reached panic proportions on Thursday — were felt in other financial centres.

But in South Africa the reaction is cautious optimism as economists keep their fingers crossed that gold will continue to push up, or at least not drop below $400.

"If the price holds, we will earn an extra $1 500 million [R3 600 million] in the next 12 months," said Dr Cees Bruggemans, chief economist of Barclays Bank. "Increased earnings from platinum could take the total to R5 000 million.

"As the Government is the main 'shareholder' in the gold mines [by way of tax revenue], they must be feeling very comfortable with the revenue at the moment."

Dr Bruggemans said the high price of gold was benefiting the economy by increasing confidence levels and could also lead to the Government spending more on building projects, so boosting the private sector.

Dr David Rees — economic consultant to a leading firm of stockbrokers — said the man in the street stood to benefit in two ways from the "gold bonanza".

"First, he benefits because the higher gold price goes hand in hand with a healthier exchange rate, so lowering inflation.

"Secondly, the higher gold price means greater tax revenue for the Government."

Dr Rees — formerly professor of economics at the University of Cape Town's Graduate School of Business — believed the first step would be more Government spending on hospitals, schools and housing.

"Tax relief could also be granted in the next Budget, particularly at the top end of the income scale." It was unikely there would be any cut in general sales tax (GST).

He said that while the gold market was likely to continue to be volatile, fears of rising international inflation and the drop in the value of the dollar indicated that gold would probably stay above the crucial $400 level.

● Reports from New York today said economists felt that the stock market would pick up again.

● Sanctions Bill approved

Tax hits results of constructor

BUSDAY 15/9/86

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LIZ ROUSE

MURRAY & Roberts Holdings (M & R) has recorded an attributable loss of R14,47m in the year to June and passed the final dividend.

The year-end results are in line with the board's warnings in May that the group was heading for losses. At that stage it was suffering losses of about R35m, resulting mainly from losses sustained on foreign contracts, a decline in factory built accommodation and transport, delays in capital projects and the continued deterioration in the economy.

In addition, tax relief could not be obtained on these setbacks. Consequently tax almost wiped out the post-interest operating profit in the past year.

Directors say in the preliminary report that they expect to restore the group to a profitable position, provided economic conditions do not deteriorate further.

The R74m debenture issue in December 1985 helped reduce borrowings by R49,5m to R73,9m, or 21% of permanent capital. The group has reserve borrowing capacity of R222m (R181m).

Group turnover showed no real growth at R2,6bn (R2,5bn). Pre-interest operating profits slumped to R60,6m (R114,1m). Interest charges were reduced to R22m (R28,1m) and should show further improvement in 1987.

The tax situation should also improve this year. Tax bit just over R36m out of an operating profit of R38,6m in the past year.

The non-operating loss was comparatively minor at R1,8m as a result of profits from properties sold in terms of the group's property disposal programme. Possible profits from corrective steps taken have not yet materialised. The May announcement said that

● To Page 2

Tax hits results and dividend

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benefits could only arise in 1987.

Encouraging factors are that several of the group's operations achieved improved results, the massive drain resulting from foreign operations, which have been closed down, has been stemmed and the interest and tax situation should ease.

However, cost of servicing the compulsorily convertible debentures were high at more than R5m.

M & R shareholders have to be content with the 10c interim dividend (a total of 60c was paid in 1985). The shares have pulled up from a low of 580c to 750c. There are better sectors in which to invest — unless a massive housing programme can get off the ground.

Firm agrees to pay detainees

22/11/86 (320)

PORT ELIZABETH — General Motors had agreed to pay full wages to detained employees, a company spokesman confirmed yesterday.

He said agreement had been reached last week in talks here between GM management and the National Automobile and Allied Workers' Union.

It had been agreed that 50 per cent of the wages of workers detained for up to 180 days would be paid to their families while they were being held.

The accumulated balance would be paid to the workers on their release without trial or on their acquittal if charged.

The future prospects of detained workers would not be jeopardised in any way by their detention.

In the case of workers who were detained for longer than 180 days or who were charged in court and found guilty, each case would be treated on merit, the GM spokesman said.

He had no information on a Naawu statement that it also hoped to talk to GM about legal representation for detained workers. — Sapa

TAXATION

320 FIN MAIL 19/9/86

VAT's leggy legwork

Finance Minister Barend du Plessis' continued hints that GST may be substituted by a value-added tax (VAT) gather force with his admission that GST is largely a failure. The idea of GST-substitution is known to come from Judge Cecil Margo, chairman of the tax commission. His two bull points for VAT are much lower levels of evasion, and its much wider net.

So queries on how VAT works, are being raised by companies concerned about forecasting and budgets. For whatever the change may mean to the fiscus, it entails significant consequences to the procedures of the business sector.

Arthur Andersen's Richard Rubin says suggestions that VAT may be implemented in 1987 are over-optimistic — if experience abroad is studied. In addition to drafting the law and enactment, a "lead time" of at least two years is normally needed.

This allows administrators — the business sector — to prepare for implementation. Simply, VAT is levied on the increment in value at each stage of production or sale: for example, raw materials supplier-manufacturer-wholesaler-retailer.

FIGURING VAT

Paid over by S 10% x (say)................	R1 000 =	R100
By M 10% x R1 500 = R150..........................	(R100)	50
By M 10% x R2 250 = R225..........................	(R150)	75
By R 10% x R3 375 = R337,5.......................	R225)	112,50
		R337,50

To ensure that tax is collected only on value added at each stage of the chain, a party levying VAT is generally entitled to a credit of the VAT paid to its supplier. Total VAT payable (see table), assuming a 10% rate, is still 10% of the ultimate selling price. The example also shows that the end consumer will not generally be affected by a change from GST to VAT — so long as the exemptions and rate of tax remain unchanged.

But these two factors are the prime determinants affecting indirect tax, so unlikely to remain constant. The rate of VAT — at least initially — could be pitched below the current rate of sales tax. Following public statements by Du Plessis, certain exemptions will be reduced, if not abolished.

Du Plessis has said that exempting fresh foodstuffs from GST alone, "costs" the fiscus R1,8 billion a year. So the consumer may pay more for some goods with a wide-net VAT. The advantage is greater consistency.

Rubin says the business sector will bear the brunt of the VAT administrative burden — much as with perks tax. He reckons that business generally does not quantify in detail sales tax transactions. But accurate records reflecting VAT paid to suppliers must be kept to claim a credit of the "input" tax. So this is more hassle than GST.

It would be much easier were all transactions subject to VAT. Rubin notes, however, that experience abroad indicates that some transactions must be exempted. The most common examples are land and banking transactions.

VAT — like sales tax — is regressive, in that it taxes poor and rich alike. To combat this, sales of specific goods and services (for example, certain foodstuffs and medical services), while not exempt, are typically subject to VAT at zero-rate or less than the standard rate. ■

No GST signs soon to go up

By DENISE BOUTALL

SMALL traders who have had their general sales tax registration cancelled will soon be putting up notices saying that they do not charge GST.

This was said today by the Commissioner for Inland Revenue, Mr C E Kingon.

Port Elizabeth traders and small businessmen have been confused about whether they should charge customers GST after all businesses with a turnover of less than R50 000 a year had their GST registration cancelled recently.

Mr Kingon said that although traders were obliged to pay GST on their existing stock, if they found this difficult to do, they could make arrangements with the revenue office.

Mr Kingon said notices had been sent to about 50 000 traders. The idea was to cut paperwork for the department and the small businessman.

Small businessmen who previously bought their stock without paying GST now had to pay the 12% to their wholesalers.

"We will be sending them notices saying they do not charge sales tax which they can put up in their shops in good time. Their retail prices should not go up at all and might even come down a bit."

He said it was not yet clear exactly how many of the registrations would ultimately be cancelled because it appeared that some traders had been filling out their GST forms incorrectly.

Others who sold their goods to other wholesalers or manufacturers would probably be allowed to retain their registration.

STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

As 'n Nuusblad by die Poskantoor Geregistreer *Registered at the Post Office as a Newspaper*

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VOL. 255 KAAPSTAD, 19 SEPTEMBER 1986 CAPE TOWN, 19 SEPTEMBER 1986 No. 10453

KANTOOR VAN DIE STAATSPRESIDENT

No. 1964. 19 September 1986

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 108 van 1986: Wysigingswet op Belastingwette, 1986.

STATE PRESIDENT'S OFFICE

No. 1964. 19 September 1986

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 108 of 1986: Taxation Laws Amendment Act, 1986.

GENERAL EXPLANATORY NOTE:

[ ] Words in bold type in square brackets indicate omissions from existing enactments.

________ Words underlined with solid line indicate insertions in existing enactments.

ACT

To amend the Income Tax Act, 1962, so as to provide for the taxation or exemption from taxation of certain income derived from building societies and mutual building societies; to make further provision relating to a LIFO reserve where a commercial or industrial undertaking has been acquired by one company from another; to provide that a debtors allowance granted in any year of assessment shall be included in income in the following year of assessment; and to further provide for the determination of the cash equivalent of the value of the taxable benefit derived from the private use of a motor vehicle; to amend the Stamp Duties Act, 1968, so as to effect certain textual alterations; to amend the Sales Tax Act, 1978, so as to provide for the display of a notice where certain exemptions apply; to further provide for an adjustment in respect of cancelled financial leases or defects in leased property let under financial leases; to provide for the payment of sales tax where any registration certificate has been cancelled in certain circumstances; and to provide that there shall be a tax period ending on the date on which a registration certificate is cancelled in certain circumstances; and to provide for matters connected therewith.

(English text signed by the State President.)
(Assented to 10 September 1986.)

BE IT ENACTED by the State President and the Parliament of the Republic of South Africa, as follows:—

Amendment of section 1 of Act 58 of 1962, as amended by section 3 of Act 90 of 1962, section 1 of Act 6 of 1963, section 4 of Act 72 of 1963, section 4 of Act 90 of 1964, section 5 of Act 88 of 1965, section 5 of Act 55 of 1966, section 5 of Act 95 of 1967, section 5 of Act 76 of 1968, section 6 of Act 89 of 1969, section 6 of Act 52 of 1970, section 4 of Act 88 of 1971, section 4 of

1. (1) Section 1 of the Income Tax Act, 1962 (hereinafter referred to as the principal Act), is hereby amended—

(a) by the insertion after the definition of "bonus debentures or securities" of the following definition:

"'building society' means a building society registered under the Building Societies Act, 1986 (Act No. 82 of 1986);";

(b) by the substitution in the definition of "dividend" for the words preceding paragraph *(a)* of the following words:

"'dividend' means any amount distributed by a company (not being a **[permanent]** mutual building society or an institution to which section 10 (1) *(d)* applies) to its shareholders or any amount distributed out of the assets pertaining to any unit portfolio referred to in paragraph *(e)* of the definition of 'company' in this section to shareholders in relation to such unit portfolio (including, in the case of any co-operative society or company referred to in section 27, any amount distributed on or after 1 April 1977 to its members, whether divided among the members in accordance with their rights as shareholders or according to the value of business transactions between individual members and such society or company or on some other basis), and in this definition the expression 'amount distributed' includes—"; and

(*c*) by the insertion after the definitions of "mining operations" and "mining" of the following definition:

"'mutual building society' means a mutual building society registered under the Mutual Building Societies Act, 1965 (Act No. 24 of 1965);".

(2) Subsection (1) shall come into operation on the date of commencement of the Building Societies Act, 1986 (Act No. 82 of 1986).

Act 90 of 1972, section 4 of Act 65 of 1973, section 4 of Act 85 of 1974, section 4 of Act 69 of 1975, section 4 of Act 103 of 1976, section 4 of Act 113 of 1977, section 3 of Act 101 of 1978, section 3 of Act 104 of 1979, section 2 of Act 104 of 1980, section 2 of Act 96 of 1981, section 3 of Act 91 of 1982, section 2 of Act 94 of 1983, section 1 of Act 30 of 1984, section 2 of Act 121 of 1984, section 2 of Act 96 of 1985 and section 2 of Act 65 of 1986.

Amendment of section 9 of Act 58 of 1962, as amended by section 7 of Act 90 of 1962, section 6 of Act 72 of 1963, section 7 of Act 90 of 1964, section 9 of Act 95 of 1967, section 12 of Act 89 of 1969, section 6 of Act 65 of 1973, section 9 of Act 85 of 1974, section 8 of Act 103 of 1976, section 9 of Act 121 of 1984, section 5 of Act 96 of 1985 and section 6 of Act 65 of 1986.

2. (1) Section 9 of the principal Act is hereby amended by the substitution for subsection (2) of the following subsection:

"(2) Any interest which has been received by or has accrued to any person (other than a company) who is ordinarily resident in the Republic or has been received by or has accrued to any domestic company, in respect of any loan to or deposit in any building society or mutual building society **[registered under the Building Societies Act, 1965 (Act No. 24 of 1965)]** or any similar institution wheresoever it is incorporated, formed or established or any dividend or share of profits distributed by any **[such society]** mutual building society or similar institution wheresoever it is incorporated, formed or established which has been received by or has accrued to any such person or company, shall be deemed to have been derived from a source within the Republic, wheresoever such loan or deposit is made or held or any share to which such dividend or share of profits relates is subscribed for or held or such interest, dividend or share of profits is payable.".

(2) Subsection (1) shall come into operation on the date of commencement of the Building Societies Act, 1986 (Act No. 82 of 1986).

Amendment of section 10 of Act 58 of 1962, as amended by section 8 of Act 90 of 1962, section 7 of Act 72 of 1963, section 8 of Act 90 of 1964, section 10 of Act 88 of 1965, section 11 of Act 55 of 1966, section 10 of Act 95 of 1967, section 8 of Act 76 of 1968,

3. (1) Section 10 of the principal Act is hereby amended—

(*a*) by the substitution for subparagraph (xii) of paragraph (*i*) of subsection (1) of the following subparagraph:

"(xii) so much of the aggregate of the amounts credited as—

(*aa*) dividends on subscription shares by all mutual building societies; and

(*bb*) interest on subcription deposits by all building societies,

during the year of assessment as

[(*aa*) in respect of the year of assessment ending 28 February 1982, in the case of any one person, does not exceed an amount of simple interest calculated on a total capital sum of R100 000

at a rate equal to the highest rate of dividends so credited during such year;

(*bb*) **in respect of the year of assessment ending 28 February 1983, in the case of any one person, does not exceed an amount of simple interest calculated on a total capital sum of R50 000 at a rate equal to the highest rate of dividends so credited during such year; and**

(*cc*) **in respect of any year of assessment ending on or after 29 February 1984]** in the case of any taxpayer does not exceed an amount of simple interest calculated on a total capital sum of R50 000 at a rate **[equal to the highest rate of dividends so credited during such year]** approved by the Minister of Finance from time to time for the purposes of this exemption: Provided that—

(*a*) this exemption shall not apply **[if the]** to any such dividends or interest **[so received or accrued during the year of assessment exceed in the aggregate an amount calculated on the total amount invested in such shares]** calculated at a rate exceeding the rate so approved by the Minister of Finance **[from time to time for the purposes of this exemption: Provided further that]**; and

(*b*) for the purposes of this subparagraph—

'dividend' shall be deemed to include any bonus or other distribution of profits **[which becomes payable on or after 1 April 1982]**; and

'subscription deposit' shall mean a deposit made in a building society and which in the opinion of the Registrar of Building Societies having regard to the terms and conditions subject to which such deposit is accepted, is equivalent to a subscription share in a mutual building society;";

section 13 of Act 89 of 1969, section 9 of Act 52 of 1970, section 7 of Act 90 of 1972, section 7 of Act 65 of 1973, section 10 of Act 85 of 1974, section 8 of Act 69 of 1975, section 9 of Act 103 of 1976, section 8 of Act 113 of 1977, section 4 of Act 101 of 1978, section 7 of Act 104 of 1979, section 7 of Act 104 of 1980, section 8 of Act 96 of 1981, section 6 of Act 91 of 1982, section 9 of Act 94 of 1983, section 10 of Act 121 of 1984, section 6 of Act 96 of 1985 and section 7 of Act 65 of 1986.

(*b*) by the substitution for subparagraph (xiiA) of paragraph (*i*) of subsection (1) of the following subparagraph:

"(xiiA) interest received by or accrued to any person from deposits in any savings account with any building society or mutual building society under the State-Aided Home-Ownership Savings Scheme;";

(*c*) by the substitution for subparagraph (xiii) of paragraph (*i*) of subsection (1) of the following subparagraph:

"(xiii) in the case of a taxpayer who is a natural person, dividends and interest received or accrued on so much of the total amount invested in—

(*aa*) Special Tax-Free Indefinite Period Shares in mutual building societies; and

(*bb*) indefinite period deposits in building societies,

as does not exceed the amount of R20 000: Provided that—

(*a*) this exemption shall not apply **[if the]** to any such dividends or interest **[so received or accrued during the year of assessment exceed in**

the aggregate an amount calculated on the total amount so invested] calculated at a rate exceeding a rate approved by the Minister of Finance from time to time for the purposes of this exemption **[Provided further that]**; and

(b) for the purposes of this subparagraph—
'dividend' shall be deemed to include any bonus or other distribution of profits **[which becomes payable on or after 1 April 1982]**; and
'indefinite period deposit' shall mean a deposit made in a building society and which in the opinion of the Registrar of Building Societies having regard to the terms and conditions subject to which such deposit is accepted, is equivalent to a Special Tax-Free Indefinite Period Share in a mutual building society;";

(d) by the substitution for paragraph (v) of subsection (1) of the following paragraph:
"(v) interest received by or accrued to any person (other than a company) who is ordinarily resident in the territory (including the Eastern Caprivi Zipfel) in respect of any loan to or deposit in any building society or mutual building society **[registered under the Building Societies Act, 1965 (Act No. 24 of 1965)]** made through any branch or agency of such building society or mutual building society in that territory, or any dividend or share of profits distributed by any **[such]** mutual building society to any such person in respect of any share in such society applied or subscribed for by such person through any such branch or agency;"; and

(e) by the substitution for paragraph (vA) of subsection (1) of the following paragraph:
"(vA) **[in the case of]** interest received by or accrued to any person (other than a company) who is ordinarily resident in a country or territory other than the Republic and South West Africa, in which a building society or mutual building society **[registered under the Building Societies Act, 1965 (Act No. 24 of 1965)]** is under the provisions of **[section 22 (1) (mA) of that Act]** any law empowered to conduct its business, or **[in the case of]** a company which is managed and controlled in such country or territory, **[interest received by or accrued to such person or company]** in respect of any loan to or deposit in **[such]** a building society or mutual building society made through any branch or agency of such building society or mutual building society in that country or territory, or any dividend or share of profits distributed by **[such]** a mutual building society to such person or company in respect of any share in such mutual building society applied or subscribed for by such person or company through any such branch or agency;".

(2) Subsection (1) shall come into operation on the date of commencement of the Building Societies Act, 1986 (Act No. 82 of 1986).

Amendment of section 19 of Act 58 of 1962.

4. (1) Section 19 of the principal Act is hereby amended by the substitution for subsection (5A) of the following subsection:

"(5A) Subject to the provisions of subsection (6), income received by or accrued to any person other than a company by way of—

(a) a dividend (including any bonus or distribution of profits) on shares in any **[permanent]** mutual building society; and

(b) interest on any deposit made in a building society which in the opinion of the Registrar of Building Societies having regard to the terms and conditions subject to which such deposit is accepted, is equivalent to a share in a mutual building society,

shall, notwithstanding the definition of 'dividend' in section 1, be deemed for the purposes of this section to be income derived by such person in the form of dividends: Provided that the provisions of this subsection shall not apply in respect of any such dividend or interest which **[became or becomes payable on or after 1 September 1982 if such dividend]** is calculated at a rate exceeding the rate approved by the Minister of Finance from time to time in respect of dividends on shares of the relevant class or interest on deposits of the relevant class.".

as amended by section 15 of Act 90 of 1962, section 6 of Act 6 of 1963, section 17 of Act 88 of 1965, section 17 of Act 88 of 1971, section 14 of Act 90 of 1972, section 18 of Act 85 of 1974, section 14 of Act 104 of 1980, section 17 of Act 96 of 1981, section 15 of Act 91 of 1982, section 17 of Act 94 of 1983, section 17 of Act 121 of 1984, section 12 of Act 96 of 1985 and section 12 of Act 65 of 1986.

(2) Subsection (1) shall come into operation on the date of commencement of the Building Societies Act, 1986 (Act No. 82 of 1986).

Amendment of section 22 of Act 58 of 1962, as amended by section 8 of Act 6 of 1963, section 14 of Act 90 of 1964, section 21 of Act 89 of 1969, section 20 of Act 69 of 1975, section 15 of Act 103 of 1976, section 20 of Act 94 of 1983, section 19 of Act 121 of 1984 and section 14 of Act 65 of 1986.

5. (1) Section 22 of the principal Act is hereby amended—

(a) by the addition at the end of subparagraph (ii) of paragraph (f) of subsection (5) of the word "and";

(b) by the substitution for subparagraph (iii) of the said paragraph (f) of the following subparagraph:

"(iii) a LIFO reserve has been determined in relation to the last-mentioned company **[has adopted the basis of trading stock valuation referred to in paragraph (a); and]**;" and

(c) by the deletion of subparagraph (iv) of the said paragraph (f).

(2) Subsection (1) shall be deemed to have taken effect as from the commencement of years of assessment ended or ending on or after 1 April 1984.

Amendment of section 24 of Act 58 of 1962, as substituted by section 16 of Act 65 of 1986.

6. (1) Section 24 of the principal Act is hereby amended by the addition to subsection (3) of the following proviso:

"Provided that any deduction so allowed shall be included as income in the taxpayer's return for the following year of assessment and shall form part of his income.".

(2) Subsection (1) shall be deemed to have taken effect as from the commencement of years of assessment ended or ending on or after 1 January 1986.

Amendment of section 64B of Act 58 of 1962, as substituted by section 33 of Act 94 of 1983.

7. (1) Section 64B of the principal Act is hereby amended by the substitution for paragraph (d) of the following paragraph:

"(d) any amount accruing to any shareholder in a mutual building society out of the profits of such society shall be deemed to be interest;".

(2) Subsection (1) shall come into operation on the date of commencement of the Building Societies Act, 1986 (Act No. 82 of 1986).

Amendment of section 64C of Act 58 of 1962, as inserted by section 20 of Act 95 of 1967 and amended by section 15 of Act 76 of 1968, section 36 of Act 89 of 1969, section 21 of Act 52 of 1970, section 26 of Act 88 of 1971, section 20 of Act 90 of 1972, section 42 of Act 85 of 1974, section 22 of Act 113 of 1977, section 14 of Act 104 of 1979, section 22 of Act 104 of 1980, section 24 of Act 96 of 1981, section 21 of Act 91 of 1982, section 34 of Act 94 of 1983, section 29 of Act 121 of 1984 and section 18 of Act 65 of 1986.

8. (1) Section 64C of the principal Act is hereby amended by the substitution for paragraphs *(f)*, *(f*A) and *(f*B) of the following paragraphs, respectively:

"*(f)* any amount credited in respect of any subscription share in any mutual building society or any subscription deposit in any building society as contemplated in paragraph *(b)* of the proviso to section 10 (1) *(i)* (xii);

*(f*A) any amount accruing to any natural person as a dividend on Special Tax-Free Indefinite Period shares in any mutual building society or as interest on any indefinite period deposit in any building society as contemplated in paragraph *(b)* of the proviso to section 10 (1) *(i)* (xiii): Provided that this exemption shall not apply in respect of any such dividend or interest the rate of which exceeds a rate approved from time to time by the Minister of Finance;

*(f*B) interest **[accruing]** received by or accrued to any person (other than a company) who is ordinarily resident in a country or territory other than the Republic in which a building society or mutual building society **[registered under the Building Societies Act, 1965 (Act No. 24 of 1965)]** is under the provisions of **[section 22 (1) (*m*A) of that Act]** any law empowered to conduct its business or **[to]** a company which is managed and controlled in such country or territory, in respect of any loan to or deposit in **[such]** a building society or mutual building society made through any branch or agency of such building society or mutual building society in that country or territory, or **[interest accruing to any such person or company by way of]** any dividend or share of profits distributed by **[such]** a mutual building society to such person or company in respect of any share in such mutual building society applied or subscribed for by such person or company through any such branch or agency;".

(2) Subsection (1) shall come into operation on the date of commencement of the Building Societies Act, 1986 (Act No. 82 of 1986).

Amendment of paragraph 18 of 4th Schedule to Act 58 of 1962, as added by section 19 of Act 6 of 1963 and amended by section 28 of Act 90 of 1964, section 42 of Act 88 of 1971, section 49 of Act 85 of 1974, section 19 of Act 104 of 1979 and section 26 of Act 65 of 1986.

9. (1) Paragraph 18 of the Fourth Schedule to the principal Act is hereby amended by the substitution for subitem (iii) of item *(d)* of subparagraph (1) of the following subitem:

"(iii) will not be derived otherwise than from remuneration, interest, dividends, dividends on shares in any **[permanent]** mutual building society or rental from the letting of fixed property.".

(2) Subsection (1) shall come into operation on the date of commencement of the Building Societies Act, 1986 (Act No. 82 of 1986).

Amendment of paragraph 7 of 7th Schedule to Act 58 of 1962, as added by section 46 of Act 121 of 1984 and amended by

10. (1) Paragraph 7 of the Seventh Schedule to the principal Act is hereby amended—

(a) by the substitution for item *(a)* of subparagraph (4) of the following item:

"*(a)* as respects each such month, be an amount determined in accordance with the following scale, having regard to the determined value of such vehicle and the engine capacity thereof:

section 30 of Act 96 of 1985.

Determined value	Value of private use			
	Engine capacity			
	0 – 1600cc	1601 – 2000cc	2001 – 3000cc	Over 3000cc
	R	R	R	R
0 — R 20 000	130	160	190	220
R20 001 — R 25 000	150	180	210	240
R25 001 — R 30 000	170	200	230	260
R30 001 — R 35 000	190	220	250	280
R35 001 — R 40 000	210	240	270	300
R40 001 — R 45 000	230	260	290	320
R45 001 — R 50 000	250	280	310	340
R50 001 — R 55 000	270	300	330	360
R55 001 — R 60 000	290	320	350	380
R60 001 — R 65 000	310	340	370	400
R65 001 — R 70 000	330	360	390	420
R70 001 — R 75 000	350	380	410	440
R75 001 — R 80 000	370	400	430	460
R80 001 — R 85 000	390	420	450	480
R85 001 — R 90 000	410	440	470	500
R90 001 — R 95 000	430	460	490	520
R95 001 — R100 000	450	480	510	540
Over R100 000	470	500	530	560

Provided that where the employee—

(i) bears the cost of all fuel used for the purposes of the private use of the vehicle (including travelling between the employee's place of residence and his place of employment), the value of private use for each such month as determined in accordance with the foregoing provisions of this subparagraph shall be reduced by an amount of R50;

(ii) bears the full cost of maintaining the vehicle (including the cost of repairs, servicing, lubrication and tyres), the value of private use for each such month as determined in accordance with the foregoing provisions of this subparagraph shall be reduced by an amount of R30; and"; and

(*b*) by the substitution for subparagraph (6) of the following subparagraph:

"(6) Where more than one motor vehicle is made available by an employer to a particular employee at the same time and the Commissioner is satisfied that each such vehicle was used by the employee during the year of assessment primarily for business purposes, the value to be placed on the private use of all the said vehicles shall be deemed to be the value of the private use of the vehicle having the highest **[determined value]** value of private use or such other vehicle as the Commissioner may direct: Provided that the preceding provisions of this subparagraph shall not apply where the provisions of subparagraph (7) or (8) are applied.".

(2) Subsection (1) shall come into operation on 1 September 1986.

11. Paragraph 15 of the Seventh Schedule to the principal Act is hereby amended by the addition to subparagraph (2) of the following item:

Amendment of paragraph 15 of 7th Schedule to Act 58 of 1962.

"(d) the cash equivalent of any taxable benefit determined under paragraph 7 in respect of any month or part of a month commencing on or after 1 September 1986.".

as added by section 46 of Act 121 of 1984 and amended by section 38 of Act 96 of 1985 and section 37 of Act 65 of 1986.

Amendment of Item 13 of Schedule 1 to Act 77 of 1968, as amended by section 12 of Act 92 of 1983.

12. (1) Item 13 of Schedule 1 to the Stamp Duties Act, 1968, is hereby amended by the substitution for the words preceding the "Exemptions" of the following words:

"*Fixed deposit receipt,* including any certificate or other instrument whereby any fixed deposit is acknowledged or is expressed to have been received, deposited or paid:

If given for or in respect of any fixed deposit made with any bank, legally established building society, mutual building society, company or association, whether corporate of unincorporate: for every R200 (or part thereof) of the amount of the fixed deposit and for every period of twelve months (or part thereof) for which the deposit is made 0 10

For the purposes of this item a share certificate issued in respect of any 'paid-up share' as defined in the Mutual Building Societies Act, 1965 (Act No. 24 of 1965), in any legally established mutual building society shall be deemed to be a fixed deposit receipt in respect of a fixed deposit of an amount equal to the amount stated in the certificate, and such deposit shall be deemed to have been made for a period of twenty-four months.".

(2) Subsection (1) shall come into operation on the date of commencement of the Building Societies Act, 1986 (Act No. 82 of 1986).

Amendment of Item 15 of Schedule 1 to Act 77 of 1968, as substituted by section 13 of Act 89 of 1972 and amended by section 16 of Act 66 of 1973, section 21 of Act 88 of 1974, section 3 of Act 104 of 1976, section 20 of Act 114 of 1977, section 8 of Act 95 of 1978, section 8 of Act 102 of 1979, section 21 of Act 106 of 1980, section 9 of Act 99 of 1981, section 7 of Act 87 of 1982, section 14 of Act 92 of 1983, section 11 of Act 118 of 1984, section 11 of Act 81 of 1985 and section 5 of Act 71 of 1986.

13. (1) Item 15 of Schedule 1 to the Stamp Duties Act, 1968, is hereby amended by the substitution for paragraph (xi) of the following paragraph:

"(xi) a mutual building society;"

(2) Subsection (1) shall come into operation on the date of commencement of the Building Societies Act, 1986 (Act No. 82 of 1986).

Amendment of section 10 of Act 103 of 1978, as amended by section 6 of Act 111 of 1979 and section 6 of Act 99 of 1984.

14. (1) Section 10 of the Sales Tax Act, 1978, is hereby amended by the substitution for subsection (6) of the following subsection:

"(6) Every vendor—

(a) who has been authorized by the Commissioner under the proviso to subsection (2) to recover tax by including such tax as part of the price or amount charged by the seller to the purchaser, or

(b) who is entitled to an exemption under section 6 (1) *(g)*,

shall, in respect of any enterprise carried on by him, be required to display prominently at all entrances to the premises in which the enterprise is carried on and at all points in such premises where payments are effected a notice, in such form as the Commissioner may prescribe, indicating that tax at the appropriate rate is included as part of the price or amount charged or that the vendor is entitled to such exemption, as the case may be.".

(2) Subsection (1) shall be deemed to have come into operation on 4 July 1986.

Amendment of section 11 of Act 103 of 1978, as amended by section 7 of Act 111 of 1979, section 2 of Act 40 of 1982, section 6 of Act 95 of 1983, section 7 of Act 99 of 1984 and section 4 of Act 70 of 1986.

15. (1) Section 11 of the Sales Tax Act, 1978, is hereby amended—

(a) by the substitution for subparagraphs *(aa)* and *(bb)* of paragraph (i) of subsection (2) of the following subparagraphs:

"*(aa)* in respect of the cancellation or termination of any sale of goods by the vendor to the purchaser or any financial lease or any rental agreement or any agreement for the rendering of a taxable **[services]** service by the vendor to the purchaser or any agreement for the supply by the vendor to the purchaser of board and lodging or accommodation, if the consideration payable by the purchaser in respect of such sale, rental agreement, **[services]** taxable service, board and lodging or accommodation or the cash value of the leased property under such financial lease, as the case may be, has been included in any taxable value taken into account under this subsection in respect of the said enterprise, whether for the tax period or any previous tax period; or

(bb) by way of a reduction of the consideration payable by the purchaser in respect of any sale of goods, rental agreement, taxable service, board and lodging or accommodation or the cash value of any leased property let under a financial lease, in consequence of any defect in the goods so sold or let or in such taxable service, board and lodging, accommodation or leased property, if the full amount of such consideration or cash value, as the case may be, has been included in any taxable value taken into account under this subsection in respect of the said enterprise, whether for the tax period or any previous tax period"; and

(b) by the insertion after subsection (4) of the following subsection:

"(4A) Where any registration certificate issued to a vendor under section 12 has in terms of the provisions of section 13 (9) been surrendered to or seized by the Commissioner for cancellation, the vendor shall furnish the Commissioner with details of any trading stock held by the vendor and not disposed of by him on the date of surrender of such certificate together with the cost thereof and the vendor shall, in the manner prescribed by section 17

(3), pay tax in respect of the taxable value of such trading stock as if such stock had been disposed of at such cost under a sale concluded by him on the date of surrender of such certificate.".

(2) The amendments effected by paragraph *(b)* of subsection (1) shall be deemed to have come into operation on 4 July 1986.

Amendment of section 16 of Act 103 of 1978, as amended by section 4 of Act 105 of 1980.

16. (1) Section 16 of the Sales Tax Act, 1978, is hereby amended by the substitution for subparagraph (iii) of paragraph *(a)* of subsection (1) of the following subparagraph:

"(iii) Where a vendor dies or his estate is sequestrated or he ceases to carry on the enterprise or he disposes of the enterprise as a whole or any part interest therein or, where the vendor is a partnership, the partnership is dissolved, whether by operation of law or otherwise, or his registration certificate has been surrendered for cancellation under section 13 (9), there shall, unless the Commissioner otherwise directs, be a tax period ending on the date of the vendor's death or the date of the sequestration of the vendor's estate or the date on which the vendor ceases to carry on the enterprise or on the day before the date on which the disposal of the enterprise or the interest therein takes effect or on the day before the date from which the partnership is dissolved or the date on which the vendor's registration certificate is surrendered for cancellation;".

(2) The amendments effected by subsection (1) shall be deemed to have come into operation on 4 July 1986.

Short title.

17. This Act shall be called the Taxation Laws Amendment Act, 1986.

FIN MAIL

TAX-TREATY BUSTING?

(320) 19/9/86.

Sanctions busting, probably SA's fastest growing industry, is preoccupying more than a handful of tax consultants. They note a new attitude to South African-based enterprise using tax haven letter-boxes, and suspect a new desire to expose South African links.

Of particular concern is the re-negotiated US-Netherlands Antilles tax treaty. Previously, countries like SA that invested in the US through the Antilles could reduce US withholding tax from 30% to under 5%, depending on the deal.

After predictable US pressure, the re-drafted treaty largely removes these advantages. Tax consultants worldwide are looking for new avenues. However, the real hope is that countries will not follow Canada's example of cancelling unilaterally treaties signed direct with SA.

In the longer term, it is hoped that tax havens will remain neutral to exposing South African interests. Tax consultants are adding another main factor to the usual considerations of political and economic stability in treaty shopping — sentiment towards this country.

The darkest danger lies with beneficial trusts registered in tax havens and other jurisdictions. Used for sanctions busting, these are usually highly sophisticated. Even the most rabid anti-South African mercenary would have a tough time discovering the real owners. The whole tax haven area, as one tax consultant says, is dynamic.

FINANCIAL MAIL SEPTEMBER 19 1986

Post

Assocom not sure about introduction of the Vat system

Cape Post 22/7/86 (320)

JOHANNESBURG — Unless the advantages of introducing a Value Added Tax system in South Africa could be clearly shown to outweigh the disadvantages, the status quo with the present General Sales Tax system should be maintained, says Assocom (The Association of Chambers of Commerce of South Africa).

The latest issue of Chamber Bulletin, published by the Johannesburg Chamber of Commerce, says there has been wide speculation in recent weeks on the possible introduction of VAT.

Assocom had been asked by the Margo Commission investigating South Africa's tax structure to comment on "certain alleged advantages" of VAT over GST.

The first of these "advantages" was that VAT would provide the Government with its tax collections earlier.

Assocom says there would be a one-off cash flow advantage in securing the tax earlier, but it would pose a continuous cash flow strain on the private sector, for under VAT manufacturers and traders would be required to make tax payments at the time of purchase irrespective of when the goods concerned were sold.

"Furthermore, traders will no longer have the use of interest on the monies received, which supposedly is intended to offset the costs of collection and administration of GST."

The second "advantage" is that a VAT system would make the tax system less dependent on the "bottom" section of the manufacturing/distribution cycle.

Assocom says this is correct, but it must be accepted that VAT would impose much heavier administrative burdens on a greater number of businesses than the existing system. — Sapa

The Star

Gold

London	$435,50
New York close	$439,70
Hong Kong open	$438,29

JSE close

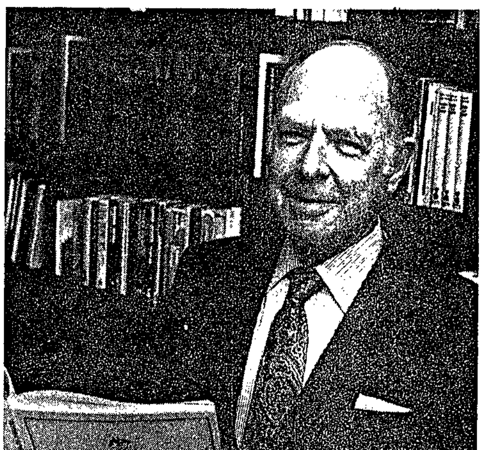
Overall	2045,0 (2086,0)
All Gold	1996,0 (2061,0)
Indust	1385,0 (1385,0)

Assocom highlights advantages of staying with GST

VAT issue still undecided, says Treasury spokesman

320 23/9/86 STAR

By Stan Kennedy



Mr Justice Margo . . . report next month.

Talk of a value added tax (VAT) being introduced in South Africa to replace the present GST system was mere speculation and any recommendation made in this regard by the Margo Commission would not be known until next month when the report was expected to be presented to the State President, Mr P W Botha, a Treasury spokesman said yesterday.

Because of exemptions to the GST system, which are costing the country a lot of revenue, the Minister of Finance, Mr Barend du Plessis, had hinted at a possible change to the GST system, he said.

"The whole question is in the melting pot and it is impossible to comment while it is in the hands of the Margo Commission."

Replying to the Margo Commission, which asked it to comment on "certain alleged advantages" of the VAT system, Assocom exposes many of the disadvantages in the Johannesburg Chamber of Commerce's *Chamber Bulletin*, and appears to prefer that the present GST system remains.

While VAT would give the Government its tax collections earlier, it would pose a continuous cash-flow strain on the private sector.

"Under VAT, manufacturers and traders would be required to make tax payments at the time of purchase irrespective as to when the goods were sold.

"Furthermore, traders would no longer have the use of interest on the moneys received which, supposedly, is intended to offset the costs of collection and administration of GST."

Another advantage put forward by the advocates of VAT is that it would make the tax system less dependent on the "bottom" section of the manufacturing/distribution cycle.

Assocom says that while this may be true, it must be accepted that VAT would impose much heavier administrative burdens on a greater number of businesses. There would be a greater number of points of collection to be administered and checked by Inland Revenue.

"The administration and accounting involved in VAT for the private sector is far more complex and troublesome than is generally realised," Assocom says.

"This becomes clear on examination of the procedures that have to be followed by traders in EEC countries. To mention only one aspect — all purchases and sales records must be duplicated to show every transaction both net of and including VAT."

Assocom says a VAT system requires more clerical staff and other specialised skills.

On the claim that VAT provides a cash incentive for exports while GST merely gives an exemption, Assocom says: "It is uncertain as to the advantage of paying a tax and getting it back as opposed to being exempt from tax in the first place. From the private sector's point of view, tax exemption would be preferable."

Assocom does not accept that VAT is appropriate for the relatively unsophisticated SA conditions and doubts whether the system can effectively be introduced, let alone administered.

It lists specific disadvantages of VAT to the business sector:

- VAT could bring cash flow problems for manufacturers and traders. They would be required to finance the tax paid at the time of purchase, and the cost of such financing would vary according to the rate of interest and stock-turn rate. The sums involved could be considerable and would erode profits or be inflationary. The result would probably be higher consumer prices.
- Under VAT, it would be virtually impossible to operate a 50 percent credit reserve to accommodate the financing of tax on credit sales as is currently allowed under GST. This would have serious effects on cash flows as large sums of money would have to be invested upfront in tax which would lie dormant until the goods were sold. In some cases, it could be as long as nine months, tying up many millions of rands.

"Unless the advantages of the VAT system can be clearly shown to outweigh the disadvantges, the status quo should be maintained."

'Less punitive' tax deal for use of company cars

320 Eve Post 23/9/86

New scale of values for private vehicle use

The promulgated new scale of values is:

Determined value	Value of private use — Engine capacity: 0-1600cc	1601-2000cc	2001-3000cc	Over 3000cc
	R	R	R	R
0-R20 000	130	160	190	220
R20 001-R25 000	150	180	210	240
R25 001-R30 000	170	200	230	260
R30 001-R35 000	190	220	250	280
R35 001-R40 000	210	240	270	300
R40 001-R45 000	230	260	290	320
R45 001-R50 000	250	280	310	340
R50 001-R55 000	270	300	330	360
R55 001-R60 000	290	320	350	380
R60 001-R65 000	310	340	370	400
R65 001-R70 000	330	360	390	420
R70 001-R75 000	350	380	410	440
R75 001-R80 000	370	400	430	460
R80 001-R85 000	390	420	450	480
R85 001-R90 000	410	440	470	500
R90 001-R95 000	430	460	490	520
R95 001-R100 000	450	480	510	540
Over R100 000	470	500	530	560

JOHANNESBURG — Taxpayers using company cars for private use will benefit significantly from a change to the fringe benefit tax provisions.

In terms of the Taxation Laws Amendments Act, 1986 — as published in the Government Gazette of September 19 — a less punitive basis for valuing the benefit of the private use of company-owned cars has been promulgated.

The old scale of values has been replaced by a lower scale which represents the "full and final amount" now to be taxed, with retrospective effect from September 1, so there will be no phasing-in provisions.

The new scale is as shown with this report.

Motor industry sources say the lower basis of valuation is expected to help new car sales.

The industry has paid tribute to the Government for the change on the grounds that the new scale is based on realistic and equitable assumptions regarding the value, for income tax purposes, of the private use of company owned cars.

The Evening Post's Motoring Editor, Ralph Jarvis, writes that the National Association of Automobile Manufacturers of South Africa (Naamsa) today described the new system as a reasonable and equitable balance between vehicle acquisition costs and vehicle operating costs.

"The promulgated basis of valuation of company-owned cars means the company car option has once again become a more tax efficient fringe benefit than the car perk in terms of car allowance schemes."

The lower basis of valuation of company-owned cars is expected to have a beneficial effect on new car sales, restoring normal market forces to company car purchasing decisions.

Inflation boosts Govt's tax bite

24/9/86, STAR 320

By Reg Rumney

Wage earners, white and black, are feeling the pinch as inflation outstrips pay increases.

Inflation, as measured by the Consumer Price Index, has almost halved the value of money over a five-year period.

The cumulative inflation rate for the last five years, to the end of last year is 93 percent.

If you earned R2 000 five year's ago, you would need to earn R3 860 just to equal your pre-tax income then.

After tax, however, you would be far worse off, in spite of your raise, because of "fiscal drag" or "bracket creep".

Tax expert Mr Costa Divaris of Divaris, Stein, says few senior management have had real increases over the past five years to cater for the effects of inflation and fiscal drag.

The tax tables have been changed three times over the past five years, but this, says Mr Divaris, "is nothing like the fundamental change needed to make recompense".

EMIGRATION

While the number of taxpayers is being decreased by emigration, the size of the collection is growing, he says.

The increase in income tax collections over the last five years has grown substantially, as illustrated by the following table:

1981 R2,1 billion
1982 R3,2 billion
1983 R4,3 billion
1984 R5,7 billion
1985 R7,4 billion
1986 R8,5 billion
1987 R10,3 billion (estimated)

A simple, if slightly artificial exercise, shows the power of fiscal drag to cut into your pay rises.

If you were married and were earning, say R4 000 a month at the beginning of 1982, your tax was — without deductions — R1 309 a month that year.

Assuming that inflation stays at its current high level of 18 percent, the cumulative inflation rate between then and the end of this year will be almost 200 percent.

You will have had to have doubled your earnings to R96 000 a year, or R8 000 a month to keep pace with inflation.

You pay tax of 50 percent on everything you earn above R61 700, plus tax of R20 697 on R61 700

So tax on R96 000 works out at R37 847, leaving you with R58 153, or around R4 846 a month.

Of course, few people earning R96 000 would actually pay that amount of tax, since there are smart accountants and tax experts whose sole job it is to prevent them doing so.

Nonetheless it illustrates the extent of the bigger tax "bite" inflation allows the Government.

New tax values for company car use

JOHANNESBURG 320 Taxpayers using company cars for private use will benefit significantly from a change to the fringe benefit tax provisions. 9D 24/9/86

In terms of the Taxation Laws Amendments Act, 1986 — as published in the Government Gazette of September 19 — a new and less punitive basis for valuing the benefit of the private use of company-owned cars has been promulgated.

As detailed in paragraph 7 of the seventh schedule of the Income Tax Act the old scale of values has been replaced by a lower scale which represents the "full and final amount" now to be taxed — with (retrospective) effect from September 1, so there will be no phasing-in provisions.

The new basis means that "the company car option has once again become a more tax efficient fringe benefit than the motor car perk in terms of car allowance schemes.

The net effective after tax cost to the employee will vary according to the tax payer, depending on his marginal rate of income tax.

"The net effective after tax cost to a tax payer at the maximum marginal tax rate would be 47,5 percent of the applicable value listed in the new table.

Motor industry sources say the lower basis of valuation is expected to help new car sales.

The industry has paid tribute to government for the change on the grounds that the new scale has been based on "realistic and equitable assumptions regarding the value, for income tax purposes, of the private use of company owned motor cars.

"Moreover, the new scale should restore normal market forces to company motor car purchasing decisions which, together with the savings accruing to individual tax payers, should assist the country's economic recovery". — Sapa

The table shows the new basis of valuation. The monthly value of private use of company cars in different price ranges is shown in rands under engine capacity.

Determined value	1 600cc	2 000cc	3 000cc	3 000cc+
0 — R20 000	130	160	190	220
R20 001 — R 25 000	150	180	210	240
R25 001 — R 30 000	170	200	230	260
R30 001 — R 35 000	190	220	250	280
R35 001 — R 40 000	210	240	270	300
R40 001 — R 45 000	230	260	290	320
R45 001 — R 50 000	250	280	310	340
R50 001 — R 55 000	270	300	330	360
R55 001 — R 60 000	290	320	350	380
R60 001 — R 65 000	310	340	370	400
R65 001 — R 70 000	330	360	390	420
R70 001 — R 75 000	350	380	410	440
R75 001 — R 80 000	370	400	430	460
R80 001 — R 85 000	390	420	450	480
R85 001 — R 90 000	410	440	470	500
R90 001 — R 95 000	430	460	490	520
R95 001 — R100 000	450	480	510	540
Over R100 000	470	500	530	560

EVENING POST, THURSDAY, SEPTEMBER 25, 1986

320

'VAT is unsuited to SA and should not replace GST'

JOHANNESBURG — Value added tax (VAT) is unsuited to South Africa and should not in be considered as a replacement for general sales tax (GST), the Institute of Directors has told the Margo commission on taxation.

Details of the institute's viewpoint, released after a meeting of its council here today, supplement a submission on general sales tax matters made to the commission last year.

"A change to VAT would be detrimental at this point in the development of the economy," said the institute, which recommended that the Department of Inland Revenue, "strengthened as it is by national servicemen, should 'visibly' police the collection of GST".

It recommended that the department should aim to cancel current exemption certificates and issue fresh certificates, spelling out the exemptions permitted.

This would close loopholes that allowed "fraudulent use by all and sundry".

In its argument for the retention of GST, the institute says that, in its original concept of a low-rated tax collected on the widest possible range of transactions, the system had worked well.

In the eight years since it had been introduced, South Africans had learnt to live with GST and had become accustomed to, and understood, its workings.

"Replacement of GST with the more complex VAT method, with its exemptions, would confuse and disrupt commerce, especially small businesses ill-equipped or trained to administer tax collections."

To overcome the problem of "tax slippage" — revenue escaping the tax net — the institute says loopholes in the present system would be more readily closed, and collections made much easier, if GST reverted to the simpler, lower rates applied between 1978 and 1979.

"A grave error was made when the rate of GST was increased to 10% and certain foodstuffs were exempted."

The institute said it believed the public would find the restoration of GST on foodstuffs acceptable if there was a substantial reduction in the rate from its present level of 12%. — Sapa

DD25/9/86 (326)

Experts: no tax relief ahead

Dispatch Correspondent

JOHANNESBURG — The Margo Commission report, now expected by year's end, will not recommend a reduction in the overall tax burden, tax experts agreed here.

More likely, the commission's findings — if accepted and implemented by the government — will point to a redistribution of the tax burden, with the imposition of a capital gains tax probable and more stringent enforcement of collections a certainty.

Addressing an audience of executives on Tuesday, four leading tax consultants — Ernst & Whinney's Mr Patrick Quarmby, Price Waterhouse's Mr Bryan Kent, Arthur Young's Mr Ian McKenzie and Arthur Anderson's Mr Pierre du Toit — speculated on the effects of impending tax reform.

The Margo Commission was established two years ago to study SA's system of taxation and recommend a plan for reform.

Mr McKenzie said tax reform, ideally, aimed at a fairer, more efficient means of raising tax revenue — not necessarily reducing taxes.

Mr Kent argued that the present system of income tax and GST ultimately would be retained, but that tax revenues would have to rise somehow with the expected increase in government spending. The government probably would eliminate more exemptions and loopholes, and may "tinker" with the GST rate.

Mr Kent predicted the government would consider a new tax on capital gains, applied to gifts, inheritances and gains on assets.

Directors' Institute comes out against VAT replacing GST

STAR 25/9/86 320

By Frank Jeans

If Value Added Tax (VAT) is introduced to South Africa there would be a round of sharp price rises throughout the economy equivalent to at least the rate of tax which could be anything between 15 to 25 percent.

This is the view of the Institute of Directors which adds its voice of dissent to that of Assocom on the possibility of VAT replacing GST.

The 1 500-strong institute has submitted a memo to the Margo Commission on Taxation in which it says that VAT is "totally unsuited to South Africa and should not, in any circumstances, be considered as a replacement of General Sales Tax".

Details of the institute's concern over the VAT issue were revealed after a meeting of its council in Johannesburg today and supplements an earlier submission on tax matters made to the Margo Commission.

"A change to VAT would be most detrimental at this point in the development of the economy," says the institute in a statement.

In a bid to close loopholes "that allow fraudulent use by all and sundry", the institute also recommends that all current exemption certificates should be cancelled and instead fresh certificates which individually spell out the precise particular exemptions should be issued.

Looking at the "disruptive effect" of VAT, the institute says it has taken about three years of careful study to bring GST on to the statute books and it would take as long to adapt, develop and phase in VAT.

"And this would be at a time when the Third World sector of the economy needs to be nurtured so as to develop job creation," says the statement.

VAT would also lead to a demand for an increase in inspector staff in the department which was "only now beginning to rectify staffing difficulties".

The institute says the introduction of VAT in Britain led to recruitment of an additional 17 000 inspectors.

"Moreover, VAT was adopted in Britain only as a prerequisite for joining the European Community and the United States and Canada have so far resisted its introduction," says the statement.

"Because of its 'add-in' features, VAT could lead to sharp rises in prices throughout the economy equivalent to at least the rate of tax."

Supporting the view that GST had worked well since it was introduced in 1978 the institute says South Africans of all income groups had learned to live with GST and had become accustomed to it, and understood how it worked.

Urging the restoration of GST to the simpler form of the years 1978-84, the institute believes this would overcome the problem of "tax slippage" — revenue which escapes the tax net — and loopholes would be more readily closed.

Too complicated

"GST has been made too complicated because too many exemptions are issued," says the institute.

"Therefore, we welcome as a step in the right direction the decision to raise the turnover ceiling for exemption certificates from R10 000 a year to R50 000, since this relieves the informal sector of the economy from responsibility of collection and administration of GST."

It also adds a grave error was made when GST was increased to 10 percent and certain foodstuffs were exempted.

"We believe the public will find the restoration of GST on foodstuffs acceptable if there is a substantial and overall reduction in the rate from its present high level of 12 percent."

25/9/86.

Consultants agree ...

No cuts in tax likely

BUSDAY

3 20

Economics Reporter

THE Margo Commission report, now expected by year's end, will not recommend a reduction in the overall tax burden, tax experts agreed this week.

More likely, the commission's findings — if accepted and implemented by government — will point to a redistribution of the tax burden, with the imposition of a capital gains tax probable and more stringent enforcement of collections a certainty.

Addressing an audience of executives, four leading tax consultants — Ernst & Whinney's Patrick Quarmby, Price Waterhouse's Bryan Kent, Arthur Young's Ian McKenzie and Arthur Anderson's Pierre du Toit — speculated on the effects of impending tax reform on Tuesday at a seminar sponsored by Divaris Stein Publishers in Johannesburg.

Divaris Stein partner Costa Divaris, criticising the "destabilising effect" of the method of reform, expressed doubts about the ultimate effectiveness of the commission.

McKenzie said tax reform — ideally, aimed at a fairer, more efficient means of raising tax revenue — did not necessarily mean reducing taxes.

Kent said the present system of income tax and GST ultimately would be retained, but that tax revenues would have to rise somehow with the expected increase in government spending.

Du Toit said the conflict between government and individuals over tax avoidance would intensify as government became more sophisticated and more pervasive in its monitoring systems.

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26/9/86

Some PE taxpayers may also be paying too much

By BARBARA ORPEN

PORT ELIZABETH taxpayers with working wives could also be paying too much tax, but not as many of them as in Johannesburg, according to the local Receiver of Revenue, Mr P J Larkin.

Yesterday taxpayers were urged to check their 1986 income tax assessments carefully in the light of confusion surrounding different interpretations of statements made in the Budget speech by Finance Minister Barend du Plessis.

As a result, certain inaccuracies had occurred, regarding working wives' pension contributions.

Mr Larkin said although the PE Receiver of Revenue's office had "made the same mistake", not as many people had been affected as assessments were made later than those in Johannesburg.

"We always wait for official notification in writing when there are any adjustments and as a result we held back on the assessments this year," he said.

He added PE taxpayers who would possibly be affected would be those whose assesment forms had been processed before June 30, 1986.

"Taxpayers who feel they might be affected should check the process date which appears in the middle of the form after the words 'your account as at . . .'," he said.

Mr Larkin said anyone who had queries should approach the office and speak to experts who would be available to offer their assistance.

Thumbs down for govt move to halt GST

BUSDAY 26/9/86

320

MICK COLLINS

GENERAL Sales Tax (GST) must be retained at all costs and not replaced by Value Added Tax (VAT).

This was said yesterday in a letter to the Margo Commission on Taxation following a meeting of the council of the Institute of Directors in Johannesburg.

"A change to VAT would be most detrimental at this point in the development of the economy."

Since it was introduced, people of all income groups had learned to live with GST and had become accustomed to and understood its workings.

"Replacement of GST with the more complex VAT method with its array of exemptions, would sow confusion and disrupt commerce, especially among small businesses ill equipped to administer tax collections."

The Institute said that in its original concept of a low-rated tax collected on the widest possible range of transactions, the system had worked well.

To overcome the problem of revenue which escapes the tax net, the institute says loopholes in the present system could be closed and collections made easier, if GST reverted to the simpler, lower rates applied between 1978 and 1979.

"A grave error was made when the rate of GST was increased to 10% and certain foodstuffs were exempted."

The Institute said the public would find GST on foodstuffs acceptable if there was a substantial reduction in the rate from its present high level of 12%.

"The Department of Inland Revenue should cancel all current exemption certificates."

The Institute also recommended that the department, strengthened as it is by national servicemen, should visibly police the collection of GST.

Taxman admits some married couples have paid too much

320 26/9/86

MICK COLLINS

THOUSANDS of married couples are paying too much income tax and were warned yesterday to recheck their 1986 tax assessments.

The warning came from none other than the taxman himself.

Different interpretations of the statement made in his Budget speech by Finance Minister Barend du Plessis in March, and what was eventually set out in the Income Tax Act on July 4, are the cause of the confusion.

Taxpayers were urged to be particularly vigilant in ensuring they had been allowed the correct deduction in respect of their wives' earnings.

Johannesburg's Receiver, Hannes Hattingh, yesterday confirmed that certain inaccuracies had occurred regarding working wives' pension contributions.

"Our assessments were issued on the basis of the Budget speech, but now that the Budget proposals have become law, there are certain differences."

He could not say how many tax returns were affected, but urged any taxpayer who was in doubt about assessments to contact his office immediately.

"There is nothing sinister in this. This was the law and we applied it. People can look at their assessments and, if they are wrong, they can apply to be reassessed."

This was likely to apply particularly to taxpayers who had lodged their tax returns in good time and who had already received their 1986 assessment.

In his Budget speech Du Plessis announced that the deduction allowed from the earnings of a married woman from and including the 1986 tax year would be increased from R1 600 to the greater of 20% of her net earnings or R1 800.

Shortly afterwards, the Commissione for Inland Revenue sent out a circular t all Receivers' offices with an interpreta tion of "net earnings" on which the 20% i calculated after allowing for certain de ductions.

But when the Act was gazetted, the definition of "net earnings" in Sectio 20A was given as the taxable income de rived by a married woman from earn ings as determined before the deduction of any amount.

TAX REFORM 320 FINMAIL 26/9/86

In the wings . . .

Lobbyists for tax reform at a high political level press on. This is despite completion of investigations by the Margo Commission, which is expected to report soon.

The lobbying — by a non-aligned group with a wide range of members, which considers itself free of vested interests — is not without controversy, but also not without hope. The main thrust is that growth must be given priority in the formulation of economic policy. To that extent, it argues that a tax system hinging on exempting *all* savings from the tax net is the only acceptable tax system for SA.

It is not clear whether the lobby is attempting to pre-empt Margo, or assumes or knows that Margo will take a different view. The latter is most likely, since most officials perceive that switching to a tax system where savings are king would be a radical, difficult change.

The proposal is based on the so-called Universal Expenditure Tax (UET), which uses the taxpayer's cash flows as the tax base, and excludes from tax all savings made from cash receipts. The source of the receipts (salary, pension, royalty, tips, windfalls, withdrawals from a saving) is irrelevant; so long as the cash is not saved or re-saved, it falls into the tax net. Of course, if cash is not saved, it is spent on a consumable item, thus the "misnomer" — expenditure tax.

Highly placed officials, who have seen the proposal, are generally opposed to it. They note that the Jacobs Committee's proposals, that farmers should be allowed to create a "reserve" in good years and only be taxed if they spend withdrawals on consumables, has not been accepted.

The present treatment of pensions, by and large, conforms with the UET philosophy, although contributions are not fully tax-free, and withdrawals only partially so. And so some say the granting of other forms of savings with the same privileges as pension funds — with refinements — is no big deal. At this point, officials add that the system would not allow for accurate estimates of Revenue.

On this score, apart from consistent errors (in favour of government) in estimates in recent years, statistics of SA's UET base are readily available. Businesses, private or otherwise, can easily be assessed on the UET basis since the concept of savings is so universal.

In 1985, the tax base was R170 billion: personal incomes were R79 billion and corporate incomes R91 billion, out of which savings of R4 billion and R16 billion were made respectively, or a total R20 billion in savings were made. While individuals paid a total of R9 billion in direct, or income tax, businesses paid R7 billion; together they also paid R13 billion in indirect taxes; so a total tax take was R29 billion.

Now under a UET system, the savings totalling R20 billion would be deducted before tax, reducing the tax base to R150 billion. The tax base is, therefore, R75 billion for each sector. Business benefits more, simply because of its greater savings element.

However, the larger business savings were encouraged by convoluted tax structures and high inflation, whereas the UET system would encourage savings for a sounder reason.

The lobby argues that if further savings channels are given tax-exempt status (known typically as "registered assets" in UET language) the effect on revenues would be predictable.

But, far more important, the business and personal tax systems would be unified. Investors would stake cash in the business sector to extract cash from it, not to buy tax shelters. Investors would regard all savings on a uniform basis, whether unit trusts or gold mines, bank deposits or stamps, and chase *yields* instead of tax treatments.

Savings locked up in the corporate sector could be unveiled and unleashed, giving greater capital market liquidity and easier entrepreneurial access to funds. The filing of tax returns would be greatly simplified; people would not make fortunes from the non-productive activity of tax avoidance, and savings would assume the privileged place all economists today agree on.

Judge Margo . . . still facing lobbyists

ANOTHER VAT HINT

Has Finance Minister Barend du Plessis really been sold on the idea of value-added-tax (VAT) replacing GST? Speaking at the Transvaal National Party Congress, he has given yet another hint that VAT, used widely in foreign jurisdictions, may be on the way.

Du Plessis added that if VAT comes in, taxpayers should not expect exemptions similar to the GST regime. At an earlier speech, he said that GST exemptions — mainly food — will cost the fiscus almost R2 billion this year.

The wider spread of the would-be VAT, so more tax is collected at a lower rate, was part of stated GST policy. Speaking in 1978, then finance minister Owen Horwood said the intention was for GST to be a widely based, low rate tax. Its start rate of 4% has since been tripled to 12% by a profligate exchequer.

More precise statements on VAT will need weight. The Margo Commission, over deadline on its monumental tax report, is seeking to settle differences of opinion.

An official spokesman says the report may be finalised next month. But as discussed in the *FM* (September 18), foreign experience has shown that a two-year lead time is needed before VAT can be fully implemented.

DD 26/9/86 (320)

Taxman warns: you could be overtaxed

Dispatch Correspondent

JOHANNESBURG — Thousands of taxpayers with working wives are paying too much tax and were warned yesterday to recheck their 1986 income tax assessments.

The warning came from none other than the taxman himself.

Confusion has resulted from different interpretations of statements in this year's Budget speech by the Minister of Finance, Mr Barend du Plessis, and what was eventually set out in the Income Tax Act on July 4.

Taxpayers were urged to be particularly vigilant in ensuring they had been allowed the correct deduction in respect of wives' earnings.

Johannesburg's Receiver of Revenue, Mr Hannes Hattingh, confirmed yesterday certain inaccuracies had occurred regarding working wives' pension contributions.

"Our assessments were issued on the basis of the Budget speech but now that the Budget proposals have become law there are certain differences," he said.

He urged any taxpayer who was in doubt about assessments to contact his office.

"There is nothing sinister in this. This was the law and we applied it. People can look at their assessments and if they are wrong they can apply to be reassessed."

In his Budget speech Mr Du Plessis announced that the deduction allowed from the earnings of a married woman from, and including, the 1986 tax year would be increased from R1 600 to the greater of 20 per cent of her net earnings or R1 800.

Shortly afterwards, the Commissioner for Inland Revenue sent out a circular to all revenue offices with an interpretation of "net earnings", on which the 20 per cent was calculated after allowing for certain deductions.

Among these were all "permissible expenditure" directly attributable to the wife's earnings and her current and arrear pension fund contributions.

However, when the Act was gazetted, the definition of "net earnings" in Section 20 (a) was given as the taxable income derived by a married woman from earnings as determined before the deduction of any amount.

Too much tax paid by thousands

FJ/M 26/9/86 320

JOHANNESBURG—Thousands of taxpayers with working wives are paying too much tax and were yesterday warned to recheck their 1986 income tax assessments.

Mercury Correspondent

The warning came from none other than the taxman himself.

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Taxpayers were urged to be particularly vigilant in ensuring they had been allowed the correct deduction in respect of a wife's earnings.

Johannesburg's Receiver, Mr Hannes Hattingh, yesterday confirmed that inaccuracies had occurred regarding working wives' pension contributions.

'Our assessments were issued on the basis of the Budget speech but now that the Budget proposals have become law there are certain differences.'

He could not say how many tax returns were affected but urged any taxpayer who was in doubt about assessments to contact a tax office immediately.

'There is nothing sinister in this. This was the law and we applied it. People can look at their assessments and if they are wrong they can apply to be reassessed.'

Mr Kevin Mitchell, a tax partner with a firm of accountants, said instances were now emerging of working husband and wife teams who appeared to have paid too much tax.

This was likely to apply particularly to taxpayers who had lodged their tax returns in good time and who had already received their 1986 assessment.

In his Budget speech Mr du Plessis announced that the deduction allowed from the earnings of a married woman from and including the 1986 tax year would be increased from R1 600 to the greater of 20% of her net earnings, or R1 800.

Shortly afterwards, the Commissioner for Inland Revenue sent out a circular to all Receiver of Revenue offices with an interpretation of 'net earnings' on which the 20% is calculated after allowing for certain deductions.

Gazetted

Among these were all 'permissible expenditure' directly attributable to the wife's earnings and her current and arrear pension fund contributions.

But when the Act itself was gazetted the definition of 'net earnings' in Section 20A was given as the taxable income derived by a married woman from earnings as determined before the deduction of any amounts.

'As a consequence, working wives who have made contributions in respect of current pensions will now be entitled to a greater deduction in most cases,' Mr Mitchell said.

A good friend after all

Primed grenade removed from soldier's shoulder

MOSCOW—Soviet surgeons gingerly but successfully removed a primed grenade lodged in a soldier wounded while serving in Afghanistan, Pravda reported yesterday.

The newspaper said Private Vitaly Grabovenko, 20, had already undergone a field operation to remove ammunition fragments from his body after he was caught in an explosion.

Later, when he was transferred to the Soviet Central

High taxes killing jewellery craft

By YVONNE STEYNBERG

HIGH taxes are preventing South Africa from developing a major jewellery manufacturing industry, jewellers say.

They believe an "outdated" 35% *ad valorem* tax on locally manufactured jewellery should be scrapped in the interests of the economy, so that more of the country's gold could be put to better commercial use, creating job opportunities and encouraging small business ventures.

Most of the fashionable heavy gold chains sold in South Africa are imported from Italy.

Mr Derek Smith, chairman of the Retail Jewellers' Association of the Eastern Cape and director of the national executive of Retail Jewellers of SA, said the duty on local manufacturers was the heaviest in the Western world and should be scrapped.

It had been a sore point with jewellers for many years, and contributed to the loss of expert craftsmen who were leaving the country.

The jewellers' complaints have been highlighted following the statement by Dr Louw Alberts, Director-General of Mineral and Energy Affairs, at the Gold 100 Conference in Johannesburg that South Africa's gold could be worth up to 1 000% more if the manufacture of jewellery, thin wires, alloys and sheets was encouraged.

He said the jewellery tax structure was outdated and recommended a strong home base supplying South Africa's needs and serving as a platform for expansion overseas.

Dr Alberts said South Africa should be one of the largest jewellery manufacturers in the world, considering its wealth of raw materials.

He accused the gold mining industry of failing to encourage local industries to use gold.

Mr Smith said Mr Tim Davidson, director of the Jewellery Council, was taking the matter up "at the highest level".

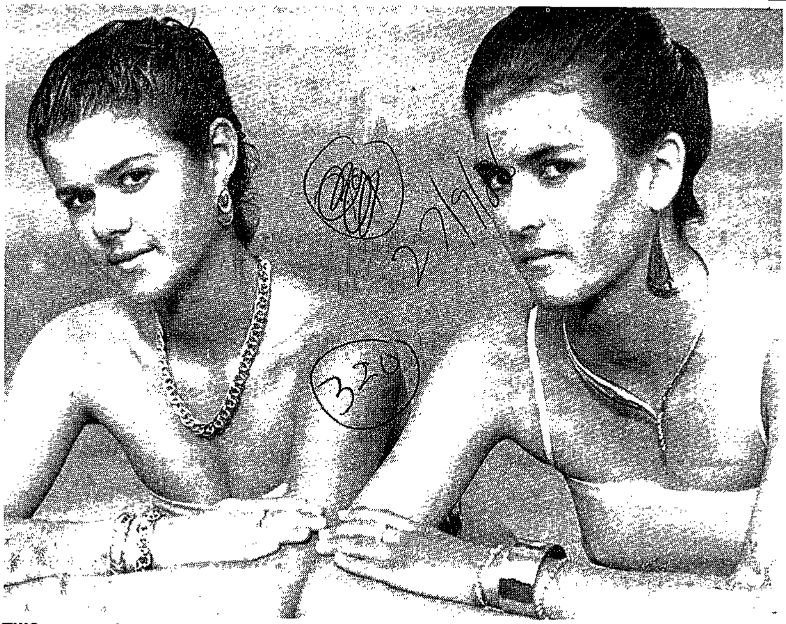
At present gold was used by jewellers mainly for rings, bracelets and simple chains.

"This does not make sense when you consider that the Governmment is spending huge sums training people with artistic leanings to become self-employed artisans and craftsmen," said Mr Smith.

A Port Elizabeth jeweller said it would be very expensive, if not impossible, to make by hand chains like those currently being imported.

Italian manufacturers had worldwide contracts for jewellery worth millions of rands, and one machine costing R700 000 was a worthwhile investment in such circumstances, he explained.

There would have to be help from the Government if a large, viable jewellery manufacturing industry was wanted in South Africa.



TWO pretty girls wearing expensive gold jewellery. BRIGET BIDDULPH, 14, (left) is wearing imported jewellery. HYLETTE GERBER, 15, is wearing gold jewellery which was designed and made locally.

It's good for banks and borrowers

Added value — the name of new game

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28/9/86 SUN TIMES

By Lyn Smerczak

CORPORATE banking has undergone a revolution in the past few years — especially in the deregulated markets of the United States and United Kingdom.

The move to deregulation, say experts, has resulted in a blurring of activities in the financial services sector.

For instance, it is now possible to find a London clearing bank offering not only conventional corporate banking services, but stockbroking and merchant-banking operations.

Downward rating

In the US the demarcation of these activities is less clear than in the UK. The lack of clarity, say banking boffins, has been caused by the downward rating of the major banks by credit bureaus. The adverse rating has been caused by the banks' exposure to Third World debt, the fall in the oil price, which has detrimentally affected loans to oil producers, and the state of US agriculture.

The development has meant that some US corporations, such as General Electric, have been able to procure funds in the market on more favourable terms than some large banks.

In effect, many US banks are unable to price loans to these large corporations competitively — without incurring a negative interest spread.

So American banks have changed their role and are beginning to act as arrangers and intermediaries for these loans. For their efforts, the banks charge a fee. The service is offered by major US money-centre banks.

Such services were always the domain of investment or merchant banks.

The strategy also seems to make sense to the banks. As one corporate banker points out, in the existing business environment the trend is towards a reduction in asset growth combined with an increase in the quantum of fee income, which should result in higher return on capital and assets.

So much for current international thinking on the corporate banker's role. What about South Africa?

Trust Bank's Derek Cohen says: "The emphasis in corporate banking worldwide is on adding value to traditional product. The trend is becomming increasingly more important in the South African banking environment.

"Although the South African scene is still relatively highly regulated, the shrinking margin earned by banks on their corporate lending books has forced them to begin focusing on combining traditional lending values with added value."

Advantages

This compels commercial banks to compete directly with merchant banks in certain activities. The clearing banks, with their large capital bases, are able to combine the skills of a merchant banker together with those of a traditional corporate banker. This combination — skills and large capital base — holds many advantages for the borrower or corporate client.

"The major advantage for the corporate borrower is that on large borrowing requirements he is offered state of the art skills and facilities from a single source. In other words, he is not soley reliant on the merchant bank's ability to place or sell off the transaction in the debt markets."

As things stand, there is no guarantee that the funding will be forthcoming especially because of the relative smallness of the open South African private-sector debt markets.

transport equipment.

The latest trade balance increased by R1,12 billion in August on the previous month. With the rand trading at US45c and gold around US$422 as the *FM* went to press, the outlook for this year's trade balance is encouraging. ■

3/10/86

GOVERNMENT FINANCES 320

FIN MAIL

Moving goalposts

One of the most oft-heard criticisms in official circles, for otherwise sound tax reform proposals, is that the effect on revenues is unknown. While it would seem a tax reform programme and revenue estimates are two separate issues, it can hardly be said that Pretoria is anywhere near certain of revenues under its current tax system.

The latest Reserve Bank bulletin notes that exchequer issues in the first quarter of this fiscal year (April to June) were 22,1% higher than a year ago. Without details, the bulletin says this is "in accordance with the normal pattern of recent years."

But a fairly slow rate of increase was recorded in July compared to an "extraordinary high level of issues" a year before. A further deceleration in August slowed the increase for the first five months to 15,8%. This, says the bulletin, "only moderately exceeded" the 13,9% officially estimated increase.

The bulletin also refers to the R1,5 billion economic package announced in June that analysts queried on details as to how the total was reached. The bulletin refers to the same total but notes that revenues forgone by the measures total R250m and extra spending comprises R450m — totalling R700m.

These amounts were financed by transfers from the Central Energy Fund and the Industrial Development Corporation, and not by a tax or budget deficit increase.

But as the bulletin notes, exchequer *receipts* during the first quarter of the fiscal year were "substantially higher" than a year ago — 19,4%. This is excused away by a substantial increase in gold mining revenue, owing to the rand's depreciation and "stable" gold price. But a slower rate of increase in the next two months saw revenues increase by just 10,9% for the first five months of the fiscal year — below the official 13,1% estimate.

The deficit for the first five months was R3,3 billion, R1 billion more than a year ago, or 85% of the annualised estimated R3,9 billion deficit. The ratio a year ago computed at 75%, signalling a moderately more expansionary fiscal policy this year.

Whether or not all this signals possible tax increases in the months ahead is anyone's guess. But how the Margo Commission will influence the tax system should be known sometime this month.

It is of note that Margo sent certain delegated commission members to run programmes on Revenue's high-powered computers — for revenue estimates. What taxes were tested is unknown. ■

3/10/86

BER SURVEY FIN MAIL

Factory challenge

People may well expect housing to provide jobs and economic growth. But unless new property is given away it assumes consumers, whether black or white, have sufficient means to secure tenancy. It may be so in some cases, but surely not on a sufficient scale to "get things going."

So what about other sectors, manufacturing in particular?

As the Bureau for Economic Research (BER) says in its latest *Manufacturing Survey*: "The South African manufacturing sector should be a major force in putting the

COURTING LAWYERS

Webber Wentzel, probably SA's largest firm of attorneys, has signed an informal deal with Shepstone & Wylie that will have very definite formal consequences. The latest move marks Webber Wentzel's aggression in the booming financial services market: just last month it formed a joint venture multi-discipline company with accountants Deloitte Haskins & Sells.

Webber's 42 partners will meet regularly with Shepstone & Wylie's 18, and provide clients with access to offices on the Witwatersrand, and in Durban, Maritzburg, London, Luxembourg and other European centres. Webber Wentzel practises in commercial and corporate law with detail in areas such as mining and minerals.

Shepstone & Wylie is acknowledged as SA's leading firm in maritime law and international trading, and will open a London office in conjunction with Webber Wentzel. A senior Webber Wentzel spokesman argues that the tie with Shepstone & Wylie, described as a "pooling of resources," was motivated by "today's increasingly competitive business environment."

While many legal firms have come to rely on conveyancing fees for much of their fee income, accounting firms have stolen a march by rapidly diversifying into tax, international, computer and management consultancies. The Webber Wentzel-Shepstone & Wylie tie-up may induce other colourful developments in SA's quiet but robust legal field.

3/10/86

TAXATION (60) (320)

FINANCE

Manufacturers' turn

Another round of tax lobbying is in the air, and this time it's the turn of the manufacturing sector.

Since recent tax legislation made it apparent that the 50% manufacturing initial allowance would not be renewed, a number of significant projects have been cancelled.

Until recently, manufacturers could write off 130% of cash invested in productive assets, 55% in the first year. The current situation is a total 100% written off: 50% in the first year (the initial allowance); and the other 50% as wear-and-tear allowance over the next ten years.

But after the initial allowance is abolished on December 31, though 100% may still be written off in total, only 10% may count against tax in the first year as a wear and tear allowance and 10% per year thereafter.

Most manufacturing finance runs over a period of ten years; from next year only the wear-and-tear allowance will be claimable over the life of the project. The effects of high inflation over such a period are severe; it is doubtful that the project sponsors will benefit to the extent intended by the legislature.

Manufacturers were dealt a severe blow in 1983 when the then Finance Minister Owen Horwood announced retrospective law to end a practice known as tax-base trading. This amounted to banks, other financial institutions and, non-manufacturing companies effectively claiming manufacturing allowances through a series of special legal personae.

The scheme was rooted in the fact that manufacturing allowances can only be claimed against taxable profits; and, after Horwood's law, only against the manufacturer's taxable profits. With the new development, much as the economy may now be poised for an upswing, manufacturers will take longer than in the past to create new productive capacity.

One tax consultant says a major Cape Town development was recently mothballed because of non-renewal of the initial allowance.

The future of manufacturers' tax allowances is also affected by the Margo Commission on tax. Chairman Judge Cecil Margo in his unofficial capacity has been known to favour the principle of abolishing as many tax allowances as possible, to induce a regime of overall lower tax rates. This alone may be the reason for the non-renewal of the initial allowance.

Some manufacturers are irked that many mines may still write off 100% of their investment in year one — but they do pay higher tax rates.

A White Paper was produced on the issue over a decade ago, and investigations by commissions and academics have reached disparate conclusions. While it is true that the level of tax allowances available to manufacturers has attracted the tax avoidance industry in the past, SA does not appear to suffer manufacturing over-capacity.

In the past eight years the highest figure recorded under the Reserve Banks' percentage utilisation of production capacity was 86% in 1981. Today, after four years of recession, the most recent figure was 79% for March 1986. ■

Tax relief call to soften sanctions

TAX incentives should be given for research and development to counteract the effect of sanctions on SA's technological development, says a report by Perry and Associates.

The report says sanctions will ultimately threaten SA's position as a technologically advanced country.

It says the effect of sanctions on SA will unfold in three phases.

Firstly, the SA economy would suffer a sharp one-off deterioration in its terms of trade as exporters are forced to pay middlemen and develop new markets.

Opportunities for import substitution would arise, but economic efficiency would deteriorate.

In the second phase, import substitution would increase employment and output and a policy of export market and product diversification would start to pay off.

Finally, economic expansion would fail to keep pace with population growth, resulting in an increase in unemployment. Government spending would escalate as the security threat became increasingly serious.

"THE ...TAL VIEWPOIN

7/10/86 BUSDAY 320 3537 2280

Cancellation of tax treaty may mean more income for SA

Economics Reporter

THE US will terminate a 40-year-old double-tax treaty as part of the SA sanctions Bill passed by Congress last week.

But the action may well have the effect of raising new tax revenue for Pretoria. Interest income and certain royalties earned in SA, which were exempt previously from SA tax, will now be subject to tax in both the US and SA.

"They couldn't do a better favour for SA," Divaris Stein partner Costa Divaris said yesterday. He called the 1946 treaty the most adverse double-tax agreement any country had ever signed.

Some experts yesterday expressed concern that the measure, while benefiting SA's tax coffers, could discourage investment and technology transfers from the US.

Arthur Andersen tax partner Pierre du Toit said: "As a country which needs both funding and technology, the potential harmful effect on the willingness of US investors to provide funds and technology for SA will have to be counteracted."

Price Waterhouse partner Bryan Kent called the US action "just another pinprick in the continuing movement to disinvest".

US government sources said the cancellation of the treaty wouldn't affect most corporate profits and personal income flowing to the US from SA. Such income is covered by a provision in the US tax code which confers certain double-tax credits and deduction benefits to US firms or nationals.

Deloitte Haskins partner Trevor McGlasken said the outdated 1946 treaty was about to be terminated and revised, anyway. Termination of the treaty requires six months' notice from the US; if it notifies SA before or on December 31 the treaty would end on July 1, 1987.

Du Toit said SA individuals' earnings dividends from the US — exempt previously, in many cases — would now have to pay US tax. Relief for US expatriates on temporary assignment in SA would fall away with the treaty's termination.

He said, cancellation of the treaty would make an exchange of information between tax authorities in the two countries impossible. Since SA supplied more information under this provision, the US could lose valuable information on US multinationals operating in SA.

Cape Times 8/10/86 320

Tax chief charged with fraud of R230 000

Court Reporter

A BUILDER told the Regional Court yesterday that a tax official had reduced his tax debt of R19 000 to R8 000 after he offered to help the official with the alterations on a factory he intended to buy.

Mr Naser Allie was giving evidence in the trial of Mr Jacobus Francois Erasmus Brand, 57, of Tafelsig Flats, Loewenstein, the former head of the tax assessment department, who is charged with fraud involving R236 513.

Mr Brand pleaded not guilty to 19 charges of fraud, eight counts of abusing his official discretion by under-estimating incomes and three counts of corruption, alternatively with accepting payment from people in return for lowering the tax amounts owed by them.

Mr Allie told the court he owed the Receiver of Revenue R38 000 for back taxes from 1974 to 1979. He had paid the amount off at about R2 500 a month.

On one occasion, the man who usually dealt with his taxes was on leave and he was referred to Mr Brand who promised to look into the matter but said he "could not scratch in these matters now as he was nearing retirement".

At a second meeting, Mr Brand had told Mr Allie he and his son intended buying a factory. Mr Allie offered the services of some of his workers to help with any necessary alterations, on condition that Mr Brand pay the workers.

At another meeting, Mr Brand said he had made arrangements with Pretoria and Mr Allie need pay only R8 000 instead of about R19 000 which he still owed.

Mr M Booley told the court he had gone to see Mr Brand in connection with his high taxes. Mr Brand had told him to continue paying off the amount.

Mr Booley said Mr Brand telephoned him and asked him to buy two plane tickets, which he did. He said he was unaware that his tax had been under-estimated by R77 091.

The hearing continues today.

Mr A L Laubscher was the magistrate. Mr A de Villiers le Grange appeared for the State. Mr J Rhoodie represented Mr Brand.

Golden tax bonanza for the State coffers

Argus 8/10/86

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By DEREK TOMMEY
Financial Editor

THE Government is reaping a huge tax bonanza from the higher gold price — raising hopes for big cuts in personal income taxes next year.

Between the end of July and the end of September the gold price rose by $71 to $421. (It is now $440). Figures published today show that the biggest beneficiary by far has been the State.

The publication today of the first of the mining group quarterly reports shows money is pouring into the Treasury as the Receiver of Revenue takes his cut of the mines' increased gold revenue.

The group reporting today, Gold Fields of South Africa, says the average gold price received by its mines rose 26 percent in the September quarter. This boosted the earnings of its seven mines by R207-million, to R919,5-million.

Total tax haul

However, this increased revenue did not remain with mines for long, for a total of R159-million or 76 percent of the increase finished up in the hands of the Government.

The result was that the Government's total tax haul from the Gold Fields group rose by 85 percent from R186-million in the June quarter to R345-million in the September quarter.

Five other gold mining groups are still to issue their September quarterly reports. If the Government is also taking a big cut from their increased revenue, as seems likely, the Treasury could almost be overflowing with money.

Such a situation would pave the way for subtantial tax cuts in next year's Budget, as well as for increases in essential social services.

Could go higher

Economists say much will depend on whether the gold price retains its present price levels. There is a growing feeling in financial circles that gold will at least remain above $400 an ounce and possibly could go much higher.

However, it is likely that the gold mines will try to reduce their tax payments in future quarterlies.

One way would be to reduce the grade of ore mined, resulting in reduced profits and, because of the unique gold mining tax formula, a much lower tax rate.

But if a mine is already working its lowest grade ore, as some are, this is not possible.

The other way is to step up capital expenditure as this can be written off immediately against tax.

This is likely to happen on a large scale in the coming months and should give the economy a considerable boost as extra hundreds-of-millions of rands are pumped into circulation.

South Africa is heavily dependent on the gold price for its prosperity. When the gold price falls, as it did in 1983 and 1984, the country suffers.

Tax official faces 30 fraud charges

Staff Reporter

Argus 8/10/86

A BUSINESSMAN has told a Cape Town Regional Court that he lent two airline tickets to a senior tax offical and did not give them as a gift in return for helping him sort out his tax problems.

Mr N Y Booley was giving evidence in the trial of Mr Jacobus Francois Erasmus Brand, former head of the company tax assessment division of the Cape Town Receiver of Revenue.

Mr Brand, 56, of Tafelsig Flats, Loewenstein, faces 30 charges of fraud and corruption involving R236 000.

Back-taxes

Mr Booley said he had been in trouble when he discussed his tax situation with Mr Brand because he could not raise enough money to pay the full amount owing.

"Mr Brand was very nice to me and said I could pay my debt in instalments. I felt he had been good to me.

"At no stage did he ask me to do a favour for him. I lent him two airline tickets and he said he would repay me. He did not say how," he said.

Mr Brand is charged with 19 counts of illegally writing off back-taxes and penalties for Mr Booley, Mr A S Adams and Mr A O Banderker, alternatively assisting them evade payment.

He is also charged with eight counts of abusing his official discretion by underestimating their incomes, and the State alleged that he was corrupt in that he received gifts from the three men.

The gifts are alleged to include airline tickets costing R5 204, a bakkie worth R6 104 and R20 000 in cash.

Another witness, builder Mr Nasser Allie, said he was told in 1980 that he owed R38 000 in back taxes.

"In Pretoria"

"I thought my tax was too high, but I also wanted to know exactly what had happened so that I wouldn't make the same mistake again.

"Mr Brand told me I need pay only pay R8 000 more," Mr Allie said. "At the time I owed between R16 000 and R19 000. He said the balance had been sorted out 'in Pretoria'."

Mr Allie said he later paid the R8 000 in two parts, but was then visited by two other Revenue Department officials. They told him Mr Brand had made a mistake and he would have to pay the full amount.

Mr AL Laubscher was on the Bench, Mr A le Grange prosecuted and Mr J Rhoodie appeared for Mr Brand.

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FINMAIL

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THE US DOUBLE TAX TREATY

The 40-year-old US-SA double tax treaty is to be cancelled as part of the final US sanctions package. This may end concessions such as elimination or reduction of withholding taxes on investment income, interest, royalties and rentals.

But under the applicable law the earliest effective date for cancellation is July 1 1987. Termination would also end other treaty benefits — for example, methods to eliminate double tax, and zero tax if a business does not maintain a "presence" in the other country.

Arthur Andersen's Adelaide Passos says ending the "presence" provisions will have no dire consequence. Most South African companies operating in the US maintain subsidiaries there, which wash profits through tax havens before funnelling them to SA. Investment by US businesses in SA, particularly in technology, has been encouraged by total exemption of interest and certain royalties. And non-corporate South African investors would lose the benefit of total tax exemption on dividends earned.

But it is understood the US authorities benefit more from information swaps. So cancellation would prejudice the US authorities to that extent, particularly concerning multinationals.

But, argues Passos, aggressive general US tax reform would probably have meant re-negotiating the treaty anyway.

FIN MAIL 10/10/86

TAXATION 1980 320

The big booze guns

The booze business is to be the first hit by Finance Minister Barend du Plessis' new powers to withdraw GST exemption certificates. Draft regulations in the beer, liquor and wine industries are expected to come into effect on December 1.

Tax experts and observers in the liquor industry note that the new rules amount to an attempt to test a value added tax (VAT). This indirect tax, popular in the West, is expected to replace GST after the report of the Margo Commission on tax is released.

Draft regulations provide that liquor "licencees" (retail outlets such as bottlestores and bars) will have to pay GST to suppliers. Such outlets currently buy supplies free of GST, collect the tax from imbibers, and hand it to Revenue.

At the present GST rate, the new rules mean that a bottlestore that buys R100 000 worth of beer must pay R12 000 to the supplier — SA Breweries (SAB). SAB is affected by the draft regulations, but only to the extent that it must hand over GST it collects to Revenue.

If the bottlestore marks up the beer to, say R150 000, it collects R18 000 from end-users. It deducts from this the R12 000 it paid SAB and pays the balance of R6 000 to Revenue.

This is an over-simplification, since it may be wholesalers who collect GST, rather than producers. But the principle is clearly to collect as much revenue as close to source as possible.

The draft regulations affect the consumer naught. But the background is vast: the real quarry are the township shebeens, where turnovers are fantastic.

In the past it has not been uncommon for a Johnny-come-lately to "rent" a bottlestore GST certificate for an hour. He proceeds to buy GST-free liquor. He pockets the GST — if any — he charges his consumers.

So a "wholesaler" in, say, Alexandra township may charge less than Benny Goldberg, the largest liquor outlet in Africa, just down the road. The new rules will end this, with basic suppliers charging GST on every transaction.

Tax experts have raised many questions. Is this a trial run for VAT, which Margo is expected to recommend, and Du Plessis repeatedly hints at? Will the new rules solve collection problems? What business or industry will be next? Or is this a one-off try? What will happen to administration? One answer without question is that the new rules will see Revenue collecting dues quicker than before. ■

Govt owes city R3 million for unpaid 'rates'

Municipal Reporter

THE Durban City Council is owed nearly R3 000 000 in unpaid property tax on Government-owned buildings for the 1985/86 financial year.

This is in spite of legislation requiring full payment of property tax on Government buildings.

'There is a R 2 945 000 shortfall,' said City Treasurer Wilf Stone last night.

'Representations were made a couple of months back through the United Municipal Executive for actual payments.'

Mr Stone said the property tax system was only used for Government buildings.

Agreement

'We had an agreement that the Government would pay the equivalent of rates in the form of a property tax subsidy, building up to 90% of the rates for the general post office and the railways, and up to 80% for the other Government department buildings.

'The railways and the post office are virtually up to their 90% now.

'However, the other departments never got up to the full 80%. Last year they did not have sufficient money and the result was that we received less of a percentage than we received the year before.'

Legally the council is not in a position to recover the money.

'It's an arrangement, an undertaking from the Government so there's no way you can take legal action. It is not a debt due. A subsidy is something an authority agrees to pay someone else but cannot be forced to.

Backwards

'There's no firm commitment. They just said that they would build up over a period but instead of building up last year they went backwards.

'You make representations through the UME, which is the mouthpiece of local authorities, and state your case. If it is good enough you eventually get your money.'

Miss Jenné Jordaan, SATS spokesman, said SATS would only start being 'fully liable for property taxes like everyone else' in April 1987.

The SATS 'subsidy' on its rates was R6 700 000 in 1985/86.

'We estimate this to be a large proportion of the full amount,' said Miss Jordaan.

Mr Ken Hobson, chief executive of the Durban Metropolitan Chamber of Commerce, slammed the Government's actions.

Own laws

'Central Government has always been very reluctant to allow local authorities to have any share in the tax powers which it enjoys.

'They should at least be prepared to pay their proper dues as property owners.'

Dr Kobie Naudé, Transvaal Municipal Association president, said this week that the financial problems of local authorities could be solved if the Government abided by its own laws.

He said millions of rands was being lost because of the Government's refusal to pay full property taxes.

Finance Minister Barend du Plessis was in Germany last night and could not be reached for comment.

(NM) (320) N 19 10/10/86

W/G ARGUS 11/1/86

Tax haven Ciskei booms

By TOM HOOD

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MILLIONS of rands could be saved if South Africa abolished company tax, as Ciskei has done. This is the belief of Mr Dave Hart, industrial development manager of the Ciskei Peoples Development Bank.

The 10-year-old bank persuaded the Ciskei Government to abolish company tax last year as a "carrot" to attract businessmen, letting them keep and use 100 percent of their companies' profits.

"I am surprised that South Africa has not grasped this opportunity because it is a far cheaper way to attract investors then decentralisation incentives," said Mr Hart in an interview this week in Bisho.

Personal tax was slashed to a low flat rate of 15 percent, with the first R8 000 being tax exempt.

Estate duties, capital taxes and donations taxes have also gone. And there is a low 15 percent withholding tax on dividends and interest leaving Ciskei.

Since becoming a tax haven, Ciskei has attracted more industrialists to open new factories and provide jobs. Ninety percent of all new companies chose the tax-free route instead of the state subsidy route.

Mr Hart believed several South African companies planning to set up in Ciskei were stalling until they saw if any tax benefits were recommended by the Margo Commission, whose report is due soon.

The tax concessions brought a saving of about R400-million a year which would otherwise have been spent on decentralisation incentives. Half of this R400-million would have come from the South African Government.

The tax reforms, said the bank's managing director, Mr Cecil Vanda, without doubt brought a higher calibre of industrialist who was devoted and dedicated to his company.

Discussing the bank's 10th annual report, Mr Vanda said investment by the private sector exceeded public sector investment for the first time in the year to March 31. Private industrial investment exceeded that of the Peoples Bank by 29 percent.

Forty new companies to the value of R54-million started in Ciskei last year and created 3 073 new jobs. Another 19 factories spent R15-million on expansion and added another 2 671 new jobs.

Several of the new companies came from France, Italy, the United States, Israel, Hong Kong, Taiwan and Argentina.

"These statistics are indicative of the confidence that investors worldwide place in the country's bold new tax reform policies."

In the last few months of the financial year, the bank established an average of one new project every week, he said.

Today 141 factories employed 30 000 people — 10 years ago, when the bank was founded, there were only four factories employing 1 100 workers.

Another 60 000 jobs were likely to be created "in the near future" so that industrial development would provide 90 000 jobs — "and that is a significant proportion of the population", said Mr Vanda.

The bank's total investment in industrial buildings was R107-million and another R14-million had been ploughed into infrastructure.

So far industrial development had been dominated by non-Ciskeian investors. However, the bank had created an industries division to help Ciskeian industrialists set up factories. Five wholly owned Ciskeian companies had already been formed.

SunTimes 12/10/86

320

Tax haven Ciskei booms

By Ruth Golembo

BUSINESS is booming in Ciskei.

The past financial year, with the country's tax-free company incentives, saw new industrial investments of R69-million flow in — nearly doubling the number of factories and creating 6 000 jobs.

And for the first time in the country's history 29% more private than government money was invested in the country's industries.

Cecil Vanda, managing director of the Ciskei People's Development Bank (CPDB), says this shows how successful Ciskei's new tax-free policy has been in attracting quality, profit-orientated, self-funding industries.

The country moved away, about 18 months ago, from the expensive investment incentive concession schemes to one which abolished company taxes and slashed personal taxes to 15%.

David Carte is on holiday. Carte Blanche will resume next week.

Under the new system, the first R8 000 in personal income is tax-exempt, and there are no estate duties, capital taxes or donations tax in Ciskei.

The government's income comes from general sales tax and a 15% withholding tax on dividends and earnings leaving the country.

Dave Hart, the bank's general development manager, says the cheaper tax-free route attracted bigger and more profitable companies intent on staying in the country, while the concession method saw some small companies close after their concession period lapsed.

Since Ciskei became a tax haven, demands by entrepreneurs to open new businesses has exceeded the available business accommodation.

At one stage the CPDB was completing one new industrial investment every week.

The year saw 40 new companies to the value of R53-million open and 19 factory expansions invest a further R14,8-million.

The bank — which was established 10 years ago to aid industry — has invested R107-million in industrial buildings, erecting 100 factories in Dimbaza, 29 in Fort Jackson and 12 in other areas.

A further R13,3-million has been ploughed into infrastructures.

Mr Vanda says that, though industrial development has been dominated by non-Ciskeian investors, locally owned and operated businesses were being encouraged.

About 30% of the companies in Ciskei are owned by companies in France, Italy, Israel, Hong Kong, Taiwan, Argentina and the US.

But a local industries division has been established in the past financial year to help Ciskeian entrepreneurs enter the formal industrial sector.

During the 1985/86 financial year, 59 new Ciskeian businesses were formed through the auspices of the small-business development division of the bank.

Hawkers

They include butcheries, supermarkets, general dealers, bottle stores, restaurants and funeral parlours.

During its five months of operation the industries division has helped form five new wholly owned Ciskeian companies

And, to upgrade the informal sector, hawkers have had loans of about R53 000 in the past year.

Mr Vanda says the country's growth has not boomed at the expense of its neighbours.

He says Ciskei attracted investors from far afield, including a large number from overseas who aimed at the export market.

There was virtually no unemployment in the country, which in 1976 had only four factories and jobs for only 1 100 workers.

13/10/86

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BUSINESS DAY, Monday, Octc

Tax hits at the cheaper company cars

Economics Reporter

TAXPAYERS, who drive company cars valued at less than R10 000, have been hit with higher benefits assessments under the new perks tax table effected on September 1.

Motorists driving cars worth less than R7 000, in particular, now are paying rates 41% higher than those levied earlier this year under the 40% phase-in of the old tax table.

A company car valued at R7 000 or less was assessed at R230 a month under the old scheme. At this year's 40% phase-in, this meant a taxable benefit of R92. The same individual was assessed at R130 a month beginning last month.

But the disadvantage for less expensive vehicles will disappear next year, when the phase-in schedule would have driven the assessment on the same car to R139. The new table will fix the monthly rate in that category at R130.

The minimum vehicle value for assessing an individual's benefit in the new system is R20 000 — meaning cars worth less than that are assessed at the same rate, whether their real value is R5 000 or R15 000.

Under the 40% phase-in, individuals driving cars worth less than R10 000 would have paid less tax under the old system. Cars worth R10 000 or more will be treated equally or more favourably under the revised table.

National Association of Automobile Manufacturers of SA director Nico Vermeulen said overall, the new table represented a "reasonable means of evaluating the basis of a car".

Little leeway left for tax relief, warns BER

SMK 3203 (49)

By Stan Kennedy

15/10/86

Government is expected to aim its economic policy next year towards the uplifting of the Third World sector while leaving most First World-type problems in the hands of the private sector.

The Bureau for Economic Research (BER), University of Stellenbosch, says in its *Economic Prospects* for the last quarter of this year to the end of 1987, it is important that employment opportunities for the expanding labour force be created to sustain growth. The authorities, it says, face a serious dilemma; one set of factors calls for policy restraint while another calls for stimulatory measures.

BER's forecast assumes greater civil stability, a hardening of attitudes of foreign countries on SA, more trade sanctions, moderate growth in the OECD countries, inflationary pressures in the US, a slight rise in the gold price and fiscal and monetary policy remaining cautiously stimulatory. A sharp upturn in the general economy in 1987 is not foreseen.

BER says that increased Government spending, in black townships in particular, together with a cut-off in overseas borrowing and a limited capacity to borrow on the domestic market, will leave little leeway for tax relief. It believes that taxes will remain relatively high and that many Government subsidies will be phased out.

Conditions favour a rise in the gold price and an average $440 an ounce is projected for 1987. This will follow an average of $370 this year.

Despite a basic oversupply of most other commodities there will be slight rises in dollar prices. Oil is expected to average $14 a barrel this year and $15 a barrel next year.

South Africa will remain a net exporter of capital in 1987. This will mean that the current account will have to be kept in surplus and export earnings will be the prime determinant of the level of domestic spending, growth and employment.

The outflows of capital leave the country no option but to see that the current account remains in surplus, and substantially so. Estimated surplus this year is R6 472 million and the projected figure for 1987 is R6 288 million.

"However, South Africa cannot maintain current account surpluses of this nature without paying a price — the sacrifice of economic growth.

"As pointed out by the Governor of the Reserve Bank, Dr Gerhard de Kock, the maintenance of a large current account surplus over a long period, counterbalanced by debts on the capital account, implies the transfer of real resources to the rest of the world."

This implied that fewer resorces will be available in SA for public and private investment and consumption.

An expected 1,3 percent growth in exports will not be enough to accommodate sharp growth in imports, and total domestic demand will not be allowed to expand substantially.

Domestic spending will be manipulated by means of interest rates, especially the short-term rates.

To avoid a recurrence of the havoc caused by sharp rises in interest rates at the end of 1984, greater use will be made of direct measures such as hire purchase regulations.

The money supply will also be largely manipulated by means of interest rates in order to hold it within set targets of 16 to 20 percent growth in M3.

No prolonged sharp improvement in the rand will be allowed in order to protect the position of exporters, and the Reserve Bank will attempt to hold the dollar/rand rate between $0,40c and $0,45c to the rand.

Corporate profits outlook is improving and it seems likely that the gold price will rise and investment and consumer demand will pick up.

"This implies a better utilisation of productive capacity which should retard the growth in production costs and lead to higher profits. Building, manufacturing, commerce and agriculture are all expected to experience a livelier tempo of activity and profits should improve."

High interest rates in 1985 resulted in sharp declines in the private sector fixed investment. This spilled over to 1986 and private investment in residential buildings declined by a further 5,1 percent. But BER forecasts a 6,9 percent growth in residential buildings in 1987. On the other hand, investment in non-residential buildings is expected to decline by 6,9 percent this year and by a further 11,7 percent in 1987.

Thousands in tax unclaimed

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Sowetan 16/10/87

By LEN MASEKO

THE Receiver of Revenue is sitting on thousands of rands in tax money unclaimed by black workers earning less than R8 000 a year.

So says tax expert Mr Brian Brom, who recently conducted an income tax survey among 188 black workers in this salary bracket.

Workers earning less than R8 000 a year were not required to submit their income tax returns — that is, fill IT12S forms — although employers deducted tax from their pay, says Mr Brom.

Of the 188 workers picked at random around the townships, 77 percent were not aware that they could be refunded tax money deducted from their pay, according to the accountant. The remaining percentage knew about the income tax, although they did not claim for a refund.

Refunds

Mr Brom, says, after he took the matter up with the Receiver of Revenue for these 188 workers, the hefty sum of R23 000 was paid to them — the total tax money deducted from their pay over the past two years.

"If this is happening to a small group of people, then what is happening to the whole country," says the accountant, referring to the R23 000 in rebates made to the 188 workers.

The refunds made to these workers varied from 40 to 100 percent, according to Mr Brom.

Receiver of Revenue official Mr J W Hattingh conceded that many people in the low-income category did not know about the special forms they had to fill in to claim for a refund.

For more information regarding this tax, Mr Brom may be contacted at 648-7619.

GST fiddlers caught in net

BUSDAY 16/10/86 320

GERALD REILLY

THE hunt for GST fiddlers by the Directorate of Inland Revenue resulted in the recovery of R154m in the year to September.

A directorate spokesman said in Pretoria yesterday total GST collections for the first five months of the financial year had topped R3,5bn.

Although this was only about a third of the R9,450bn Finance Minister Barend du Plessis expected to collect for the whole of the financial year, GST payments were expected to accelerate in the second half of the financial year, especially over the Christmas and New Year period.

The directorate's Schalk Albertyn said pressure was being maintained on the thousands of taxpayers who had so far failed to render returns for the 1986 tax year.

He estimated that about 2 500 summonses a week were being served on individual taxpayers.

Overall, about 13% of taxpayers had not made returns.

17/10/86

UNFORGIVING TAXMAN

FIN MAIL

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Those two ungainly bedfellows, tax law and tax practice, are behind a number of rulings by Revenue that leave taxpayers in the cold. They concern a contradiction between Revenue's interpretation of the wife's new "20% of net earnings, or R1 800," and the rules laid out in published law.

At the 1986 Budget speech, Revenue put out a circular defining what "earnings" meant for the new deduction. When the amending law was gazetted, however, the definition had been reconsidered. Taxpayers who filed under Revenue's earlier rules would have paid more tax than had they filed under published law.

Peat Marwick's Kevin Mitchell gives an example of a married woman earning R30 000. Her wife's earnings deduction differs by R810 on the two bases — to her detriment.

Mitchell warns that Revenue is now issuing rulings to the effect that there will be no automatic revision of assessments where taxpayers have overpaid. The onus is on the taxpayer to lodge an objection.

the burden of collecting GST falls squarely on the shoulders of businessmen.

The other new move which has begun in earnest is prosecution of GST evaders. This process has also started under the income tax laws, and is probably more an illustration of Revenue's powers than a new trend.

Revenue is entitled to exact substantial penalties — 100% in the case of GST owing (see Box). ■

17/10/86

GST FIN MAIL

New strategy

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Inland Revenue has implemented a programme aimed at substantially increasing the collection efficiencies of GST. Main aims are a reduction in number of vendors paying GST; increased official action against avoidance and evasion; and prosecutions, which have already begun.

The powers prescribed in law were upgraded this year when Finance Minister Barend du Plessis was empowered to withdraw vendors' certificates from any sector or sectors of business or industry.

The first main application of the new powers saw removal of GST certificates from businesses with a turnover of less than R50 000 a year. The limit, initially R5 000, was R10 000 before the latest update.

Cancellation of such certificates (applying to, for example, school tuck shops, farm stalls and second-hand bookshops), means GST is collected by the supplier to the vendor. While many small businesses welcome the move as freeing them from overhead expenses, Revenue inspectors can spend time nailing those suspected of tax evasion, where the figures may be appreciable. When the new powers were announced, a major problem was that the original 1978 GST law failed to provide for collection of GST on stock in hand following cancellation of a certificate. The problem, in terms of what Ernst & Whinney's Ken Walton describes as the "appallingly complicated" Sales Tax Act, was rectified a few weeks later.

Latest development is that all remaining vendors — about 230 000 in all — have been issued with a questionnaire designed to result in a more "qualified" GST certificate. For example, if a supplier notes that a buyer or vendor's business is hardware, while he is buying car spare parts, he will be obliged to exact GST.

This codification, common to most GST collection procedures, places the burden of collecting GST on the businessman. The information needed for the new set of certificates should be completed in the next few months and Revenue's computer will serve the new documents. Vendors whose certificates are cancelled will display a new notice to consumers, for the vendor will no longer "collect" GST from end-users.

Officials estimate that the amount of GST which will be lost from the mark-up applied by vendors whose certificates are cancelled is R72m — a fraction of the R9,5 billion GST expected for the fiscal year.

Another thrust of Revenue's GST programme is consultation with various industries on ways to improve collection methods. First in line is the liquor industry (*FM* October 10) — characterised by relatively few suppliers and many vendors.

Other sectors under the spotlight include petrol and wholesalers. There have been many cases of abuse in wholesaling, where a vendor's certificate can be "hired" and used by an affected party.

But a Revenue spokesman stresses that the need for GST collection closer to source will be discussed extensively before action is taken. As Walton says, discussion is vital, since

R48 000 CAR FINES

As the man from Inland Revenue says, most cars illegally registered in Bophuthatswana to evade sales tax are not exactly the hatchback type. A luxury car costing R200 000 that falls foul of SA's GST law would be backtaxed for the R24 000 GST owing and a 100% penalty, to total R48 000.

In addition, a Revenue spokesman says more prosecutions are certain. After a hefty penalty a taxpayer is still open to a fraud charge, further fines and/or imprisonment. And many taxpayers could be hit: luxury cars bearing a Bop numberplate are hardly a rarity in the PWV area.

Bop is talking about introducing GST. With SA's current 12% rate, GST car evasion cases are hardly a new thing. But for Revenue it is easy money: a taxpayer in a Rolls-Royce whose residence was queried after a speeding fine was found out and gave revenue a tidy sum.

Genuine cases, where a South African company has a unit operating in Bophuthatswana, which needs a Bop-registered vehicle to operate in SA, need not fear.

LIFE ASSURERS 17/10/86 FIN MAIL

Still tax headaches

(320)

FEATURE

Taxation of the life industry has always been a sore point. The imminent report of the Margo Commission is eagerly awaited by an industry increasingly anxious about its position in the face of demands by government for more revenue and veiled pressures on certain sectors to "do more with their investments in the way of social development and venture capital."

Assurers have had to be very patient.

In the past it was always possible to send queries of a technical nature to Inland Revenue for a tax directive. In particular, the question of retirement annuity (RA) allowances was brought up fairly often, with a request for further concessions. The industry got relief every five years or so.

Now approaches to Inland Revenue are referred to the Margo Commission, so the industry has to wait.

Mike van Greunen, GM individual life, Old Mutual, is critical regarding RA contributions: "The limit of R3 500 less deductible pension fund contributions, or R1 750 if greater, has remained static for eight years. This is the longest period without adjustment in the history of this deduction, at a time when the inflation rate has averaged more than 14% a year."

He says the tax relief was introduced to encourage private provision for old age. The extent of this encouragement has been significantly eroded. "Instead, one could make a strong case for the limit to be increased to at least R7 500." He notes also that the rules say an RA fund must provide for the annuity to commence between the ages of 55 and 70.

"This effectively excludes any tax-deductible provision for old age after the age of 69. But many highly qualified and experienced people are economically active after the age of 69."

Van Greunen notes that the age restriction has been done away with in the US and the UK.

Perhaps from an industry point of view, however, a far bigger problem is the tax of its own income. The Life Offices' Association (LOA) and individual life assurers have submitted copious documentation to the Margo Commission on this point. Feedback suggests that the commission has a genuine desire at least to appreciate the nuances of life company taxation, and all the pros and cons.

Says Bill Irwin, deputy GM marketing (technical) at Southern Life: "It is important that the whole question of life assurers and policyholders' benefits be resolved. These are inter-related in that tax on assurers' investment income is passed on to policyholders, reducing returns."

Effectively, he says, tax is 20% and expenses may not be deducted. Many industrial and commercial concerns pay considerably less tax after deductions and allowances have been taken into consideration.

A holder of a non-standard policy — under the sixth schedule to the Income Tax Act — is effectively taxed twice on benefits: once in the hands of the assurer on investment income, again on policy benefits when they become due.

Furthermore, says Irwin, the sixth schedule is enormously complicated and few understand it. "The time and expense incurred in training administration staff, devising systems and administering it on behalf of Inland Revenue constitutes an enormous drain on valuable resources."

Says Dick Geary-Cooke, LOA executive director: "We submitted more than 160 pages of evidence to the Margo Commission, and gave oral evidence on three occasions."

Commented Zac de Beer in Southern Life's latest annual report: "There is some anxiety in the life assurance industry about its relationship with government. The Minister of Finance suddenly announced amendments to the regulations governing pure endowments which had an adverse effect on the marketing of a significant segment of the industry's business.

LOA's Geary-Cooke ...
... submitting copious evidence

"While it is not in dispute that undesirable practices had been taking place, it would surely have been better to have consulted the industry beforehand," he says. "It is surely fair to argue that government policy in relation to the life assurance industry ought to be aimed at the encouragement of savings, especially when prospects for foreign borrowing are so poor.

"But at least we can record relief at the minister's decision not to reimpose the 7,5% special levy on life assurers in his 1985 budget," he says.

Comments Pierre Steyn, MD of Sanlam: "The life assurance industry has had to come to grips with a faster-changing environment and the new challenges this entails. This is borne out by the changes that have taken place since 1980.

"After being unchanged for more than 20 years life office taxation was increased significantly. Last year we had the unprecedented one-off tax levy — though we are grateful this has been withdrawn."

Steyn says assurers have to contend with increasing intervention from the State. The way they conduct business is apparently under constant scrutiny in official circles. "It seems the success of the industry, particularly against the background of recent economic difficulties, has attracted a lot of attention."

Steyn is particularly concerned with apparent misconceptions among important decision-makers about the basic nature of long-term assurance. "What concerns me most is the notion that the excess of premiums and investment income over claims and expenses constitutes a profit."

Instead, much of the balance constitutes savings that have to be paid out in the future.

"These misconceptions could be disastrous if they are allowed to persist," says Steyn. "Life assurers will have to improve our communications. We must strive to demonstrate in our financial statements that assets must be accumulated to meet claims under existing policies that will emerge in future."

Adds Johann Sohnge, a Sanlam senior GM: "Normally, most of the excess of a life office's income over expenditure must be set aside to accumulate sufficient assets to cover the increasing value of liabilities.

"It is thus completely wrong to relate income tax paid to that excess. It would be equally wrong to consider deposits received by a bank less maturing deposits paid out as profits."

Sohnge says it is a long-established practice in SA and other countries that income set aside for retirement in a proper fund plus the relevant investment earnings be exempt from tax within certain limits, subject to particular provisions. Once pensions become payable they are taxed in full, bar certain exceptions in the case of limited lump-sum payments.

"Income does not therefore escape tax when used to provide for retirement. Tax is merely postponed until pensions become payable. If 60% of the business of a life office is pension and RA business, income tax should only be related to the remaining 40% of its business," he says.

Theo Hartwig, chief actuary at Old Mutual, suggests that perhaps the principle of taxation should be changed to one of taxing only real returns, though there are practical problems. A further principle, he says, should be to tax life assurers on behalf of policyholders, not in addition to. This "trustee principle" has apparently been accepted. ■

W/C MG 13 18/10/86 320

Taxman should look at fortunes made overnight

By MICHAEL MENOF

JOHANNESBURG. — The history of companies admitted to the lists of the Johannesburg Stock Exchange with fanfares of publicity and with the blessing of prominent brokers and merchant banks shows that fortunes have been made by the vendors virtually overnight.

This raises the question of whether these profits — and they are substantial — have ever attracted the beady eye of the taxman.

The standards and requirements of the JSE's listings committee are stringent. It is the public's watchdog, there to ensure that fairness prevails.

The JSE recently won praise for doing what it is supposed to do — raising capital for new ventures.

The facts tell a different story. In recent issues it is the vendors-directors who have ended up with control and a substantial majority stake, leaving the general public with a very minor stake.

Typical case

A company listed recently on the JSE is a typical case. It raised only R2,23-million from the public and a preferred issue while the vendors had an enormous capital appreciation, raising their position from R340 000 at the outset to R26-million in less than two months.

This is indicative of the current spirit of euphoria in the market. If the public wishes to subscribe for shares at enormous premiums they have only themselves to blame should they suffer losses.

Just where does the tax man stand in relation to these lavish profits made virtually overnight by the vendors-directors?

The Income Tax Act contains various provisions to prevent schemes designed to avoid tax.

Section 103 — the anti-avoidance section — is the one feared by most taxpayers and the Receiver's most dreaded weapon. Here the taxpayer runs the gauntlet and while admittedly he can challenge the Receiver's decision it must surely be in his interests to avoid a confrontation at all costs.

To succeed the Receiver must briefly show:

- There is a "transaction, operation or scheme" that has been entered into.
- The transaction has had the effect of avoiding or postponing liability for any taxes.
- The transaction is not a normal one.
- A profit-making scheme existed.

Any scheme that has tax planning as its main objective would not normally excite the Receiver. However, where an astronomical profit of around R26-million is made, this surely must raise questions, with a strong emphasis on a profit-making scheme having been the vendors' main motive.

Slow to act

Regard must be had to all the facts pertaining to the issue. In a matter of this nature the listings committee must also have a problem deciding whether or not the public interest was sufficiently safeguarded.

Those who think the revenue authorities are slow to act must be living in a fool's paradise. It would be a good thing if all public issues were vetted by the tax authorities before the prospectus became a public document. If the prospectus is vetted by the tax authorities I am sure the JSE listings committee would also rest a lot easier.

To overcome Section 103 and prove that profit-making is not the dominant motive is what it is all about.

Even a secondary motive would be good enough for the Receiver to succeed.

Vendors have the difficulty of proving otherwise as their assets have suddenly received millionaire status. Even the fact that the shares must be held for a few years should also not blur the Receiver's vision.

At market value

The shares in the hands of the vendors now become assets at their market value and can easily be used to raise funds for their personal use.

Since the tax rate is substantial (individuals maximum 47,5 percent, companies 50 percent) surely the fact that millions are being made overnight does not mean that such profits are to be exempted from tax on the basis that they are a capital gain.

Since they were made so quickly would support the theory that a profit-making scheme was in existence. The lessons of 1969 have been quickly forgotten and one can recall the days of Corlett Drive Estates and the tax amendment whereby shares were exchanged from the sale of land.

The profits on the shares were later taxed when realised. Just how the Receiver views the euphoria developing on the JSE recently is not apparent.

Vendors cannot rest too easily because the onus of discharging the tax liability on such profits rests squarely on their shoulders.

Fairer collection

The Receiver can always challenge a possible contravention of the Tax Act and, even if he loses, the danger of an amendment to the Tax Act is always possible to ensure a fairer collection of tax for the State's coffers.

From the vendors' point of view the publicity, time and legal costs, plus whatever else the Receiver might uncover in his investigation, must be of sufficient worry to deter them from objecting to the Receiver's view.

For the vendors it would certainly be easier to show that no profit-making motive was in existence if the underlying asset value of a company approximated the capitalised value of the shares on the JSE at market price.

This would mitigate in the vendors' favour. A tax amendment to tax such profits made on the JSE overnight would save a lot of time from both the Receiver's and vendors' points of view.

It would also make the position more certain. Another problem is where the merchant banker and sponsoring broker are there to give advice to the vendors.

Can it be said that they are aiding and abetting any tax evasion scheme should the Revenue authorities succeed in their efforts to attract tax from the vendors in such cases?

PROPERTY SALES

LATEST property sales (municipal valuation in brackets) recorded by Cape Town

ORANJEZICHT

25 Sidmouth Ave, 1 275 m², R180 000 (R64 340).

5 Cairnmount Ave, 822 m², R170 000 (R70 000)

16 Salford St, 783 m², R77 000 (R25 370).

1E Green Valley, 291 m², R30 000 (R9 490).

3 Jorgensen Ave, 1053 m², R97 500 (R30 000).

32 Gazania St, 1068 m², R118 000 (R33 480)

48 Cammilla St, 459 m², R24 000 (R6 450 S).

17 Clan Stewart St, 493 m², R21 000 (R6 928 S).

22 Cammilla St, 686 m²,

● HORWOOD

Manufacturers need tax relief — Horwood

22/10/86

BUS DAY (320)

FORMER Finance Minister Owen Horwood has appealed to government to ease the tax burden on manufacturers.

At the AGM in Stellenbosch yesterday of Cape Wine & Distillers, of which he is chairman, he called on the authorities to change the way it taxed stock profits.

He said the previous method of stock valuation had to be ended in 1984 because of misuse. But it was clear to the authorities at that stage that a heavy burden would be imposed on companies carrying large stocks and that they needed to find alternative valuation methods.

"As long as our inflation runs high and taxes are levied on fictitious profits created by inflation, the manufacturing sector will remain unattractive as a field of investment."

Horwood said if the manufacturing sector was to provide an increasing number of jobs, it would be wrong to tax it more than other sectors. — Sapa.

New way to collect GST?

Dispatch Correspondent

JOHANNESBURG — Inland Revenue confirmed yesterday that it would impose a new system of collecting general sales tax (GST) on retail liquor outlets — creating a mechanism that much resembles a value-added tax (VAT).

The Tax Commissioner, Mr Clive Kingon, said retail liquor sales was "an area where we can increase our collection efficiency." He said he did not know when the new collection method would be implemented.

Tax experts expect that government will use the liquor industry as a "test case" in testing the viability of a VAT system for other retail sales of consumer products.

But Mr Kingon denied yesterday that the department'saction would necessarily lead to full implementation of a VAT on other goods. "It's not really a test case," he said.

Under terms of the new plan, liquor retailers will pay GST on purchases from distributors, then collect the tax on sales to customers. They will pay to the departmentthe difference between the tax collected and the tax paid.

Retailers currently do not pay a tax on purchases. Revenue depends on payment by retailers of the full amount of GST charged to customers — leaving government vulnerable, some argue, to tax evasion.

team started their league commitments with a good 8-2 win over Hellfires, in a game in which the standard improved as the game progressed and tight 'ball became a feature.

Park won and Hellfires lost the game in the first frame via two bases-on-balls by pitcher, Andre Purchase (Hellfires), two well hit homeruns by Noel Knickelbein and Gavin Beaumont (Park) and two hits by Park which scored seven runs in the first turn at bat for Turnbull Park.

Hellfires never really recovered from this onslaught and hits became more difficult to secure as pitchers, Robbie Morton (Park) with a 20BF-2K-3BB-2HA and Purchase (Hellfires) 26BF-1K-4BB-6HA kept the batters in check.

Leading batters were Noel Knickelbein 2/3, Dean Higgs 1/2 (Park) and Billy Radloff 1/2 including a homerun and Andre Purchase 1/2 (Hellfires).

Lucy's EL City scored a convincing 14-0 shutout over Barclays Eagles

Margo tax findings for PW next month

24/10/86 SUN TIMES (320)

By David Southey

THE long-awaited Margo Commission's report on taxation is on its way.

This assurance was given to Assocom delegates by Director-General of Finance Chris Stals. Delegates approved a motion calling on the Government to circulate the commission's findings in the private sector for comment before enacting tax legislation.

Dr Stals said his department was summarising the first few chapters of a 30-chapter report.

The commission's report is expected to be placed before the State President early in November.

Dr Stals promised that a completed summary would be available to President P W Botha within two weeks of the Department of Finance's receiving the commission's full report.

The Government intended to produce a White Paper on the report, but no decision had been made on whether the findings would first be circulated in the private sector.

Dr Stals said: "The Government has not yet decided how to handle the actual release of the findings. A decision will only be made once it has the report."

Judge Margo ... job done

[redacted]

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BusDay 30/10/86

Peace drive to cost R4m

GERALD REILLY

GOVERNMENT's communications campaign to improve the climate for peace and negotiations is to cost R4,3m, excluding GST, says the Bureau for Information.

Taxpayers will hear on radio for the first time today the song "Together we Will Build a Better Future", for which the bureau paid R1,5m.

The song is the centre-piece of the campaign which includes Press advertising, posters and brochures.

The bureau says the cost compares with advertising budgets of between R20m and R30m a year of some large SA companies.

The costs, it says, should be measured against the cost of the current violence and the enormous political and economic benefits in terms of harmony and racial co-operation.

A number of advertising and marketing companies with experience in communicating with all race groups submitted proposals for the campaign. The best envisaged a campaign based on music as a universal medium of communication.

The bureau says government's desire to improve its communication with all sections of the population was the reason for a campaign.

The song recordings include four, three-minute TV versions and nine, two-minute radio versions.

The bureau is investigating the establishment of a trust which, with the 51 artists involved, would be responsible for marketing the song further.

Proceeds would go to charity.

3/1/86 BUSDAY

(320)

"TH

Govt lays down guidelines for sponsorship tax-relief

Economics Reporter

IN AN attempt to limit the magnitude of tax concessions it makes under its sponsorship-relief scheme, government has introduced guidelines for implementation which make relief dependent on revenue received from a sponsored event.

Since June, government has received applications for R200m in concessions in terms of the controversial measure, enacted to promote corporate sponsorship of international educational, cultural and sporting events.

Officials would not disclose how much relief Inland Revenue had expected to grant. But Finance Ministry spokesman Louis Louw said the "absolute flood" of applications since announcement of the tax concessions had been far above what government had expected.

As a result, the actual relief a company receives for sponsoring an event will depend both on that event's revenue generation and on National Education Minister F W de Klerk's discretion in evaluating applications.

Commissioner of Inland Revenue Clive Kingon said yesterday applications by corporate sponsors for relief would be screened by the department to determine which were worthy of support.

Applications deemed "of particular importance" would be allowed a deduction equalling 80% of the lesser of total sponsorship costs or twice the amount of gate receipts, he said. Gate receipts have been defined to include revenue from the sale of domestic TV rights.

If it was decided a project was less important, its sponsors would be allowed to deduct 80% of the lesser of total costs or total gate receipts, Kingon said. If the event produced no revenue, it would not receive tax benefits.

In essence, therefore, many sponsors will enjoy relief only from tax they would have paid on income received from the event.

● See Comment, Page 4

Receiver makes plea on GST

BUSDAY 7/11/86

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MICK COLLINS

THE Commissioner for Inland Revenue has made an urgent appeal to all traders to complete and return a questionnaire on GST.

More than 200 000 questionnaires were sent out as part of government's plan to stamp out GST abuse.

Johannesburg's Receiver Hannes Hattingh said yesterday that as a result of the slow response, he foresaw chaotic conditions once the new regulations came into force.

He said: "My department has sent out 34 000 questionnaires of which only 50% have been returned. If traders don't return this document before D-day, there will be chaos.

"The last time this happened was in 1978 when GST was introduced. There were thousands of people queued outside our offices trying to beat the deadline."

The implications for non-compliant traders is that they run the risk of being without certificates which enable them to buy goods on a duty-free basis.

Hattingh said: "With effect from a date to be announced, all existing registration certificates will lapse and only new certificates may be used for tax-free purchases.

"Vendors who fail to respond will only have themselves to blame if their existing certificates become invalid and if the sales tax has to be borne by them on all their inputs, including trading stock."

Outlook bright for tax cuts in '87

W/V News 8/11/86 320

By DEREK TOMMEY
Finance Editor

PROSPECTS for substantial cuts in personal income tax next year are growing brighter.

The bid by the Government to redistribute part of the tax burden from individuals to companies is gaining momentum. And there are signs that the Government might also be prepared to finance more of its spending from borrowings, enabling it to lighten the tax burden.

Profits figures issued by listed commercial and industrial companies in the past two weeks show that their tax payments in most instances are sharply higher than a year ago — and not all of the increased payments are the result of higher profits.

Increases in individual company tax payments range up to 550 percent, and the total tax payment of the 16 companies listed in the table is R173,9-million, almost double the R86,7-million paid last year.

The move towards increasing the tax burden on companies began about 18 months ago when tax figures issued by the Department of Finance showed the individual was bearing an inordinately heavy tax load.

The figures showed that in 1981 individuals had paid R2,1-billion in tax while companies had paid R2,4-billion. But by 1985 individual tax had more than trebled, rising to R7,3-billion, while company tax payments had risen by only 50 percent to R3,8-billion.

With general sales tax collections in the same period rising from R1,7-billion to R5,9-billion, it meant that the tax burden on the individual had more than trebled, rising from R3,8-billion to R13,2-billion.

The failure of the Government to adjust income tax rates to the inflation rate was the main culprit for this situation. As a result inflation-induced fiscal drag steadily pushed the individual income tax payers into progressively higher tax brackets.

Companies, on the other hand, were given many substantial tax concessions which enabled them to hold down their tax payments. Many manufacturing companies, by taking full advantage of investment allowances and the LIFO system of valuing stock, were able to maintain their tax rates at 20 percent or less of their profits.

However, many of these concessions have been withdrawn recently and company tax rates are starting to climb towards the normal 50 percent rate.

The higher gold price, by boosting gold mining tax payments, will also help to make it easier for the Government to cut personal taxes. In the September quarter the gold mines paid R1 048-million in taxes, half as much again as they paid last year.

And with the economy generally showing signs of a strong recovery, some further good increases in company taxes also seem likely.

In addition, Dr David Rees, senior economic adviser to Mathison and Hollidge, also puts forward another reason for expecting a substantial cut in income tax rates next year.

"The Government has been realising that over the past few years its fiscal policy has been extremely restrictive," he said today.

"It has relied heavily on tax revenues for funding expenditure and has kept Government debt small."

"But the Government may well be reviewing its fiscal policy," says Dr Rees. "Some Government officials are beginning to appreciate that using loans to finance some of its expenditure in current conditions would give it greater scope for stimulating and developing the economy in a non-inflationary way."

Company	Tax payment Latest Rm	Year ago Rm	Percentage change
HCI	0,5	0,1	400
SABreweries	43,0	12,1	255
Barprop	4,8	4,3	12
Plascon	12,3	7,5	65
Robor	5,1	1,5	240
Waltons	5,8	2,4	142
OK Bazaars	4,8	4,8	-
South Sun	0,7	+1,8	-
PP Cement	46,4	36,9	26
Afcol	2,3	0,4	475
Baumat	3,9	0,6	550
Romatex	12,0	3,3	263
Amrel	3,3	+2,8	-
Interboard	2,6	0,7	271
Edgars	17,3	7,1	144
Iscor	9,1	9,7	−6
Total	R173,9m	R86,7m	100

BUSINESSMAN OF THE WEEK

Something to crow about . . .

Desmond Lurie . . . quick decisions.

By LAURA YEATMAN

DYNAMIC Desmond Lurie, chairman and managing director of County Fair Foods, is one of South Africa's poultry industry entrepreneurs.

He inherited a family wholesale general business from his father which formed the basis of the company, Chicken Fair, and has since grown to the multi-million rand concern it is today.

"I see myself as the end product of this organisation — hopefully a leader and innovator — with a particular interest in marketing," Mr Lurie said.

County Fair was started with enormous enthusiasm and ambition and very little money, he said. After 20 years the insured replacable assets of the group now stand in excess of R80-million — "all unencumbered".

When chickens were considered a bad risk Dr Jan Marais, head of Trust Bank, showed his confidence in the company by granting it a substantial loan. "He took his chances and it worked for both of us."

In 1963 the fledgling operation was producing 3 000 broilers a week. It moved to Epping in 1966 and, with the aid of the Industrial Development Corporation, opened a modern processing plant. Production rose to 12 000 a week.

Six years later County Fair was producing 52 000 chickens a week — a sharp contrast to today's 12 000 birds an hour.

Tiger Foods acquired 50 percent shareholding in 1972 and "the partnership has proved to be a success. We have the advantage of being a private company with the wisdom of professional partners".

Perhaps one reason for Country Fair's success is the ability to make decisions quickly. The business is run on the lines of a public company with total management control in the hands of Mr Lurie and his executive directors — Mr R Grier, production, Mr B Cedervall, finance, and Mr D Finalyson, marketing.

"We have a stable management team and the lines of communication are short. The food business requires speed of decision," Mr Lurie said.

County Fair is the largest chicken processor in the Cape and was the first to promote fresh chickens and chicken portions.

Mr Lurie is the most innovative broiler marketer in the country, according to Mr Nick Dennis, Tiger Oats main board member and chairman of its agri-board.

Chickens no longer mean just a Sunday roast. Products range from deboned chickens, kebabs, filleted breasts.

Wast products are sold in minced form as pets food — 5 000 tons a year. Every part of the chicken is used. The company also has a protein rendering factory which produces 4 000 tons a year.

"We perceive ourselves as being 'different' in that we initiated many innovative chicken lines. These are regarded as value added lines which are unaffected by fluctuating prices. County Fair is food, not only chicken."

About 10 percent of the products are sold in frozen form and concentration is on quality fresh chicken products. County Fair pioneered the "individually quick frozen" concept in South Africa as is the case with boneless chicken meat products.

"We are slowly getting away from commodities that violently swing in price."

Supermarkets and food chains represent 78 percent of the company's business. The smaller customer is looked after by Cape King Foods, a wholly owned, autonomous subsidary.

In two-and-a-half years an associate company, Farmers Table, have become the market leaders in further processing.

The chicken industry is assisted by the high price of red meat and the shortage of fish. Chicken is about R3 a kg — up from June's R2,25 — and "allows a fair margin of profit".

"The industry is the best example of the free enterprise system," said Mr Lurie. "When cold storages are full the price comes down, when cold storage is empty the price goes up."

The sanctions threat could affect the price of maize, fish meal and medication, according to Mr Lurie. The biggest cost of the live product is feed (70 percent) followed by abattoir costs.

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Taxpayers up in arms at eager-beaver soldiers

OVER-ZEALOUS national servicemen filling in as tax officials are upsetting businessmen.

By Ruth Golembo

Complaints abound about hungry tax collectors who are said to sometimes overstep their authority and embroil taxpayers in costly battles for their rights.

Tax experts say the taxpayer is often at a disadvantage when he tries to fight the Receiver of Revenue, who can take a dispute to the Supreme Court and put the taxpayer further out of pocket.

Good after bad

Leon du Toit, an independent tax consultant, says that although the national servicemen are generally highly qualified and have a theoretical knowledge of tax, they often do not know where to draw the line.

"They are mostly young, new graduates and lack business judgment. In several cases they have set out to take on big businesses to make a name for themselves.

"When they refuse to accept a taxpayer's argument, he has to take the matter to the special income tax court at his own cost. It can sometimes take years to settle the matter.

"He can then appeal against the decision to the Supreme Court and the costs mount.

"Often, a taxpayer merely abandons the case in favour of the Receiver of Revenue because the amount is not great and it is not worth throwing good money after bad.

"The taxpayer is at a disadvantage especially on the issue of a revised assessment. The fact that he objects to the assessment does not remove his obligation to pay on due date.

"The general view among revenue officials is that once paid, the taxpayer thought the tax was due."

Depression

Tax consultant Costa Divaris says: "The Department of Revenue has made an awful mistake letting these aggressive people loose on taxpayers.

"Some of them may be the best CAs in the country, but we are in a depression and it must be the worst time to pounce on cash-tight businesess and hammer them with thousands of queries.

"Co-operation is vital to any tax system. One can have as many laws as you like, but the payment of taxes is essentially voluntary.

"We find in practice that when a taxpayer claims for an amount which is allowed, tax officials set out to get him on some other point.

"It seems that for every rand they allow, they try to find reasons to reclaim it on some other grounds."

Unhealthy

Arthur Andersen tax partner Pierre Du Toit says an unhealthy position can arise if a national serviceman worked for a company before being called up and then as an employee of the receiver assesses a client of his old firm.

"This raises a host of issues on the professional position of these people, especially when it comes to disclosing confidential client information.

"One still hears rumours that these tax inspectors are paid on a bonus-system related to their success. That is unhealthy.

"It seems as well that discipline is lacking in some of the offices of the department and these young men have almost a free rein.

"Although I have no objection to national servicemen helping to clear the backlog of work in the department — bad administration favours the dishonest — it seems that these men are overenthusiastic and often overstep the mark."

Unfounded

The Commissioner for Inland Revenue, Clive Kingon, says complaints have been investigated and found to hold no substance.

"Vague complaints are no good. If a taxpayer has a grievance we would like to hear from him and will investigate the case.

"We are delighted with the work of these highly qualified young men and are glad to have their help.

"We have found them useful in helping our staff through their knowledge. Our staff have helped them with their practical experience.

"We have had complaints that the men are overenthusiastic in some instances. But we found the complaints unfounded.

"We are in no way trying to shield the men."

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Investment tax relief may fall off

Economics Reporter

GOVERNMENT will probably not renew the initial tax allowance on new investment in plant and machinery.

Tax experts say that as a result, some companies are scrambling to complete fixed investment projects before the tax measure expires at year-end.

Treasury is said to be awaiting the contents of the Margo Commission report on tax reform before deciding on an extension of the allowance.

But tax experts say the Commission has opposed most special exemptions, and will most likely not recommend retaining the investment measure.

Arthur Anderson tax partner Graham Cochrane said as a result government "has no intention of renewing the allowance. This is not the oversight that business is optimistically viewing it as."

The measure allows companies that complete investments in plant and machinery to deduct 50% of the cost of the project from profits in the first year of the project's operation. The remaining cost is depreciated on a straight-line basis over the life of the asset.

If government does not extend the concession, companies will have to depreciate such investments wholly on a straight-line basis, without the benefit of the first-year acceleration.

Government's failure to make a formal announcement concerning the fate of the investment allowance has created confusion among executives who must plan investment strategies. "You just can't make a proper decision," said Arthur Young's Ian McKenzie.

McKenzie said he was advising clients with investment projects underway to finish those projects by December 31, so as to qualify for the allowance, rather than risk a government decision not to extend the measure next year.

But financial executives said their companies' investment plans would probably not be changed dramatically by the removal of the tax concession. Gencor financial director Tom Beer said there would be no abnormal push to complete current projects by year-end.

"If it's within planning param eters you'll go ahead with it," Bee said. "I don't think this will stop new investment. If a project is still via ble, you'll continue."

Barlow Rand financial director Evert Groeneweg said the absence of the allowance would "not make a lot of difference, because there's stil a lot of capacity to fill".

Barlow Rand had no major investment programmes under way tha would be affected by the cut, he said

Now's the time for tax reform — bank

11/11/86

BUSDAY

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Economics Reporter

NEW revenue from sharply higher gold prices in recent months has created an opportunity to reform the tax system, Standard Bank said in its latest *Review*, released yesterday.

An extra R1bn in tax revenue collected from gold mines, it said, would allow for a 10% reduction in personal taxes. The bank observed that the mining industry had made provision for R610m in tax and lease payments in the June quarter, 60% of the amount budgeted for the entire year.

"The important points are that the improved profitability of the gold mines makes this a 'good' time to reform the system and that this 'windfall' should certainly not be squandered on the continued expansion of the public sector," it said.

If government did not take advantage of the opportunity to reduce the tax burden, "then resentment, poor motivation and tax cheating may entrench themselves as national characteristics".

Standard questioned the "counter-productive and puzzling" accumulation of cash in government accounts at the Reserve Bank, at a time when some short-term fiscal stimulation is necessary and desirable.

The bank noted that R1,4bn stood in the exchequer account at the end of September, the result of a marked slowdown in government expenditure at the same time as heavier government borrowing in capital markets.

The fragile recovery still depended largely on the higher gold price and on successful implementation of a long-term economic strategy by government, as well as on adverse political developments.

FINMAIL 14/11/86

SHARE TAX TEASER

(320)

The perceptual problems associated with share dealings are not difficult to illustrate. Kessel Feinstein's Raymond Fine raises the point of how Revenue would tax the "surplus" arising on the sale of shares acquired under an option.

For example, if the option price is R10 000 and the market value of the shares when the option is exercised is R50 000, the "surplus" is R40 000.

Assuming a 50% marginal rate, R20 000 is paid in tax. But assume that these are high-growth shares, and the taxpayer holds tight and then disposes of them for R70 000. The taxman deems this revenue, hence a taxable transaction.

Normal tax rules require the tax to be computed on the difference between the cost price of R10 000 and the sale price of R70 000. But in this case it could be argued that Revenue should use the notional cost price of R50 000.

The difference is material: either R20 000 or R60 000 is taxable. Fine feels, however, that in practice Revenue would tax the "lower" surplus. The argument could be that because tax has been applied when the option was exercised Revenue should give a "stepped-up" cost of R50 000.

FIN MAIL 14/11/86

TAX EVASION 320

A township sport

Non-payment of GST is common in black areas, with losses estimated to run into millions of rands. Tax evasion is an act of defiance associated with the rents boycott and is said to be between R60m-R80m a month.

Inland Revenue refuses to comment on tax evasion, while its inspectors refuse to go into black areas to monitor it.

Revenue's most direct reaction to the phenomenon was this year's removal of GST-exemption certificates from businesses generating less than R50 000 a year turnover. As part of a recently conceived programme Revenue also started an investigation into GST being paid "closer" to the manufacturer.

For example, Revenue has circulated draft guidelines in the beer, liquor and wine industries concerning the payment of GST closer to the manufacturer, possibly by the wholesaler.

Implementation of the rules would speed collection of GST in the industry. But more important, large amounts now evaded would be collected. The liquor rules were set to come into effect on December 1.

The *FM* understands that Revenue is looking at other sectors, notably wholesaling, with the same intentions. The system of collecting GST from any party other than the final consumer is based squarely on the precept of the value-added-tax system (VAT).

VAT is said to be one of the recommendations in the still unpublished report of the Margo Commission. VAT's gradual phasing-in, say initially in the liquor and wholesaling industries, would mean that GST, where evaded, would be lost only on the final retailer's mark-up. ■

Beer halls ... inspectors are steering clear

Working couples may have been assessed for too much tax—expert

E Y Yates has been appointed executive director (tubes) of Tosa Ltd.

R D Cooper has been appointed financial director of Baldwins Steel (Pty) Ltd.

V P Lefrere has been appointed financial director of Stewarts and Lloyds Trading.

TAXPAYERS with working wives would be well advised to check their 1986 income tax assessments to ensure that they have been allowed the correct deduction in respect of the wife's earnings.

Kevin Mitchell, tax partner with accountants Peat Marwick in Maritzburg, said instances were now emerging where a two-pay cheque husband and wife team may have been assessed to pay too much tax.

Mitchell said this situation hinged on the difference in definitions and interpretations given to statements made in the Budget Speech by Finance Minister Barend du Plessis in March and what was eventually set out in the Income Tax Act gazetted on July 4.

In his Budget Speech, Du Plessis announced that the deduction allowed from the earnings of a married woman from and including the 1986 tax year would be increased "from R1 600 to the greater of 20% of her net earnings," or R1 800.

Shortly afterwards, the Commissioner for Inland Revenue sent out a circular to all receiver of revenue offices with an interpretation of "net earnings" on which the 20% is calculated after allowing for certain deductions.

Among these were all "permissible expenditure" directly attributable to the wife's "earnings" (including travelling and entertainment expenses), her current and arrear pension fund contribution, and if applicable, a R75 tool allowance.

Excluded from the "net earnings" calculation in terms of this circular were current and arrear retirement annuity fund contributions; medical expenses; allowable donations; and physical disability expenditure.

Deduction for contributions

But when the act itself was gazetted, the definition of "net earnings" in section 20A relating to taxation of married women was given as "the taxable income derived by a married woman from earnings as determined before the deduction of any amount..." under this section, and under sections 11(k), 11(n), 18, 18A and 21 quat.

Sections 11(k) and 11(n) allow the deduction for current and arrear contributions to pension and retirement annuity funds. Sections 18 and 18A relate to the deductions for medical expenses and donations to educational institutions, and section 21 quat allows a deduction for expenditure for physical disablement.

Mr Mitchell said: "As a consequence, working wives who have made contributions in respect of current pensions (and where applicable, arrear pensions) now will be entitled to a greater deduction in most cases. Those taxpayers who have been assessed in terms of the interpretation of the budget speech, and not the act, have clearly been over-assessed and will pay too much tax."

These taxpayers however should note that it appears from ruling given by certain inland revenue offices that where the terms of the circular have been applied, there will be no automatic revision of assessments and the onus is on taxpayers to lodge an objection against over-taxation.

The following model explains the difference in tax paid by a taxpayer with a working wife when assessed in terms of the Income Tax Act of 1986 as gazetted, and the circular issued by the Commissioner for Inland Revenue after the budget speech (all figures assumed):

Income Tax Act as gazetted

Wife's earnings		R30 000
Deductions		
Entertainment expenses	500	
Travelling expenses	1 000	
Current pension contributions (7,5 percent of R30 000)	2 250	
Pension in arrears (maximum)	1 800	
Medical expenses	1 000	
Education donation	500	
Allowable deductions		
Entertainment	500	
Travelling	1 000	
Total	1 500	
Taxable income		28 500
20 percent deduction	5 700	
Wife's taxable income is calculated thus:		
Earnings:		30 000
Less		
Entertainment expenses	500	
Travelling expenses	1 000	
Current pension contributions	2 250	
(7,5 percent of R30 000)		
current contributions to		
pension in arrears (maximum)	1 800	
Medical expenses	1 000	
Educational donation	500	
Wife's earning deduction	5 700	
Total	12 750	
Taxable income		17 250
ts		

Commissioner of Inland Revenue's Circular

Wife's earnings		R30 000
Deductions		
Entertainment expenses	500	
Travelling expenses	1 000	
Current pension contributions	2 250	
(7,5 percent of R30 000)		
current contributions to		
Pension in arrears (maximum)	1 800	5 550
Allowable deductions		
Entertainment	500	
Travelling	1 000	
Current pension	2 250	
Arrears pension	1 800	
Taxable income		24 450
20 percent deduction		4 890
Total	5 550	
Wife's taxable income is calculated thus:		
Earnings:		30 000
Less		
Entertainment expenses	500	
Travelling expenses	1 000	
Current pension contributions	2 250	
(7,5 percent of R30 000)		
current contributions to		
pension in arrears (maximum)	1 800	
Medical expenses	1 000	
Educational donation	500	
Wife's earning deduction	4 890	
Total	11 940	
Taxable income — circular R18 060		
Less Taxable income — gazette		R17 250
Difference in taxable income is:		R810

BusDay 25/11/88

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Govt to extend tax benefit on new plant and machinery

Economics Reporter

GOVERNMENT will extend by one year the initial tax allowance on new plant and machinery investments, originally slated to expire on December 31.

Finance Minister Barend du Plessis said in a statement yesterday the concession was extended because of continued delays in completing the Margo Commission report and the ensuing "uncertainty" for investors.

Tax experts hailed the decision, which followed months of speculation and confusion after government failed to include the allowance in the 1986 Income Tax Act. In that time, government had appeared intent on letting the allowance die at year-end.

"This is an extremely important development for our manufacturers," said Price Waterhouse partner Ian Wilson. "We can't have any real growth without capital formation, and this will encourage that formation."

The allowance essentially accelerates the period in which a company can deduct depreciation expenses for tax purposes. It permits companies to deduct 50% of the cost of new manufacturing equipment and machinery from income in the year of the investment. The remainder of the cost is depreciated on a straight-line basis over the declared life of the asset.

Similarly, a company can take 17,5% of the cost of buildings erected for manufacturing purposes against income in the year of construction or purchase. The remaining 82,5% is deducted over 42 years.

Elimination of the allowance would have forced companies to deduct depreciation expenses from such investments solely on a straight-line basis, removing the tax benefit that comes from taking more of the deduction sooner.

Tax consultants have criticised government's failure to extend the allowance sooner, and the lack of communication on its intentions. Companies committed to capital expenditure projects, they say, have been forced to accelerate progress on those projects in order to complete them by December 31.

Arthur Andersen's Kevin Wiles said: "This will definitely have an impact on projects that might not otherwise have been undertaken."

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FIN MAIL

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MANUFACTURERS' CHERRY

Finance Minister Barend du Plessis has extended the manufacturers' allowance by one year to December 31 1987. Referring to the delay in publication of the Margo Report and "uncertainty" for investors, Du Plessis took care of an omission in the 1986 Income Tax Act.

This again illustrates the trend of making tax law by decree. Just two weeks ago a tax consultant approached the authorities in Pretoria for a ruling on the allowance, available for new plant and machinery. None was then forthcoming, but Du Plessis has clarified the issue.

The allowance, already scaled down from previous years, is an accelerated tax benefit.

New plant can be written off over five years. If the cost is, say, R1m, without the allowance R200 000 would be written off each year, saving R500 000 tax at the 50% tax rate. The allowance, however, allows half the investment, in this case R500 000, to be deducted from taxable income in the year plant is commissioned. This saves tax payments equal to R250 000 in the first year, rather than R100 000 without the allowance.

Tax law — any law, for that matter — does not recognise the phenomenon of inflation. So an accelerated allowance like this is worth a pretty penny on a net present value, or internal rate of return, basis.

28/11/86 (320) FIN MAIL

CLUBBING VAT?

Taxpayers who experience difficulties with SA's Sales Tax Act may not find their problems solved if it is replaced by value-added tax (VAT). Widely used in the West, it has been mooted for some time that VAT should be introduced in SA; and it has been a point of speculation regarding the Margo Commission on tax. However, a recent UK case, concerning a country club, suggests there's no ideal answer to problems with taxation.

Ernst & Whinney's Ken Walton cites the example, concerning Rothley Park Golf Club. The upshot was that subscriptions *and* the notional value of any loans made by members to a club are subject to VAT. The notional value is calculated as the amount of interest saved by the club for not having to borrow commercially. Other practical difficulties follow if a member lends more than the minimum amount, and his subscription is reduced.

Moreover, says Walton, if the club provides entertainment to members without specific charge the input tax incurred can be reclaimed. If, however, non-members are present, some apportionment of costs must be made — though wives or children of members are not regarded as non-members.

If a member spends on business entertainment at his club, VAT can only be reclaimed if the client is from abroad. Stewards and other officials at tournaments who are not employees of the club technically comprise a taxable service.

As a concession, however, the authorities allow the input tax to be reclaimed on free meals and drinks provided to people involved in running the event. This concession does not apply to VIP guests or journalists.

These examples, says Walton, "illustrate the horrific implications of a wide-based VAT system."

Lower tax bills bring relief to struggling SA manufacturers

BUS DAY 30/12/86

MANUFACTURING companies fighting to maintain their profitability this year were given some relief through low tax bills.

Analysis of profit appropriation ratios for listed manufacturing companies shows an average tax rate of 23,8%.

Dividends accounted for 19,1% of pre-tax earnings while 57,1% of profits were ploughed back into the companies in the form of retained earnings.

These figures are based on a study of 54 listed manufacturing firms by Pretoria University's Bureau for Financial Analysis.

A breakdown of these figures reflects a wide variety of tax rates between the sectors.

The highest taxes were paid by the paper, printing and publishing sector (40,3% of their profits) and the lowest by the food, beverages and tobacco sector (20.1%).

The disparity in tax rates can be attributed to three main factors:

☐ Certain companies can use loss-making subsidiaries for tax deduction purposes.

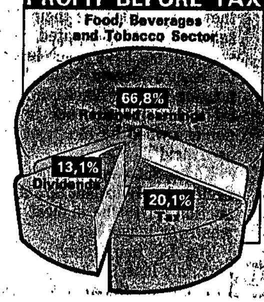
☐ Different companies receive different tax allowances.

☐ Some companies are able to deduct past losses from their current taxable income.

The sectoral breakdown for dividend payments and retained earnings shows that the food, beverages and tobacco sector also recorded the lowest dividend payout (13,1%) and the highest percentage of profits to retained earnings (66,8%).

The paper, printing and publishing sector retained the lowest proportion of profits, only 36,1%, while the highest rate of dividend payout occured in the Industrial conglomerates sector (33,5%).

PROFIT BEFORE TAX



Economics Reporter

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SHARE SCHEMES

Endangered species?

Share participation schemes are growing in popularity — despite severe tax treatment. No fewer than 27% of 876 companies involved with PE Corporate Services' salary survey use share schemes. And the JSE's Tony Norton says practically every company in this year's listings boom has included a share scheme.

Share participation schemes, in their various forms, are open to double taxation. The sale of shares acquired under schemes is clearly taxed in some circumstances, yet confused by grey tax rules in others. The main problem is the intention with which shares were acquired.

If there is an intention to profit when the shares are sold, profits *may* be taxed. But if the "profit" is deemed to be of a capital nature, it is tax-free. The profit versus capital problem has been resolved in, for example, the US, where profits are of a capital nature if the shares are held for a certain period.

Share schemes are considered of utmost importance by remuneration experts, as an incentive linked directly to overall performance. This is notwithstanding the disadvantages — for example, extraordinary efforts by an individual may be nullified by extremely poor economic conditions, or other factors beyond individual control.

PE's statistics show that executive incentive schemes (share schemes are just one) are most popular among manufacturers and suppliers of industrial equipment (77%); financial institutions and mining (both 67%); and consumer goods manufacturers (63%). Incentive schemes are least popular in construction (27%) and primary production (8%).

Overall, 43% of companies offer incentive schemes. Profit-sharing is the most popular, used by 45% of such companies. Profit-sharing is most commonly linked to budget targets, but also to return on investment, assets, and total earnings. Discretionary rewards based on managerial judgment are also popular (15% of companies). Share schemes are used by 27% — 11% share options and 16% share purchase loans.

For many years, share schemes survived tax laws and indeed increased in popularity. But now the taxman has turned a malevolent eye on them, with increasing reports of queries on share sales. In a recent case in the tax

a book of standard by-laws to facilitate privatisation and deregulation. Such a rulebook would simplify the efforts of private enterprise in taking unproductive work away from government.

RSC levies are easy to condemn from an economic viewpoint. A low-markup store is assessed on the same basis as a high-markup business. Levies cannot be deducted by a business running at a loss which is not, therefore, paying tax. And capital-intensive business is favoured over those emphasising use of labour. ■

Cecil Margo's taxing task has ended

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BusDAY 8/12/86.

□ MARGO ... "I had a view and I expressed it"

HELLOUISE TRUSWELL

'I THINK the biggest challenge is the need to integrate into the economy the Third World component of our population. It's a very special problem, unique to SA. Most other countries are either wholly Third World or wholly First World. We have both systems.

"And the need is to develop our economy as rapidly as possible. Make it as productive as possible. We want to improve our growth rate. Our gross domestic product. Our output. Tax can be a handicap and it can be a stimulus, though it should not predominate as an instrument of economic policy."

After a Herculean task, Mr Justice Cecil Margo, chairman of the 19-member commission inquiring into taxation, talks to *Business Day*.

The Margo Commission's tax probe has just been signed and handed to government. The report embraces a complete review of all tax systems in SA.

Sweeping changes and reforms are expected to be recommended. A White Paper covering government reaction to the recommendations will follow.

After two years of labour, which kept him up most nights until 2 am Margo is reminiscent of a tired war horse that senses the end of battle is finally at hand.

He jokes: "I am exactly in the same position as the hackneyed story about the lunatic who was banging his head against the wall. I'm looking forward either to the removal of the wall or to being able to stop banging my head."

But he won't be sitting back and taking a well deserved break. He's been appointed chairman of the South African three-man commission of inquiry investigating the plane crash in which Mozambican President Samora Machel died.

Over a cup of coffee at 7.15am — the only free moment in his frenzied schedule — Margo discussed aspects of the tax commission's work and its *modus operandi*.

"We looked at tax reform all over the world, except behind the Iron Curtain countries. We've seen what they're doing. What their problems are. We canvassed ideas and interest from the entire spectrum of commerce and industry.

"We tabulated, classified, put into correct categories every aspect of tax in principle and application and examined it under a microscope.

"We had to take account of economic and sociological factors. We had the problem of investigating tax evasion and tax avoidance, which some of us believe occur on a grand scale. Some of us believe we are losing billions per annum in tax which should be paid and is not paid.

"We looked at the twilight or underground economies. We determined from abroad that more modern tax systems — in respect of sales tax particularly — are being developed."

Certain problems were inherent in the brief. The enormous traverse of material which had to be covered in less than two years.

"One of the most harassing problems of our commission was the time limitation. We had to shift an enormous amount of work in a very limited time period."

He observes that five years would have been just about adequate to complete the commission's brief.

And provision had to be made in the commission's mandate for the end of the century at least.

"You know what they say about tax reform — it's necessary because you have to reform what the previous reformers reformed."

Hopefully, this commission's suggested reforms will result in a paradigm of a modern tax system. At this stage, though, he is unable to discuss any recommendations. "This information is not my property. It's the State President's. It is not for me to release it."

He believes "redistribution of the tax burden can do a great deal to alleviate the present perception that tax is too heavy. The burden is perceived differently in our mixed economy and our mixed society.

"A big percentage of our national purchasing power is earned by people who pay very little or no tax because their earnings are too small," he points out.

'Some say that by the end of the century that will be the position of 60% of our national purchasing power. If 60% of our national purchasing is earned by people whose incomes are so low that they escape tax altogether, it means 60% of our base for income tax is beyond the reach of the income tax system.

"Other countries don't have this problem of such a substantial portion of the tax base below the tax threshold."

Talking to Margo one is struck by the fact that he's a rugged individualist willing to stand up and be counted. This reflects in the way he approached his commission and encouraged members to contribute.

Nothing was taken at face value. As he explains: "My formula was that everything had to be torn to pieces. I wanted no 'ja-boeties'. I would much rather have strong criticism, even though it's overdone, than have flattering acquiescence for the work of members of the team.

"The facts had to be discovered, then palpated, then squeezed, probed, held up to the light and tested. An aggressive team helps in that process."

Did he distance himself from discussion, acting as an impartial arbitrator?

He grins. "I am not impartial. I had a view and I expressed it and fought for it. I didn't stand by and abstain from voting in all cases.

"I participated actively in the discussions. I demanded to be instructed. And I demanded the right to test what was put to me by one side or the other.

'I was in the ruck. If I was the referee, then I threw my whistle away and pushed in the scrum. It depended on which side I wanted to push from time to time."

How did he perceive his role as chairman of a commission which required expertise in so many different disciplines?

"Expertise was required in economics, fiscal policy, statistics, law, tax law. And no man disposes of all those qualifications.

"The fundamental discipline that was the criterion by which we tested most things was common sense. My problem as chairman was really one of management.

"It was one of integrating effort. Directing effort. Evoking from those responsible the best response I could possibly achieve in the circumstances."

What was his management approach?

"I could not be the schoolmaster. There was no question of that. The members were all too independant to be subjected to rigid control.

"At the same time I couldn't go down on my knees and plead. Somebody had to lead the show. So I handled it as tactfully as I could, but as firmly as I could. I didn't let anyone get away with anything."

There were so many delays in the publishing of the report. What is the explanation?

"The real source of delay in the finalisation of the commission's report was the differences of opinion. Some differences were raised at a very late stage.

"We had been on the point of approving a broad aspect of policy when someone would raise a point which threw the whole thing wide open again. It delayed us by months."

In essence, tax reform focuses on getting as broad a tax base as possible; as low a rate as possible; as wide a distribution as possible.

'Those are the three fundamental factors. At the same time you have to pay account to what they call the canons, the maxims, the doctrines, 'die leerstukke' of tax philosophy — simplicity, equity, neutrality and so on."

What are the advantages of VAT over GST?

"The International Monetary Fund's view is that VAT is a better tax if you have to have a high rate. It is said that one of the big advantages of VAT, although it has a slightly heavier administrative burden, is that you get better collection. You can beat evasion to a greater degree."

What had gripped him most in the chairing of his commission?

"I admire certain qualities in people of which I myself have nothing or only a limited supply. Such as courage and intellectual horsepower.

"I have encountered people who are outstanding intellects. It was a most stimulating experience to work with such people ..."

Just for the record. Margo as an Air Force bomber leader during the Second World War won two of the highest awards for bravery: Companion of the Distinguished Service Order and the Distinguished Flying Cross.

He didn't care to discuss this, though, as we walked to his gate accompanied by his furiously barking Alsatian, Caesar.

(320) 12/12/86 FINMAIL

FEATURE

Not such an unkind cut

The advent of perks tax a year and a half ago was accompanied by predictions that pure cash remuneration would take over, and there would be widespread hardship in some sectors. Neither has materialised; if anything, pay packages are the most complex ever, and some employees are paying less tax overall than before.

But the main finding of research by PE Corporate Services is that fringe benefits tax planning is here to stay. This perception, shared by most tax experts, is reflected in official recognition of a so-called genuine area of overlap between the employee's private life and his work.

This, says PE's Jane Ashburner, gives a justifiable case for some apportionment of expense between employer and employee. In practice, employers effectively transfer any tax relief from apportionment to employees.

The genuine fringe area, moreover, ensures there will always be employer-employee negotiations. "It is not for the Revenue authorities to dictate how parties should make their agreements," says Ashburner. The legislature's approach to perks tax was to dictate that, given the *nature* of the agreement negotiated, taxation will be levied in a particular way.

Perks tax law defines — as best it can — a fair basis for levying tax in the "fringe" area. But the authorities also granted a range of exemptions and concessions, showing that they do not want to penalise taxpayers who have a genuine case.

The main predicted impact of perks tax — hardship after all phasing-in periods have expired — can be doubted. Most "problem" areas have already been settled. The final perks tax on company cars, for example, falls well short of hardship.

And with the recent emphasis on perks planning, employers have found a number of unexploited tax avoidance schemes to compensate employees for additional perks tax. These avenues always existed, but only surfaced after the general policy review.

Many State employees, apparently hard hit on their housing bonds, will have the "loss" topped up over the seven-year phasing-in. It was also thought bank employees, with soft housing loans, would be hard hit.

But such loans can be — and have been — replaced by normal bond finance. The recalled loans can then be invested. The resulting revenue can be used to pay additional remuneration to employees. Though this is taxed, employees are often better off.

One principle of tax planning is that "double taxation" should be avoided. Tax on soft loans falls foul of this principle, for the employee is taxed on a notional amount; the employer does not qualify for a corresponding deduction for tax purposes.

So share participation schemes based on soft loans are also on the way out. Ashburner argues that many employers will scrap share schemes in favour of the profit-sharing schemes that have proliferated in the US in the past two decades.

But flexibility will become the by-word in packaging remuneration around perks tax. PE finds that in a new package 20% of total remuneration is generally paid in non-taxable benefits. This can give savings in take-home pay of between 4%-10% (see table).

The savings may be diverted into a form of deferred compensation, such as retirement annuities. Here Ashburner says the saving will be increased by a factor between 33,33%-50%. This makes the range of increase in take-home pay between 5%-15%.

Top of the list of questions is how to find non-taxable benefits to cover 20% of total remuneration. Consider these: motor vehicle travelling, housing, education of dependants, entertainment, training, holidays, occasional services such as health clubs. Exemptions — whether partial or complete — apply to each.

Where free accommodation can be arranged, the savings in take-home pay can be double those discussed so far. Ashburner says this increases the range of savings from 10% up to 30% of take-home pay.

Adaption to perks tax has been neither uniform nor speedy. PE found that many small and medium-sized business have conconverted to flexible remuneration, encompassing all staff. But few major companies appear to have taken this step.

Ashburner hopes the Revenue authorities will tighten up perks tax controls; she names one or two loopholes that can be plugged.

Perks tax does have some good. It seeks to introduce more equity into the tax system. And it has tackled an area of tax legislation completely neglected for more than 50 years. It also recognises that the relationship between employer and employee is not absolute, with a clear cash value.

HOW TO RAISE TAXED INCOME

1 — Three typical 'traditional' remuneration packages:

	Lower bracket	Middle bracket	Upper bracket
Salary and bonus (R)	30 000	60 000	90 000
Taxable benefits	—	3 000	5 000
Taxable remuneration	30 000	63 000	95 000
Less: Deductions	3 250	6 500	10 250
Pension fund	2 250	4 500	6 750
Medical aid	1 000	1 000	1 000
Entertainment	—	1 000	2 500
Taxable income	26 750	56 500	84 750
Rebates (married, two children)	1 080	1 080	1 080
Taxation	4 702	17 252	30 604
Average tax rate	18%	31%	36%
Marginal tax rate	34%	46%	47%
Take-home pay (remuneration less taxation)	25 298	45 748	64 396

2 — The same packages revised, introducing non-taxable benefits:

	Lower bracket	Middle bracket	Upper bracket
Salary and bonus	24 000	48 000	72 000
Non-taxable benefits, say	3 000	9 000	13 000
Taxable benefits, say	3 000	6 000	10 000
Total remuneration	30 000	63 000	95 000
Less: Non-taxable benefits	3 000	9 000	13 000
Taxable remuneration	27 000	54 000	82 000
Less: Deductions (as before)	3 250	6 500	10 250
Taxable income	23 750	47 500	71 750
Rebates (as before)	1 080	1 080	1 080
Taxation	3 724	13 196	24 429
Average tax rate	16%	28%	34%
Marginal tax rate	32%	44%	47%
Take-home pay	26 276	49 804	70 571
Increase in take-home pay	978	4 056	6 175
As percentage	4%	9%	10%

14/12/86
SUN TIMES
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Banks call for tax cuts to get economy moving

By David Southey

MAN cannot live by low interest rates alone. He also needs tax cuts.

This is the message contained in the latest economic prognostications of both Standard Bank and Volkskas — and supported by many other economists.

But if tax cuts are to become a reality in next year's Budget, the Government will have to rein in its current expenditure growth.

Standard Bank Review says: "Because it is imperative that the Government makes as small a demand as possible on the pool of savings, it is better that Government spending be restrained, and where possible tax cuts enacted within the ambit of a small Budget deficit."

Doubts

Standard says there are "serious doubts concerning the sustainability of increase in consumer spending in spite of readily available credit ... after tax incomes have in general failed to keep pace with inflation in recent years (and) existing consumer debt commitments are still high enough to inhibit new borrowing."

Of particular to concern to economists is the poor showing of the consumer durables sector, car sales for November having plummeted to their lowest this year (13 109) and the smallest in 20 years.

Moreover, outstanding debt, adjusted for inflation, is still higher than it was in the comparatively heady days of 1983.

Arguing the case for a target rate of growth in gross domestic expenditure — rather than for money supply per se — Standard says: "Targeting nominal demand implies that money growth and Government spending will be reined in when private sector spending is strong, and conversely when private-sector spending is weak."

The rate of nominal demand growth in SA has averaged around 15% since 1982. Government spending has contributed relatively more to nominal demand growth than have increases in the money supply.

Warning against an increase in Government spending to stimulate the economy, Standard says that if this increase is financed by taxes, it can only be stimulatory if some of the tax payments are drawn from savings.

Stimulation

Standard comes out strongly against the Government's opting for a larger deficit before borrowing to stimulate the economy because of the constraint placed on the country by its need to finance large capital outflows for the foreseeable future. A bigger borrowing requirement by the Government would reduce the pool of domestic savings and erode the current account surplus.

Standard argues that the deficit before borrowing should be held within the "3% of gross domestic product" rule.

This advice flies in the face of what the Government has been doing this year — pushing up its spending because of the private sector's unwillingness to spend and invest in the depressed political environment.

Standard says: "It would be pointless to try to achieve real growth by excessively stimulating nominal demand through fiscal and monetary policy. It follows that that the most appropriate objective of demand management would be the maintenance of steady growth in nominal demand at around the 15% level seen in recent years."

Forecast rates

Taking a firm view on tax cuts, Volkskas argues: "It would appear that the scope offered by an increase of $50 per ounce in the gold price could result in a possible increase from 3% to 4% in gross domestic expenditure ... this view is supported on the assumption that net tax reductions amounting to R1-billion will be announced in the March 1987 Budget. Failing this, it is doubtful whether the growth rates (forecast for 1987) can be attained."

If there are no tax cuts, warns Volkskas, real private consumption spending will "hardly be able to attain the forecast growth rates".

Assuming that tax cuts are made, Volkskas estimates that the deficit before borrowing will rise to about 5,6% of gross domestic product under a gold price scenario of $400 an ounce. That, of course, takes fiscal policy off the track recommended by Standard.

Inflation

Rand Afrikaans University economist Geert de Wet says: "I don't see much force behind the consumer spending revival at the moment. The recovery will not be sustainable unless there is fixed investment growth and spending on durable goods. Up to now it has been mainly Government spending fuelling economic growth."

Economist Leon Steenkamp of stockbrokers Senekal, Mouton & Kitshoff doubts whether the latest round of interest-rate cuts will boost economic growth much in the longer term.

"Taking inflation into account, the position of the consumer is still weak. Per capita spending on durable goods is now lower than it was in 1970. Government spending must be reduced, and I agree with Standard that it is essential to maintain nominal gross domestic expenditure targets."

BUSDAY

18/12/86

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Severe blow to jewellery industry

Taxes sound death knell on Intergold

CHERILYN IRETON

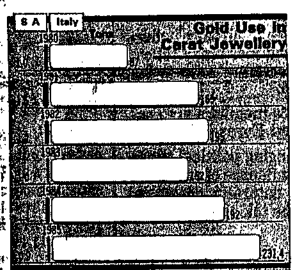
HARSH and punitive taxes on SA jewellery sales have contributed to the closure of Intergold, the local promotional arm of the Chamber of Mines.

Intergold yesterday confirmed it would close its Johannesburg office at the end of the month, thereby bringing to a halt the promotion of gold jewellery in this country.

It was recently announced that Intergold's international activities would fall under the new World Gold Council.

Justifying the closure, a statement from the Chamber of Mines said past promotional activities had not boosted jewellery sales significantly.

In 1978, two tons of gold were consumed for the manufacture of jewellery. This figure plunged to 1,4 tons in 1979, the year Intergold became operational. Consumption continued to shrink — to only 0,9 tons last year.



Restrictive government taxes are cited as the main reason for Intergold's failure. Taxes — including a 35% ad valorem excise duty and the 12% general sales tax — add an effective 51% to the cost of jewellery bought in SA. This makes it one of the world's most expensive jewellery markets.

"Under present circumstances, further expenditure on gold jewellery promotion cannot be justified," said a spokesman for the Chamber.

The demise of Intergold is a severe blow to the SA jewellery industry, said Jewellery Council executive director Tim Davidson.

"The ad valorem tax is a crippling factor which will eventually destroy the industry. The closure of Intergold is possibly the first step in our inevitable decline," he added.

Representations concerning the taxes were made to the Margo commission of inquiry into tax restructuring — the results of which would either be the industry's death knell or its salvation.

The Chamber will resume the administration of Krugerrand sales.

ARGUS 19/12/86 3204

Perks tax boon on home loans

By TOM HOOD, Property Editor

THOUSANDS of employees of banks, building societies and companies who receive soft housing loans will benefit from perks tax changes announced today by the Minister of Finance, Mr Barend du Plessis.

But home-buyers with subsidised housing loans — including State employees — will not be affected.

The trade union of bank employees, however, sent a telegram today to the Minister expressing "extreme shock and dismay".

From January 1 the official rate of interest on fringe-benefit loans — the criteria for calculating perks tax on these loans — will by cut by two percent to 13.

Employees are taxed on the cash value of the difference between the "official rate" and the amount of interest they actually pay.

The cut follows representations by the Society of Bank Officials.

The society said the major banks had reduced their bond rate to 12,5 percent and it believed the rate on fringe benefits tax should be cut by a third to 10 percent.

"CURB ON FREE ENTERPRISE"

The society's assistant general secretary, Mr Graeme Rowan, said the society has been trying since May to persuade the Minister to ease the criteria for taxing fringe benefits.

The society urged scrapping the tax on housing loans, which it saw as "a curb on free enterprise and a negative influence on the property market".

Mr Rowan said today the society expressed its extreme shock and dismay at the reduction in the official rate to 13 percent while home loans were readily available to the general public from banks at 12,5 percent.

FINMAIL 320 19/12/86

TAXATION

Ominous trends

If taxpayers had the same quality service from Inland Revenue as that provided by accounting firms, the tax system might be a great deal better. Pim Goldby, analysing trends over the past year, notes that tax law is becoming increasingly complicated.

It concludes that for a number of reasons professional advice has become crucial. As Juta's *Taxgram* argues, recent political developments in the tax world have done nothing to give Clive Kingon, Commissioner for Inland Revenue, the prominence he deserves.

Kingon, like previous commissioners, is a hard-core tax official with 6 000 staff. He is now subordinate to Chief Executive Director Peter Wronsley (unknown in tax circles), who reports to Director General Chris Stals. Stals in turn reports to Finance Minister Barend du Plessis. Reasons for this bureaucratic hierarchy are nuclear.

Pim Goldby argues that tax complications have three main sources: the volume of tax legislation; the manner of announcing and promulgating tax law; and attempts ("however welcome") by the authorities to explain the laws.

Major proposals were made by Du Plessis in the annual March Budget. Yet subsequent tax law contained several "interesting and controversial amendments" not alluded to in the Budget.

To guide taxpayers, Inland Revenue has issued practice notes giving the departmental interpretation of "grey" sections of the Income Tax Act. These expound Revenue's internal and highly confidential practice notes, said to be under revision.

Many feel the four practice notes issued so

ever measures one takes, inflation is not going to be halted without pain. Has anyone else come forward with a policy which would not entail direct government intervention and could be applied without discomfort?"

De Wet sees himself as a follower of the Austrian economist Friedrich Hayek, who propounds an extreme free market philosophy, and vehemently denies his suggested voluntary price and wage measures constitute control.

"We *don't* advocate legislation to enforce this recommendation," he says. In the words of the report, implementation will depend on: "Persuasion in the case of the mines and Cabinet decree in the case of the public sector." ■

INTEREST RATES

Gush warns on mining taxation

STAR 19/12/86 (320)

By Gareth Costa

The outcome of the Margo Commission with regard to mining taxation could well have a major effect on the reinvestment programme of Freegold, says company chairman Peter Gush in the 1986 annual report.

"Any change in the status quo must take into account the fact that huge mining projects are high risk and take time to bring to fruitition. Without such new projects, our ability to maintain gold production at a constant level will be seriously affected."

Gush adds that gold production next year is planned to increase slightly despite a small drop in average grade.

"Unit costs, however, in square-metre terms, are expected to be contained well below the CPI, while capital expenditure for 1987 is forecast to increase by 3,1 percent to take advantage of the high gold price."

The exploration programmes to the east and south of the existing Freegold lease area will continue at a steady pace to ensure that efficient use is made of the current and future production capacities.

Capex for the past year was R502 million, which was up by 26 percent. Turnover of R3 billion was 25 percent up as a result of a 29,8 percent increase in the gold price received of R26 194/kg.

Gush says that he expects that rand receipts to Freegold will remain fairly volatile, as the rand continues to mirror the underlying political and economic difficulties.

"While forecasts continue to show an excess of physical gold supply over demand developing towards the late 1980's, stronger dollar prices are expected to be maintained into the current financial year."

Tax on loans to drop

BUSDAY 19/12/86

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ALAN SENDZUL

THE official interest rate applicable to taxation on fringe benefits on company-subsidised loans will be reduced to 13% from 15% on January 1 next year.

Finance Minister Barend du Plessis yesterday announced the lower rate at which tax would be calculated.

This follows a reduction in interest rates across the board with prime rate dropping to 12%, home loans granted by banks to 12,5%, and building society home loans to about 14%.

However, Treasury has not indicated whether it intends linking the official perks tax rate on loans to market rates, such as the prime overdraft rate.

If this were done, it would allow the tax rate more flexibility and eliminate periodic, and sometimes disruptive, revisions.

Tax payable is based on the difference between the official perks tax rate and the interest charged on the soft loan. With the cost of money having declined to 12% on overdrafts, the official perks rate, which has remained static, has prejudiced employees with loans below 15%.

While perks tax is being phased in, tax consultants regard it better to hold an interest-free loan rather than one offered at the official rate.

CAPTIMES 23/12/86

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SA growth 'stunted by taxes'

JOHANNESBURG. — SA's growth has been stunted by punitive taxes as a result of a tax base squeezed by the shrinking private sector share of the economy under the pressure of excessive government and public sector spending.

This is one of the key distortions flowing from the continuing high rate of State spending, and must be urgently redressed, says Assocom in discussing future national economic planning in the latest issue of the Assocom Review.

There is no time to waste, says Assocom.

"Time is running out fast. We can no longer afford to waste precious months, even days, on repetitious debate, on preparing serialized memoranda, on the production of millions of words.

"We must stop talking and start doing."

Other distortions as a result of the State's profligate spending, says Assocom, have included: "The inability at times of the State to match current expenditure with current revenue so that, over the years, the capital/output ratio subsided leading to the country's most pressing internal problem — structural inflation."

The report says that with finance from abroad "being reduced to a trickle — and possibly cut off altogether — the availability of capital is likely to be limited.

"It can only come from our own savings and trading surpluses which will have to be carefully nurtured and used only to best advantage.

"There is only one way to ensure this. The market must be sufficiently free to determine the most efficient use of capital, not a cabal hidden out of sight."

But says Assocom: "Who determines the priorities?"

"It should not be a committee of officials, however well qualified. These people are too far removed from the market environment. They lack the 'gut-feel' which marketeers acquire ..."

At no time, says Assocom, "must we allow ourselves to be diverted from the common purpose" of involving the private sector more deeply and at a an earlier stage in national planning.

"As many people of all races as possible must be involved in enriching the country through privatization, the development of small businesses and the expansion of the production base that is the largest generator of employment." — Sapa

Margo tax report is on the way

BUSDAY 3.20 24/12/86

THE mammoth, 1 000-page report of the Margo Commission on Tax, described this week as "potentially the major economic issue of 1987", has begun flowing to the government printer in sections.

● MARGO

This task is expected to take about six weeks, and an Afrikaans text is being prepared.

The 19 commissioners signed the massive report on December 1, but official sources say there is still no final decision about when it will be delivered to government.

A few edited versions of the raw manuscript are apparently ready for Finance Minister Barend du Plessis, who is on holiday this month, and to Mr Justice Margo, who is in France.

Some senior officials are reported to hold conservative attitudes on the result of the commission's work. Peter Wronsley, new chief executive for taxation under Du Plessis, says hopes for a short-term cut in taxes are optimistic.

Pretoria's spending programmes have come to rely on support from tax revenues, which could be threatened by tax reform.

However, Du Plessis could make a few small changes in the March Budget that would give business the confidence it needs.

It is also said that JSE executive president Tony Norton is hoping reform will introduce a broad-based, low, flat tax. Although he wants to see the tax system overhauled, he nevertheless points only to some small changes that can be expected.

Annual turnover on the JSE is 5% of all shares listed there, compared with around 20% in London and Tokyo and 50% in New York. Thus, the JSE is considered an "illiquid" market, and many shares seem to lack "integrity".

It was argued that if SA used a six-month rule (as in the US), or a similar time-based control, turnover on the JSE could increase. — Sapa.

No decision on delivery to govt

CAPE TIMES 24/12/86

Margo report goes to printer

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A key reason for the lack of liquidity, says Norton, is that no-one knows whether a particular share sale will be taxed or not. Faced with this uncertainty, and with many large share price gains recently, traders have tended to hold onto their shares.

In the US, where bourse turnovers are highest, the problem has been solved by applying a six-month rule.

Reform

In effect, this rule says: Sell before, and it is taxed; sell after six months, and it is classified under another "clear" heading of the tax code.

If SA used a six-month rule, or a similar control, turnover on the JSE could increase, it is argued.

Margo may recommend tax reform of a type which delays such a rule but keeps hopes for it alive, say sources close to the commission. — Sapa

Companies escape 'about 50%' of taxes

Cape Times 31/12/86

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JOHANNESBURG. — While South African households are being brought to their knees by punitive taxes, companies are escaping with about half the tax they would pay without the help of teams of expensive tax lawyers and consultants.

Various studies show this, particularly a new probe of 54 listed manufacturing concerns by Pretoria University's Bureau for Financial Analysis.

A probe into profit appropriation ratios for listed manufacturing companies reveals an average tax rate of only 23,8%.

Dividends account for 19,1% of pre-tax earnings while 57,1% of profits are ploughed back into the companies in the form of retained earnings.

The bureau's report reflects a wide range of tax rates for different sectors.

Lowest taxes

The lowest taxes are paid by the food, beverages and tobacco sector (20,1%) and the highest by the paper, printing and publishing sector (40,3%).

Three main factors are reported to be responsible for the disparity in tax rates:

- Some companies can use loss-making subsidiaries for tax deduction purposes;
- Different companies get different tax allowances; and
- Certain companies can deduct past losses from their current taxable income.

The sectoral breakdown for dividend payments and retained earnings shows that the food, beverages and tobacco sector also records the lowest dividend payout (13,1%) and the highest percentage of profits to retained earnings (66,8%).

The lowest proportion of profits retained was posted by paper, printing and publishing (36,1%).

The highest rate of dividend payout came from the industrial conglomerates sector, with 33,5%. — Sapa

BUS DAY 31/12/86.

New US anti-apartheid regulations remain a mystery

Departing firms in dark

RICHARD BARTLETT

US COMPANIES quitting SA are still in the dark about the implementation of stringent US anti-apartheid regulations.

The regulations are intended to enforce the US congressional ban on investment in SA.

Copies of the regulations are not yet available and affected companies say they are not conversant with them.

"Until we see the regulations, it is very difficult to know what is and what is not illegal," says Leo Cecchini, the US consul for economic affairs.

"The law is designed to prevent expansion and new investment and not to stop payment of debts. The intention of the regulations is not for companies to go bankrupt.

"What will probably change is the buy-back option and the concept of share-selling to retain control of SA subsidiaries. This is at present a cloudy area," he says.

Outgoing MD of General Motors Bob White says that although he has not had an opportunity to see the regulations, he does not foresee any change in GM's plans to disinvest.

"The rulings have been in effect since the Senate veto and GM people in the US have worked with the Treasury concerning these regulations."

White does not believe GM would have gone this far if its actions were found to be illegal in US law.

"No funds will be transferred from the US to complete the change of ownership," he says.

A spokesman for Honeywell says the main transfer will be in technology and so no immediate impact is expected.

"There will be no import of funds and growth of the company is financed locally," says Honeywell's market development manager Duncan Todd.

Coca-Cola is not aware of the implications of the regulations, but a spokesman says he does not see any difficulties.

Other US multi-nationals, not dependent on US funds, do not expect repercussions. Many companies are waiting to see how stringent the regulations are and what they mean before reacting to them.

A spokesman for IBM had no comment to make.

But market sources say the company, despite a recent announcement of a buy-out by local employees, will not be affected.

Lyd Plat pushes earnings up 44%

CHRIS CAIRNCROSS

LYDENBURG PLATINUM (Lyd Plat), whose main income comes from dividends received from platinum producer Rustenburg Platinum, has benefited greatly from this investment in the year to October.

In its annual statement this investment company, in which SA Mutual has a 56% controlling interest, reports an earnings improvement of 44%, from 72,7c to 104,7c a share.

Pretax income amounted to R15,08m (R10,69m), reflecting growth of 42% as a result of the sustained strength of the platinum price/market over much of the year.

These results have enabled Lyd Plat to boost the total dividend pay-out to 104c (72c), the final dividend being lifted to 64c (44,5c).

Apart from its primary holding in Rusplat, Lyd Plat's other investments are in Genbel, Free State Consolidated Gold Mines, and Orange Free State Investments.

Market capitalisation of these investments at Lyd Plat's year-end amounted to R523,2m (R270,4m).

Tax gaps for mining

31/12/86

CHERILYN IRETON

THE mining industry can save money by interpreting exemptions to the General Sales Tax act liberally.

So says Ernst & Whinney tax consultant Ken Walton in the latest tax bulletin of the Transvaal Chamber of Industries.

"Many mines are dealing with the tax question of GST on an ad-hoc basis. In consequence there is not the uniformity which one would wish. Some mines are unquestionably paying too much GST while others may not be paying enough," says Walton.

An example is the exemption for parts and materials used to repair and maintain certain plant. Walton says the tax authorities have agreed that the plant specified in the act can be interpreted more widely than the list suggests.

He says companies supplying plant to the mines should examine the laws and then review what items have been taxed in the past.

AIRLINE MOVEMENTS

TAXATION – 1987

JANUARY – JUNE

2/1/87 FINMAIL (320)

TAXATION

Secrets of secrecy

As 1986 drew to an end, written questions put by the *FM* to Commissioner for Inland Revenue Clive Kingon remained unanswerved. The questions covered what has come to be percieved as a new approach by Inland Revenue to tax evasion.

The main solid evidence is Revenue's resort to the criminal courts after it back-taxed and fined a former West Rand mayor — the first case of its kind in SA. Further evidence comes from private sector tax consultants who report an increase in the number of cases investigated by Revenue.

No general trend is discernible in reasons for investigation: it may be on profits made via share participation schemes; taxpayers hit by Revenue's annual random selection; or a new reason found by the expertise of Revenue's new 100 or so accountants and lawyers.

But there are increasing reports of automatic investigations of taxpayers who overpay R1 000 or more on PAYE or provisional tax payments. Just one unwanted effect of this for the taxpayer would be the extended wait for a refund.

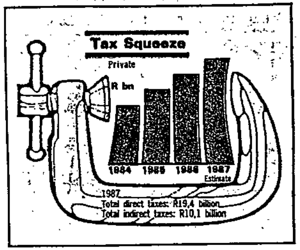
The main question — whether Revenue has taken a conscious decision to implement a new approach to suspected tax evasion — remains unanswered.

Surrounding clues to not help the taxpayers' dilemma.

In December, new CE: Taxation in the Department of Finance, Peter Wronsley, told the *FM* that Revenue's *modus operandi* is fine for the times. Indeed, he sees Revenue's secrecy practices as justified to thwart those bent on tax evasion. ■

8/11/87 (320)

The taxman tightens the squeeze on individuals



ALAN SENDZUL

A SMALL number of people are carrying almost 75% of the country's private tax burden.

An income tax statistical bulletin compiled by Inland Revenue shows almost 75% of individual tax-revenue comes from less than one-third of the tax-paying population.

And, in 1987, Inland Revenue projects that private individuals will line State coffers with R10,3bn from income-related taxes, almost 18% more than receipts from 1986.

Direct taxation in 1987 is expected to reach R19,4bn — by far exceeding the R10,1bn contribution made by indirect taxes and showing the harsh effects of fiscal drag.

But individuals also pay heavily on their indirect taxes, such as sales tax, which is expected to net R9,4bn this year compared with R8,1bn in 1986.

In 1985, GST drew R7,6bn from total taxable sales of R72bn.

In 1985, says Inland Revenue's statistical bulletin, individuals (excluding companies) contributed R7,3bn in taxes. In 1984, the figure amounted to R5,7bn.

The report goes on to say that of 1,7-million individual taxpayers in 1985, 530 000 earned at least R20 000 annually. Their assessments brought in R4bn compared with the total tax of R5,1bn paid by individuals.

In 1984, 62 444 companies with taxable income of R9,9bn made tax payments of R4,5bn, whereas 1,8-million private taxpayers were assessed at R5,3bn from taxable income of R29,3bn.

Fears of job losses in ailing nuclear industry

320 FIN MAIL 9/1/87

TAXATION

Revenue rakes it in

Inland Revenue, aided by 150 new professionals, has unearthed almost R1 billion additional taxable income for the period ended September 30 1986. Commissioner for Inland Revenue Clive Kingon will not give specific reasons, saying only that his professionals are making a "substantial contribution to revenue."

An extra R150m in GST has also been recovered for the same period.

Private sector tax consultants attribute the R1 billion to many sources, but mainly to foreign exchange losses claimed but not allowed against tax. The corporate sector suffered a bloodbath running into billions after the collapse in the rand in 1985.

Revenue's Kingon ... planning more campaigns

Some forex losses can be deducted against taxable income. But when a foreign loan is used, for example, to acquire capital equipment, losses cannot be claimed.

The main components of Revenue's killing are:

- ☐ Additional income assessed: R924m;
- ☐ Additional GST (including penalties) brought to account: R153m; and,
- ☐ Additional income tax (including penalties) assessed as a result of "investigations and audits by inspectors": R33m.

In reply to questions by the *FM* (Economy January 2), Kingon also outlined the aggressive new policy approach by Inland Revenue. In pursuing its "overall objective of tax gathering" Revenue will place "increasingly greater emphasis on the detection and eradication of tax evasion," he says.

The sentiment coincides with the build-up to the report of the Margo Commission on tax, which is believed to have devoted substantial wordage to tax evasion and the problems associated with collecting tax from the "underground," or unofficial, economy.

It also follows the criminal prosecution of a Roodepoort taxpayer last year, involving hundreds of thousands of rand. The prosecution was brought under common law fraud principles, after 200% penalties were levied by Inland Revenue.

The case was believed to be a precedent. Kingon, however, says prosecution for tax evasion is not unique. Convictions under the relevant section 104 of the Income Tax Act "have been obtained in the past."

The Roodepoort taxpayer had to cough up tax owing — evaded — plus 200%. Then, in the criminal courts, he was fined R2 000 each for 25 counts of fraud.

Kingon points out that such proceedings can have devastating consequences. But the criminal courts "are resorted to only in extreme cases where there is an overwhelming probability that a prosecution will succeed," he adds.

On the question as to how Revenue selected whom it would prosecute, Kingon was guarded, but said that the social or other standing of the taxpayer was disregarded. "The nature and extent of the suspected contravention of the law" is the criterion.

Nor would Kingon be drawn on the basis on which prosecutions will take place. For some considerable time, he says, concern has been growing at the "apparently increasing scale on which tax evasion is taking place. With the support of Finance Minister Barend du Plessis, Inland Revenue has been building up the number and quality of its inspection and auditing staff. Excellent results are being obtained."

Private-sector tax consultants, such as Ernst & Whinney's Roger Bramwell, welcome Revenue's efforts to stamp out tax evasion. But Bramwell sees many areas where Revenue could make life easier for the law-abiding taxpayer. It could, for example, publicise its secret internal practices, so that when one taxpayer is given a favourable ruling the benefit would be available to all.

There are many other areas where taxpayers should be helped. For example, taxpayers who overpay in error are generally not informed — as practically all tax consultants have discovered. Instead, refunds should be volunteered by Revenue: the relationship should cut both ways.

But at least Revenue is becoming more aware of its role in public life. Kingon notes that last year's publicity campaign regarding the tax amnesty met a "fair measure of success." Now, "further publicity campaigns are under consideration." ■

Taxman says returns delay 'not serious'

SM

9/1/87 By Paula Fray (320)

A backlog in processing income tax returns may see many people completing their 1986/87 forms before they have received their 1985/86 assessments.

One of those affected is Mr Robert Pinchin (37).

After waiting nine months for a rebate, he was told by the Department of the Receiver of Revenue "we won't be able to process the forms until March".

A spokesman for the department, Mr Schalk Albertyn, said yesterday: "The backlog is only in the Transvaal. It isn't serious. We will be clearing the backlog by the end of January."

Mr Pinchin was told the delay was because he moved from Pretoria to Germiston.

"I told them they could walk from Pretoria to Germiston with the documents in their hands and it would not take nine months," he said.

The Receiver of Revenue for Germiston, Mr August Beckmann, said he would get in touch with Mr Pinchin.

GST expected to fall R250m short

Cape Times 19/1/87.

320

Own Correspondent

JOHANNESBURG. — GST collections for the 1986/87 financial year are expected to fall short of the Budget expectation by at least R250m.

This, according to the Inland Revenue Department's Schalk Albertyn, is mainly because of the recession, shrinking disposable income and consequent reduced consumer spending.

Finance Minister Barend du Plessis budgeted to collect R9,480 billion from GST. Up to the end of November — the first eight months of the financial year — collections totalled R5,827 billion.

And against a background of claims by tax experts that GST evasions probably amounted to around R1 billion, the department's inspectorate discovered fiddles amounting to only R90m last year.

Income tax evasions discovered by special audit teams totalled to R163m in 1986.

In his Budget, Du Plessis expected individual income tax collections to amount to R10,676 billion.

Albertyn said it was accepted internationally that a 10% under-recovery of taxation was "tolerable".

The department is to intensify its tax recovery efforts this year.

Last year more than 10 000 summonses were served on defaulting taxpayers.

On speculation that the government might pay out the last remaining loan levy, the 1983, — as a pre-election handout, Albertyn declined to comment.

However, he did say that 1,220m individual income taxpayers paid R213m into the levy. With 8% interest a year added, the total would now amount to about R270m.

13/1/87 320 BUSDAY

Exports — time to look at sales tax

KEN BOGGIS

GOVERNMENT is currently placing much emphasis on the promotion of exports. One area that needs streamlining — and which is within government's power to change — is the sales tax aspect.

As a general rule, exports are exempt from South African sales tax. But this is not nearly as simple as it looks.

The definition of "exported" in the Income Tax Act runs to a mere four lines, whereas in the Sales Tax Act it takes up an entire page.

The Sales Tax Act definition envisages no fewer than seven different sets of circumstances in which a sale will be an export sale.

However, the conditions that must be present to get exemption differ and give rise to the absurd situation where exemption often depends on how one chooses to effect the particular sale.

For example, if one lives in Lesotho and picks up the phone and orders goods from a supplier in Bloemfontein and instructs the supplier to have the goods delivered to Lesotho, the sale is an export and exempt.

Conditional

However, if the same Lesotho customer makes a buying trip to Bloemfontein and buys the goods and takes them away with him, exemption will only be granted if the purchaser can say that the goods are going to be used by him for the purposes of his business (as opposed to his private use).

In the first case, exemption is granted — regardless of how the purchaser intends to use the goods — whilst in the latter case exemption is conditional upon the goods being used for business purposes.

The position is further complicated where the exported good happens to be a motor vehicle. Even if the purchaser collects the motor vehicle in SA the sale will be exempt, regardless of whether he uses it for business or private purposes.

Another anomaly concerns tourists and other foreign visitors. Such persons are normally not allowed to buy exempt articles for private purposes. So a tourist who calls on a local jeweller and buys a gold necklace and wants to take it away with her, will have to pay sales tax.

However, if she were instead to visit a special customs and excise warehouse for jewellery (this is officially called a VSJ warehouse, but in practice it is usually a store that has registered as such) and to produce her passport, air ticket and a completed tourist declaration, then the necklace could be purchased free of sales tax.

Again, the general rule that there is no exemption for the foreign visitor who buys and collects non-business goods is subject to a further exception. He is entitled to buy goods for personal use (or otherwise) exempt from sales tax at a duty-free shop at an international airport or seaport.

Furthermore, this particular exemption is not confined to foreign visitors but is also granted to South African residents who are proceeding out of the country, permanently or temporarily.

And yet a Christmas present ordered from a mail order firm in SA with instructions to deliver it to a relative, say, in the United Kingdom is not exempt. Why? The Receiver argues that the sale is to a South African resident, even though that person never sees the goods.

To make the situation even more farcical, a requirement was recently introduced that foreign purchasers who buy goods in SA (otherwise than from the special customs and excise warehouses) and take delivery here have to complete a declaration form, VB52.

This form is a certificate by the purchaser that he is purchasing the goods for the purpose of his foreign business (foreign includes the TBVC states).

Solution?

A dishonest purchaser could enter on the form entirely fictitious information and neither the seller nor the Revenue authorities can do anything about it.

A possible solution?

A test for exemption could be the earning of foreign currency (one of the mail order firms already operates on this basis). This would largely tie in with the granting of income tax incentives.

An immediate problem is that, at present, exports for sales tax purposes include sales to persons living in SWA/Namibia or in a TBVC state. Such persons would pay for the goods in rands.

The reason for exempting South African sales tax sales to such persons is that these countries (with the exception of Bophuthatswana) have their own sales tax systems, and without the exemption double sales tax would result.

But is this, in fact, so? A purchase by, say, a Transkeian resident would be liable to sales tax in the Transkei because there is an importation of goods into the Transkei.

But South African residents who buy goods in a TBVC state do not go rushing off to their local Receiver to pay tax, because the goods have been imported into SA. Are the TBVC residents any different from their South African counterparts, and would there in reality be double taxation?

The present situation creates problems for both Revenue and suppliers, as well as creating the opportunity for substantial loss of tax.

Three rules

The following rules would go a long way to remedying this:

☐ Sales tax should be payable in respect of all sales;

☐ Refunds of South African sales tax could be effected by the Controller of Customs and Excise once proof has been submitted that the goods have left the Customs Union or will be leaving (e.g., delivery to be effected by the supplier outside the Union); and

☐ Alternatively, where the purchaser resides in a Rand Monetary Area Country outside SA, the Receiver of Revenue could be empowered to refund the tax once he is satisfied that sales tax has been paid in the purchaser's country of residence.

With Bophuthatswana residents, it will not be possible to prove that sales tax has been paid in that country. Consequently, no refund of South African sales tax will be made.

This does not seem to be unreasonable, in light of the fact that no foreign currency has been earned by the South African supplier nor has there been double taxation.

This action could once and for all resolve the long-standing controversy of Bop-registered cars and would, in fact, bring the treatment of sales into line with that of financial leases.

☐ *Ken Boggis is Tax Manager at Deloitte Haskins & Sells.*

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GST short by R250m

BUS DAY 19/1/87 (320)

GERALD REILLY

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Up to the end of November — the first eight months of the financial year — collections totalled R5 827bn.

And against a background of claims by tax experts that GST evasions probably amounted to around R1bn, the department's inspectorate discovered fiddles amounting to only R90m last year.

Income tax evasions discovered by special audit teams totalled to R163m during 1986.

In his Budget, Du Plessis expected individual income tax collections to amount to R10 676bn. Albertyn said it was accepted internationally that a 10% under-recovery of taxation was "tolerable".

The department is to intensify its tax recovery efforts this year.

More staff is being trained and will be in the field soon.

"So far we regard the amounts recovered as a successful operation, but there is still a lot of work to do and the campaign will be stepped up."

Last year more than 10 000 summonses were served on defaulting taxpayers as part of the anti-evasion campaign.

On speculation that government might pay out the last remaining loan levy — the 1983 levy — as a pre-election handout, Albertyn declined to comment.

However, he did say that 1 220 000 individual income taxpayers paid R213m into the levy.

ARGUS 20/1/87

Moves to end R100m liquor tax evasion

By DICK USHER
Staff Reporter

TAX evasion in the liquor industry may be costing South Africa up to R100-million and the Government is looking at new methods of levying GST to reduce the loss.

Draft regulations have been submitted to the industry for consideration and may be introduced by March.

Liquor industry sources said some sectors opposed the measures, claiming the amount lost was lower than R100-million, while other estimates placed it far higher.

The measures would involve wholesalers adding tax at sale to retailers. Retailers would then tax the public and pass on to the Receiver of Revenue the difference.

Those supporting the proposals say this would ensure that a hefty proportion of tax now being lost would reach the Government and reduce the temptation for liquor retailers to pocket GST revenue.

The Federated Hotels Association of South Africa, the Cape Wine and Spirits Institute and South African Breweries have been involved in discussions with the Department of Finance on the issue.

(Turn to Page 3, Col 8)

ARGUS

320

R100m liquor tax evasion

(Cont from Page 1)

Mr Mike Kovensky, president of Fedhasa, said he backed the Government proposals.

He said: "The liquor industry has in many areas found that some retailers are competing on the basis of pocketing tax. But it is a small number of retailers who are pocketing large sums.

"BEER MONOPOLY"

"It is to everyone's advantage that this should be reduced as much as possible and one way of doing it is to tax liquor at source.

"In this country that is relatively easy.

"The wine industry is an oligopoly of a limited number of wholesalers and beer is a monopoly.

"Much has been made by opponents of the administrative difficulties involved but virtually every supplier is computerised and it would need only minor programme changes for them to add tax to their invoices.

"Retailers already have to administer GST and it is simple arithmetic to subtract what you have paid to the wholesaler from what you have collected from the public and pass the difference on to the Receiver."

THIEVES

He said many retailers were "fiddling taxes to reduce prices" and added: "If the tax net is cast as wide and effectively as possible we could possibly reduce GST."

"As it is, the man in the street is subsidising thieves."

● Mr Ernst Conradie, Cape Town Receiver of Revenue, said the department had uncovered "quite a number of irregularities" in liquor sales.

He could not give an estimate of how much was being lost. "If we knew we would be able to collect it," he said. But the position was serious enough to warrant the introduction of the new scheme.

No date has been set for the introduction of the scheme.

(320) 21/1/87 argus

Old Mutual chief calls on Govt for bigger concessions

'Lift limits on RA tax'

By DEREK TOMMEY
Finance Editor

RETIREMENT annuity legislation is in dire need of review, says Mr Mike van Greunen, general manager (individual life) of Old Mutual.

Investing in retirement annuity funds is one of the main ways which people who do not belong to a pension fund can make provision for their old age.

The Government even encourages this by allowing contributions to a retirement annuity fund, up to specified limit, to be exempt from income tax.

But while retirement annuities serve a valuable purpose their usefulness is declining because the tax-free contribution has remained unchanged for eight years, during which time the value of money has more than halved.

Therefore legislation regarding the extent of income tax relief on retirement annuity funds must be amended to meet the needs of consumers, says Mr van Greunen.

The Old Mutual believes that the legislation should be amended as follows:

- The current tax free limit should be increased from R3 500 to at least R7 500. Alternatively the Government should introduce an income related limit for those in 'retirement funding employment';
- The 15 percent limit on non-pensionable taxable income needs to be increased to at least 17,5 percent to provide some degree of parity with the total contribution rate payable under comparative pension funds;
- The limits applied to arrear contributions should also be increased to permit deductions which were not used during the preceding five years of assessment;
- The upper age limit for annuities must also be reviewed. At present the rules of an RA fund provide for the annuity to commence between the ages of 55 and 70, or earlier disablement.

"The current limit of R3 500 less deductible pension fund contributions (or R1 750 if greater) has remained static for eight years. This is the longest period without adjustment in the history of this deduction and happened at a time when we have experienced an average inflation rate in excess of 13 percent per annum," said Mr van Greunen.

nuities are people who do not belong to a pension fund and people who do belong to a pension fund but will have less than 30 years service with their last employer.

The incentive to invest in a retirement annuity is even greater if one pays a high rate of tax, has lump sums to invest and if inflation continues to erode savings and pension income.

Retirement annuity funds provide savers with a wide choice of savings plans. The Old Mutual's allows a member to vary the level of contributions and adjust the mix of capital accumulation and life cover to suit his changing circumstances.

As he gets closer to retirement he may, for example, reduce the level of cover to ensure maximum build-up of retirement capital over the last few years.

Automatic contribution increases can also be added at any time to maintain the real value of contributions. The member can also "top-up" the Flexi-pension policy with lump sum injections as required.

The tax relief was introduced to encourage private provision for old age. Since the early sixties the State has regularly increased the tax deductible limit in an attempt to keep pace with inflation but the extent of this encouragement has been significantly eroded over the years.

SUBSTANTIAL INCREASE

The time has come for a substantial increase in the amount of this deduction in order to restore credibility in the State's commitment to private pension provision.

"Immediate attention should be given to the above proposals to encourage private pension provision and to boost the dismally low level or personal savings in this country," Mr van Greunen stressed.

Retirement planning has never been more important than it is today and regardless of age or occupation, what one does today to build up capital for the future can make or break a lifestyle after retirement.

Two factors have significantly changed the need for active retirement planning. Firstly, it is no longer common to find employees staying with one employer for an entire working life. Statistics reveal that people going on pension have on average 15 years service with their final employer.

As the benefits derived from a company pension fund are partly determined by the number of years membership, it is unwise to regard a company pension as adequate when one has limited periods of service.

Mr Mike van Greunen, general manager (individual life) of Old Mutual.

Secondly, the ever-increasing high levels of inflation which have been experienced over the past few years have eroded personal savings. Pensions have been hit in the same way and a pension which is not inflation-proof soon decreases in real terms.

To prevent a drop in living standards upon retirement, it is imperative for people make other plans to accumulate additional capital for retirement.

TAX-EFFICIENT

A retirement annuity (RA) is a very tax-efficient way of doing this. An RA is essentially a private pension plan where the individual tailors his own retirement programme.

Among those who should invest in retirement an-

320 BUSDAY

Appeal to cut GST on new cars

23/1/87

DAVID FURLONGER

A CUT in GST on new cars will do more for prices and the motor industry than any amount of rationalisation, says BMW CE Walter Hasselkus.

Because cars are sold and re-sold so often, he says, they contribute an inordinate amount of tax to the State.

With the average car changing hands three times during its lifetime, the cumulative GST based on its original price is about 25%.

Hasselkus says this is justification for reducing tax on new cars, and would reduce the gap between new and used cars more effectively that rationalisation and the resultant unemployment.

"Removing GST would bring far greater relief in respect of car price increases than would the demise of another three or four car manufacturers."

He says it is an over-simplification of the industry's problems to suggest they will be cured either by further reducing the number of manufacturers in the overtraded market, or through manufacturers combining production resources.

Joining forces

"This point is vindicated by the fact that no-one in our industry is better off financially than 10 years ago, when SA had 14 manufacturers compared with the present seven."

Some industry observers suggest that by combining production resources — as Ford and Amcar have done at Samcor — increased volumes at the single production point would slash unit costs and therefore car prices.

Hasselkus says fixed production costs which can be affected by volumes represent about 11% of a car's production and distribution costs, and its retail price.

By rationalising models and manufacture while maintaining production volume, each manufacturer would save up to 5,5% — but at the cost of "tens of thousands of jobs" in the vehicle, component and supporting industries.

General Motors said last year it had held talks on possible joint production with BMW but the talks broke down. Hasselkus says his company has no plans for talks with another manufacturer.

320 BUS DAY 27/1/87

Turnover, payroll taxes to begin in July

GERALD REILLY

THE private sector is expected to start financing the Regional Services Councils (RSCs) from July.

It is understood the Department of Inland Revenue is teed up to levy the 0,1% turnover tax and the 0,25% payroll tax as soon as the RSCs are launched.

According to a spokesman for the province's Local Government department in Pretoria, the target date for the launching of the RSCs for the central Witwatersrand, East Rand, West Rand and Pretoria is July 1.

Government will provide bridging finance for the councils until the first collections are made.

The aim, it was stated, was to have the rest of the Transvaal RSCs operational by the beginning of 1988.

These are Western Transvaal, Eastern Transvaal, Northern Transvaal and the Vereeniging-Vanderbijlpark-Meyerton area.

There could be more than one RSC in each of these areas.

The demarcation board is currently working on the proposed boundaries before submitting reports to the Transvaal Administrator.

PFP finance spokesman Harry Schwarz said the RSC taxes would obviously be inflationary.

Businessmen would load them onto consumer prices.

"The tax is regionally discriminatory, it will aggravate inflation and it will mean bigger staffs in Receiver's offices and in the private sector to cope with collections and returns."

Schwarz said another adverse consequence of the two taxes would be to inhibit industrial expansion in the taxed areas.

Tax relief 'may boost economy'

BUSDAY 27/1/87 320

From Page 1

unless the political situation stabilises.

"Inflation has virtually destroyed any consumer confidence," says Spar executive-director Sidney Matus. "The state of emergency has not helped."

Checkers MD Clive Weil says there has been no noticeable change in confidence levels. Spending has not kept pace with inflation and he says consumers are a "little shell-shocked" by spiralling prices.

BER data reveals whites are less optimistic about SA's economic situation and their own financial position. Moore says white shoppers are more likely to buy durable goods now, fearing a further erosion in purchasing power.

Although black consumer confidence picked up slightly in the final quarter of 1986, Moore says the point to note is that black confidence levels remain negative.

"All we can say is that the black consumer is slightly less pessimistic, although it is hard to see the light at the end of the tunnel," he says.

OK Bazaars director Allan Fabig says consumer resistance to rising prices has been evident since the third quarter in 1985. OK officials remain, at best, cautious on confidence levels.

Appeal to Govt to cut taxes

Star 28/1/85 (320)

Finance Staff

Reduce taxes!

This is the message from economists and businessmen to the Government as the only means to maintain the fragile upswing in economic activity.

Yesterday both Assocom and Mr Rob Lee, chief economist of the insurance giant Old Mutual, appealed to Government to improve the precarious financial position of the consumer.

"The consumer desperately needs some relief on the tax front. In the last few years the ratio of direct personal taxes to personal income has increased from 6,6 percent in 1980 to 11,9 percent in 1985," said Mr Lee.

The message conveyed by the delegation from Assocom when they met with Mr Barend du Plessis, Minister of Finance, in Cape Town recently was that without significant relief of the burden of taxation, any upswing in economic growth will soon be curtailed by the poor financial position of most consumers.

There is a growing body of economists forecasting a higher growth rate, varying from 3 to 5 percent, for this year in view of the excellent summer rainfalls and the higher gold price. Without a broad-based tax reduction, they say, this upswing will soon peter out due to the poor financial position of consumers.

- On the Hong Kong market the gold price rose to above $415 an ounce, up more than $4 an ounce on yesterday's closing price of $411,50 in London. The rand was stronger this morning with the currency expected to trade above 49 US cents.

BUSINESS

ECONOMY

Argus 30/1/87 320

Tax burden up 80 pc, OM survey shows

The Argus Correspondent

DURBAN. — The direct tax burden on income-earners has increased by 80 percent in real terms since 1980 — in spite of a number of so-called "tax reductions" and original Government promises that general sales tax would help to ease personal taxes.

According to an Old Mutual survey, the direct tax burden has worsened markedly since 1980. This has helped to put real disposible incomes under severe pressure, in other words, squeezing the man-in-the-street and contributing to recession.

Figures produced by the group's economists show the ratio of direct personal taxes to personal incomes increased from 6,6 percent in 1980 to 11,9 percent in 1985.

This ratio removes the confusion of inflation which, in a sense, has been the Minister of Finance's best friend.

On several occasions the Government has drawn public accolades for "tax cuts" which in reality have not even compensated for the effects of inflation on incomes.

HIGHER BRACKETS

In spite of these occasional "cuts" each year the State has sharply increased its tax take as income-earners are pushed into higher tax brackets in what is known as "fiscal drag".

One of the arguments used for introducing the "indirect" general sales tax in 1978 was that it would enable the authorities to lessen the burden of direct taxes. This has not happened.

In spite of the increased burden of personal tax, GST has increased from four to 12 percent.

The amount budgeted to come from GST this year is R9,48-billion out of total expected revenue of R33,627-billion. Individual income tax is expected to raise R10,676-billion.

Old Mutual's latest economic survey notes that the burden of direct taxes may have been eased slightly in 1986, although figures are not yet available. However it says further relief is needed in 1987 if there is to be a reasonable recovery in consumer spending.

● Meanwhile, sources close to planning of the controversial regional service levies believe the aim is for them to raise a greater amount in the first year of operation than is currently collected from GST.

INTEREST RATES

Quo Vadis?

F/M 30/1/87

Financial markets seem to be playing both ends against the middle right now, with prime rate going up and maximum lending rates falling. The confusion seems to hinge on banks' reluctant upward adjustment of prime by 0,5% last week, followed by the announcement of a 2% cut in rates under the Usury Act.

Meanwhile rates on building society fixed deposits have been going up over the past two weeks, while rates paid by three banks — Athens, Fidelity and French — are coming down. Increases vary by between 0,25%-0,75%; while falls range from 0,25% to 2,12%.

These developments follow Barclays' reversal on prime. After lowering the rate at which it lends to its best customers by 1,5% on December 9, the bank had to move up 0,5% last week. Other banks, which followed Barclays all the way down — possibly against their better judgment — are now adjusting their prime as well. It seems they overplayed their hands after a rediscount rate cut by the Reserve Bank by only 0,5% to 9,5%.

"The relationship between the money market shortage and the rediscount rate has not developed as forecast," admits Barclays MD Chris Ball. With the Reserve Bank determined to counter excessive liquidity, the cost of funds increased and, according to banks, their margins couldn't stand the squeeze (*FM* January 23).

Changes in money market conditions were not the only reason for the reversal in prime. Barclays' December decision is seen as the result of competitive pressures — a response to an announcement by Standard, a week earlier, of a 2,5% drop in its mortgage bond rate to 12,5%. Determined to take centre stage from its rival, Barclays made a move on prime. As other banks followed, rates paid to investors also dropped over the next few weeks.

The episode is reminiscent of a similar one in November-December 1984, when a 1% cut in the rediscount rate to 20,75% (possibly prompted by the pending by-election in Primrose) induced Standard to reduce prime from 25% to 23,5%. With signs of easing money market rates, Barclays went half a percentage point better and, a couple of weeks later, several other banks fell into line. This was followed by deposit rate reductions.

Then money market rates began to firm and, by the third week in December 1984, prime had moved back up to 24%. Less than a month later, following a rise in the rediscount rate to 21,75%, prime moved once again, back up to 25%.

Fortunately the parallel is not complete.

Barclays' MD Ball ... reviewing forecasts

This time, the monetary authorities are still committed to an expansionary policy and, in the foreseeable future, there should be no rise in the rediscount rate to prompt a further rise in prime.

This has been made clear by reductions in maximum interest rates for leasing, money lending and credit transactions, announced last Friday in the Government Gazette. These signal continuing low rates of interest — in spite of the adjustment to prime. Rates have been reduced to 23% for amounts of less than R4 000 and 19% for amounts over R4 000. This two percentage point move comes after reductions in December, of 3% and 2% respectively.

Liquidity is very different at the short and longer ends of the market. Building societies can take in only 5% of liabilities in short-term funds, which makes them very reliant on 12-month fixed deposits. And interest rate uncertainty isn't encouraging people to make long-term commitments. With returns on all sorts of savings considerably below the inflation rate, substantial amounts of retail money have been redirected to the equity market.

Banks, on the other hand, have access to the short-term market, where liquidity is far more favourable. Thus they can afford to offer lower rates. On 12-month fixed deposits, for instance, the five major banks are now paying at least a half a percentage point less than four of the biggest building societies.

Clearly the building societies are competing for scarce resources. Natal, Provincial, Saambou and United have moved into line with Allied, which has consistently kept rates above those paid by most competitors over the past few months.

The implication for mortgage bond rates is not promising. If shortages of medium to long-term funds persist, these will eventually move up again. As to the path of other interest rates, there are conflicting views and confusing indicators.

Confidence and consequent demand for money is a crucial factor. If demand rises, interest rates will rise accordingly. On the other hand, if there is an inflow of money

NEW GST BENEFIT

329 F/M 30/1/87

In a curious move that could benefit consumers, Finance Minister Barend du Plessis has added a packaging exemption to the Sales Tax Act. From January 28, wholesalers and caterers may buy packaging materials free of GST, a dispensation previously available only to farming, fishing and manufacturing enterprises.

Other businesses were not entitled to exemption even if packaging was essential to their operations; for example, fast food outlets using polystyrene containers.

Pharmacies, in particular, who have to dispense medicines in packages, were piqued about paying GST. Other enterprises tried to re-organise so as to be classified as manufacturers for the packaging exemption.

The change follows years of representations to the authorities.

Registered enterprises selling goods may now buy containers, packaging, or wrapping materials, including labels, free of GST, provided the contents are sold to customers. The exemption, says Ernst & Whinney's Ken Walton, has widespread beneficial effects for all retail shops and supermarkets as well as fast food outlets.

Why the exemption was not left for next month's mini-Budget, where it would appear more publicly as good news, is not clear. However, the authorities say the exemption is a rationalisation. There will be less uncertainty regarding packaging, and less juggling of activities to qualify for exemptions.

Cape Times 31/1/87

320

Jail for arranging tax dodges

Court Reporter

A FORMER tax official who admitted helping people evade taxes amounting to R236 513 because "95% of them were non-white and I saw there was a lot of unfairness", was yesterday jailed for three years.

Jacobus Francois Eramus Brand, 56, of Tafelsig Flats, Loewenstein, who was head of a tax assessment department was convicted in the Magistrate's Court on 19 counts of discharging taxes, five counts of abusing his official discretion by underestimating incomes and two counts of corruption.

He was acquitted on three counts of underestimating incomes and one count of corruption.

Brand was also sentenced to five-and-a-half years, suspended for five years.

Passing sentence, the magistrate, Mr A L Laubscher said: "Mr Brand, I don't have much sympathy with you. You are not a child and were in the service of the state for a long time. There's only one punishment for you, age and all included. Imprisonment,"

Crying quietly while giving evidence in mitigation, Brand said he was "terribly sorry" and had helped taxpayers because of "the great degree of unfairness of non-white people being investigated".

He had kept a record of "white" people who should have been investigated and had approached the Advocate-General regarding these people. His attempts to bring the matter into the open had been overlooked.

Mr Laubscher said that while all the money had been recovered, Brand had misused his position. He accepted that Brand had a sickly wife and son who were dependant on him.

Mr Laubscher also accepted that the case had been going on for four-and-a-half years and that Brand had been involved in many community organizations.

Mr A de Villiers le Grange appeared for the state. Mr J Rhoodie represented Brand.

BUSINESS BRIEF

Gold (close)	$400,50
FT index (close)	1 441,0
BD 100	1 656,7
Rand	$0,4805
Dow Jones	2 158,04

Tax cuts in the pipeline

W/E Argus 31/1/87 320

By DEREK TOMMEY

THE Government is expected to try to sweeten the public before the election by granting tax concessions.

Economists believe the move could speed up economic activity, if it comes in the form of a cut in general sales tax.

But Mr Harry Schwarz, the Progressive Federal Party's spokesman on finance, warned that tax cuts in themselves would not be enough to restore the economy to health.

Consumer confidence had to be restored and this would not happen until there was an assurance of political stability.

People wanted to know where South Africa was going. Giving a little here and a little there was not the answer.

Consumers lacked confidence. People were not buying and were not increasing credit, he said. They were also afraid that interest rates could escalate.

It was difficult to estimate what the Government's tax concessions would cost.

A GST reduction from 12 to 11 percent would cut revenue by R1-billion. But with prices expected to rise between 15 and 16 percent this year, inflation would soon restore this loss of revenue.

The Government was likely to adjust income taxes, possibly by changing the income tax scales to offset bracket creep and lighten the tax rate, particularly on people in the R20 000 to R30 000 a year income groups.

It could afford to repay the 1989 loan levy as it would now have no trouble borrowing money.

Dr Ockie Stuart, director of Stellenbosch's Bureau for Economic Research, would like to see the Government restrict public service pay rises to 10 percent but give them further benefits by cutting GST.

The Government could not afford a public service pay rise of more than 10 percent. An increase of more than this was not in the country's interest.

It should cut GST, which would help the consumer, cause a reduction in inflation and help stimulate business activity. "It would be much better to lower GST than to grant huge salary increases," he said.

The increase in GST from 4 percent in 1978 to 12 percent had contributed to the economic slowdown.

Wages

Professor Brian Kantor, of UCT's School of Economics, believes there should not be a restrictive Budget. He wanted wages to catch up with inflation, otherwise there would be no economic recovery this year.

He was not opposed to a 15 percent pay increase to public servants. With inflation at 20 percent this still represented a further decline in real income.

The last Budget had been too restrictive. There should have been a major cut in sales tax a year ago. Monetary growth had been weak and the economy still needed help.

Income tax, GST cuts on the way

320 W/M 4/2/87.

Ormande Pollok
Political Correspondent

CAPE TOWN—Tax cuts all round. That's the prediction for the 'mini budget' which Finance Minister, Barend du Plessis, will introduce on Monday to tide the country over until after the Assembly elections on May 6.

Nationalist sources said yesterday the Government was acutely aware of the rising tide of resentment among voters because of constantly rising food prices, levels of taxation and the cost of living generally.

Speculation was that among the largesse Mr du Plessis would hand out was a reduction in general sales tax, a general tax cut on personal income, further concessions for married women on joint income and the 1983 loan levy to be returned ahead of schedule.

It is thought that GST could be cut by one or two percentage points from the present 12% which would immediately inject millions of rands into the consumer market and stimulate the economy.

Mr du Plessis said at the National Party Congress in Natal last year that GST would have to be reduced drastically.

He is also expected to cut personal tax by 6-7% which would find favour with thousands of voters.

It was generally expected that Mr du Plessis would also give further relief to married women, but there was no indication of how much.

It is not expected that Mr du Plessis will introduce any of the Margot Commission's recommendations at this stage because of the timing of the election. He is expected to wait until the full budgetary session later this year.

Argus 4/2/8

320/183/88

ECONOMY

Scrap taxes on cash investments, Government urged

The Argus Correspondent

DURBAN. — South Africa should make all forms of money investment tax-free to meet its burning need for capital formation, according to an editorial in the insurance industry journal Vitae.

Describing inflation as "a great swindle", the journal says there is a desperate need to encourage savings in some positive form.

Tax is apparently unthinkingly imposed as a penalty on those prudent enough to save and produce investment income. Yet the Government's arguments for such tax are tamely accepted as the "last word".

Instead of tamely whispering aout the need for increased retirement annuity allowances, the industry "should be thumping the desk and demanding it".

In addition to all investment income being tax-free, there should be a further tax rebate on all new money invested in the year — to make the interest return beat inflation in total.

Vitae predicts the Government's "knee jerk" reaction to its plea will be a warning that tax revenue sacrificed on savings will mean it must be regained elsewhere — perhaps through increased sales tax.

Such a response would not be factual.

"We can prepare an endless list of State activities which should be reduced or discontinued — things which are contributing to our persistent inflation in themselves."

What other sane country, it asks, would tolerate such a large percentage of its population working for the State ?

Warning that the issue is one of "dire urgency," it says the cure for inflation "is to stop increasing money and credit".

Unless this is done, South Africa will become known as a nation of spenders whose entire population will become indigent and dependent on world charity in later years.

Tax-cut 'sweeteners' for voters forecast

Own Correspondent

TAX cuts all round are widely expected to be announced in the "mini budget" that Finance Minister Barend du Plessis will introduce on Monday to tide the country over until after the Assembly elections on May 6.

Nationalist sources said yesterday government was acutely aware of the rising tide of resentment among voters because of constantly rising food prices, levels of taxation and the cost of living.

Speculation yesterday was that the largesse Du Plessis was expected to hand out would include a reduction in general sales tax (GST), a general tax-cut on personal income, further concessions for married women on joint income and the early return of the 1983 loan levy.

It was thought GST could be cut by 1% to 2% from the present 12%, which would immediately inject millions of rands into the consumer market and stimulate the economy.

It was pointed out that Du Plessis said at the National Party congress in Natal last year that GST would have to be reduced drastically.

He was also expected to cut personal tax by 6% or 7%, which would find favour with thousands of voters.

Though it was generally expected that Du Plessis would also give further relief to married women there was no indication of how much.

Du Plessis was not expected to introduce any of the Margot commission's recommendations at this stage because of the timing of the election.

TAXATION FM 6/2/87 (320)

Complex predictions

Is it possible that SA's tax system will have to become more complicated to meet the increasing complexity of economic life? Price Waterhouse's Chris Frame seems to think so.

He believes this will require a marked increase in the number of professionals employed by Inland Revenue from the current 150; and also that Revenue's use of professionals will earn some of them posts within the civil service. His ideas are based on studies of the relationship between public and private sectors in Europe and the US since World War 2.

Frame doubts that Revenue has a new policy approach towards tax evasion. He argues that SA's tax law "is one of the simplest pieces of fiscal legislation in force in any country, given its stage of economic development."

That, Frame argues, is the main reason the system has become difficult to administer in a consistent and fair way: the economy has simply become more complex. He says this is why many ad hoc attempts have been made to introduce more "meaningful" legislation.

As a result legal manoeuvres have largely been confined to the area where economic fact and law fail to find common ground. The authorities are now seeking to widen the scope of SA's tax system. Fringe benefits tax can be seen as the start of an attempt to create an all-embracing tax code.

Frame argues that the authorities have wrongly seen the company, rather than the corporate group (that is, a family of companies), as the major economic organisation. The results are a list of absurdities. Ignoring the corporate group also leads to friction between Revenue and taxpayers, as taxes are levied on a basis practically irrelevant to modern business conditions. Tax avoidance and evasion were the "natural" results, he says.

How will the authorities widen the scope of SA's tax system?

Looking abroad for precedent, Frame suggests the following major changes:

- ☐ Implementation of corporate group taxation;
- ☐ Extension of the defined "arm's length" transaction;
- ☐ A capital gains tax;
- ☐ Tax on world-wide income (residence), rather than on the source-of-income basis; and
- ☐ Levying indirect tax (GST) on services.

Frame argues that tax legislation must become more complex to reflect increasingly complicated economic facts. He says that, paradoxically, more tax law would simplify results. This is a process tax commissions have been trying to resist — unsuccessfully, says Frame — around the world. ■

Tax blueprint 'gives kick-start to the economy'

Star 6/2/87

(320)

By Michael Chester

The controversy over relentless increases in the size of the tax bite out of family budgets has been given a vigorous new stir by the approach of the mini-budget that Finance Minister Mr Barend du Plessis is expected to unfold next week.

Speculation is rife that the National Party may use the opportunity to do a bit of election-eering with at least a modest trimming of tax bills as a stop-gap while word is awaited from President P W Botha on how he intends to handle the package of proposals from the Margo Commission on taxation.

But behind the scenes, a swelling number of economic gurus are ploughing their way through a radical new blueprint that has been prepared by Johannesburg tax consultant Mr Nic Nel with the powerful backing of the Econometrix research unit.

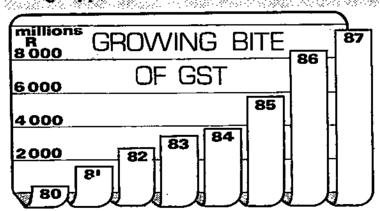
In short, they suspect that the Government, whatever the secret contents of the Margo Report, will stay short of striking the nail on the head.

The blueprint argues that the simple solution is to introduce a brand new system of a flat income tax rate of nine percent for everybody.

The flat rate would apply to individuals and companies with none of the loopholes that have caused distortions in the sharing of the tax load.

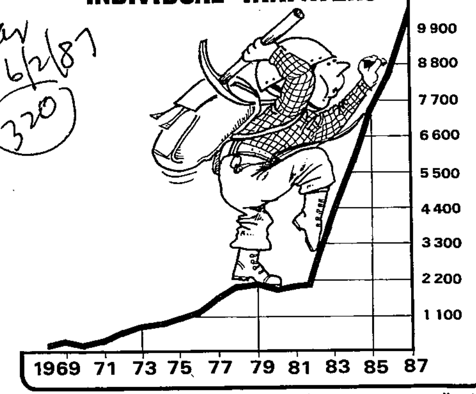
It compares with current tax scales that steadily push individuals into paying the taxman a marginal rate that collects as

MICHAEL CHESTER examines a radical new blueprint prepared by Johannesburg tax consultant Mr Nic Nel, backed by the Econometrix research unit, which advocates the scrapping of the present taxation system and its replacement by a flat rate of income tax of nine percent for all. The authors claim growing support for the revolutionary formula.



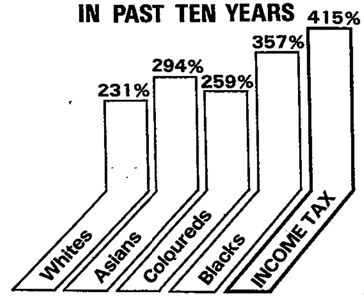
How the burden of general sales tax has got heavier and heavier since 1980.

GROWING BURDEN ON INDIVIDUAL TAXPAYERS



Department of Finance statistics show that income tax collections from individuals, only about R276 million two decades ago, started to push into orbit in the early 1980s.

PAY INCREASES VERSUS TAX IN PAST TEN YEARS



How increases in income tax collections have stayed ahead of the average pay raises.

side such influential circles as the Reserve Bank, the Federated Chamber of Industries, the National Productivity Institute, the Consumer Council, and some Members of Parliament.

"There is now agreement everywhere that the current tax system has become intolerable in the way it has snuffed out the incentive to work harder, bashed company profits, fuelled inflation, and been one of the major reasons behind the alarming exodus from the ranks of our best talents," agree Mr Nel and his close associate Dr Azar Jammine of Econometrix.

Mr Nel is convinced that inflation would be flattened at lightning speed — inside ...

Upwardly mobile — 'a tax trap' for wage-earners

It sometimes seems that a lot of economists and tax advisers love to display their erudition by using such phrases as "fiscal drag" and "bracket creep".

Taxpayers, says tax consultant Mr Nic Nel, should not allow themselves to be intimidated by all the jargon, which only covers the bald fact that pay increases intended to keep pace with inflation merely pushed the wage-earner into higher marginal tax brackets.

In the end, as shown in surveys conducted by P-E Corporate Services, the net result is that living standards of the majority of workers have shrunk in recent years.

There is no magic formula in describing the chain reaction of pay increases.

NOT WORTHWHILE

Here is a guide to why it may no longer be considered worthwhile to work harder and look for advancement when the taxman is standing in line to collect as much as 47,5 c out of every extra R1 that may be earned if one is pushed to the top rung in the tax ladder:

In 1983 there were only 79 890 South Africans earning more than R35 000 a year in taxable income and thus approaching the super-tax bracket. By the 1984 tax year the total had mushroomed to ...06 960.

...n these two years, the number of tax-payers with incomes between R30 000 and R35 000 soared from 51 125 to 83 267.

The pattern of more tax-payers entering higher marginal tax brackets continues. Since 1984, the upward swing has accelerated — but precise details have yet to be published.

The screens hiding the marginal tax ladder were exposed for thousands of workers when they saw their recent Christmas or New Year bonus cheques.

According to Mr Nic Nel, there will be more disenchantment when workers receive their tax bills on 1987 salary and wage increases.

The snares in the marginal tax ladder can be demonstrated in projections of tax revenues for the 1986/87 year that ends on February 28.

Despite the applause given to the Finance Minister when he announced in the 1986 Budget the abolition of the seven percent surcharge and a five percent discount for individual taxpayers, combined tax payments look likely to soar from little above R8,7 billion to nearly R10,3 billion in the 12 months.

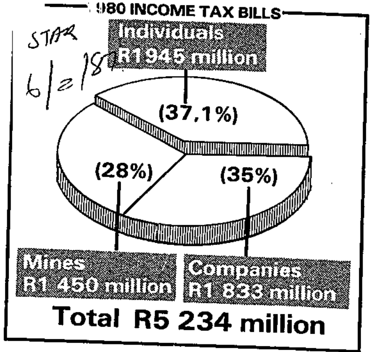
much as 47,5 percent of every rand in earnings above R60 000 a year for married men and above R42 000 a year for single persons. The basic tax rate on companies is 50 percent.

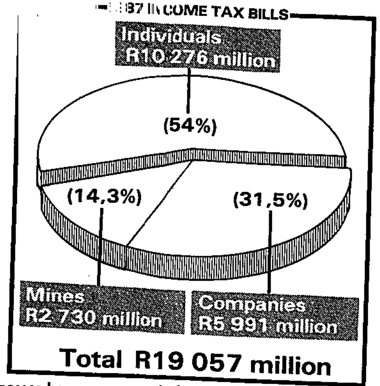
Moreover, the blueprint dangles the promise of the total scrapping of general sales tax if the flat rate on income tax is accompanied by the introduction of what the authors call a transaction tax — a special new tax carrying a miniscule 0,2 percent rate on all transactions, whether it's a housewife cashing a cheque or a business mogul sealing a takeover deal.

That adds new dimensions since GST collections have rocketed from only R655 million in their first year of operation in 1979 to R9 425 million in the current tax year.

The authors of the masterplan, which was handed in to the Margo commission, contend that the 9 percent flat-rate tax and the transaction tax, working in tandem, would more than match the needs of the Government budget, now running at R38 billion a year.

Both rates could be pitched so low because each would be using a far wider and more effective base for tax collections





STAR 6/2/87

Graphs: Nicky Taylor

How the income tax burden on individuals and businesses has grown nearly four-fold since the start of the 1980s — and how an increasing share of the load has fallen on the individual taxpayers.

— and virtually guarantee no tax dodges or evasions.

"What is at stake," it is argued by the blueprint architects, "is a no-nonsense formula that will restore incentive to individuals and businesses to strive harder and give a new kick-start to the economic motors. It should launch South Africa on an entirely new route towards job creation on a massive scale and the demolition of inflation to zero level.

"If the nine percent flat rate on income tax and the supplementary transactions tax work in tandem, there will no longer be the temptation to spend fortunes on tax dodges — and overall Government revenue will be matched rand for rand," Mr Nel argues in a bundle of statistical comparisons.

And the authors argue it should be possible to dismantle what they reckon to be the relatively minor inconvenience of the transaction tax within a few years — five or perhaps 10 years at the outside — as the the flat-rate income tax system proved its full effectiveness.

He has been especially encouraged by the interest shown among high-level contacts in...

"The logic is simple", he insists. "At the moment, manufacturers are forced to add 50 percent to the cost of the articles they produce to do no more than cover company tax. And that is multiplied at every single stage of ultimate delivery to the retail counter.

"Think of the impact if that 50 percent is reduced to 9 percent. And then estimate the growth in consumer demand as lower individual taxes leave families with higher disposable incomes — and the economies of scale open up.

"To accelerate production, factories and offices will need bigger labour forces. To handle higher sales, wholesalers and retailers will need larger staffs. So more and more jobs are created — and more and more taxpayers emerge to bolster national revenues.

"Local institutions and major corporations will be only too keen to steer their investments into domestic business expansion. Overseas investors will also want to return to snatch a piece of the action. The circle of constant economic expansion will be complete — and South Africa will be the envy of its rivals."

Cape Times 7/2/87 (320)

SA's fiscal cure lies in flat 9% income tax rate

A FLAT 9% rate of income tax together with a temporary 0,5% transaction tax, replacing almost every other tax including GST and customs duties, would solve SA's economic problems, says financial consultant Nic Nel.

NEL also suggests that an income tax-based qualified universal franchise system offers the best solution to this country's political problems, with a gradual and peaceful transfer of power to a growing number of black taxpayers.

Nel's suggestions for tax reform, which would simplify the system, encourage investment in industry and commerce and make tax consultants unnecessary — but would mean many poor people paying more — have been submitted to the Margo Commission.

He suggests that the transaction tax should be collected by the banks, which would be rewarded by having the use of the money for the short time between collection and paying it to the authorities.

"The Saswitch or Multinet banking cards present the opportunity for SA to record taxes paid by each individual in the country through the flat rate tax system, in the same way that a national computer system records individual and collective financial and banking transactions."

Suggesting a tax-based universal franchise, he says this would "tie in with the issue of a common identity document in the form of a Saswitch and Multinet compatible plastic card, similar to the Australia Card.

"Clearly the technology is available to introduce this revolutionary system of financially-based democracy."

Pointing out that at present, with black people on the common tax roll, there is the injustice of taxation without representation, he says: "Like everything else, the vote should be earned.

"Logically the cry should be 'no representation without taxation'.

"A tax-based qualified universal franchise system for SA, totally non-racial in its application, can exclude mass hysteria, rabble rousing and mob democracy from the ambit of political suffrage."

It is the tax-payers, he suggests, who have a vested interest in the country's economic and political stability, progress and peace.

They could also stamp out profligacy and wastefulness in governments.

Nats upset: No tax cuts

(320)

W/Argus 7/2/87

By TÓS WENTZEL
Political Correspondent

THE Government is scared of being accused of "buying" voters before the May general election.

That is why it has decided there will be no tax relief or an announcement of public service salary increases in the Part Appropriation Bill being introduced in Parliament on Monday by the Minister of Finance, Mr Barend du Plessis.

The Cabinet — especially President P W Botha — is said to have turned down suggestions for at least a lowering of the sales tax.

Mr Botha is said to have been upset about Opposition taunts that it sought to "buy" votes before an election.

Before the 1981 general election Mr Harry Schwarz, the Opposition's main spokesman on financial matters, said it would be the "vote now, pay later" election.

Medicine

Recently Mr Schwarz said the voters might find that they received the sweets first and the medicine later.

Mr du Plessis and his advisers were apparently considering lowering sales tax to 11 or 10 percent but applying it to fresh food too.

They said in this way poorer people without fridges who use tinned food would benefit.

An announcement of a 12,5 percent pay increase for civil servants may now also be delayed until the main Budget, expected in August.

It appears that all the taxpayers can look forward to on Monday will be an announcement that the 1983 loan levy will be repaid.

According to some financial experts, Mr du Plessis has in any case little in the Treasury to use for tax relief.

Disappointment over 'family' tax

By AUDREY D'ANGELO
Financial Editor

THE Cape Chamber of Industries and the Cape Town Chamber of Commerce are disappointed that the level at which married couples pay the maximum rate of income tax will not be lifted above R60 000 a year.

Both also said last night that they regretted that company tax had not been cut.

And the president of the Chamber of Commerce, Peter Hugo, said the 50% rate of tax paid by closed corporations was "at odds with the stated intention to tax them at the individual rate".

'Stimulatory'

But both saw yesterday's mini-budget as "mildly stimulatory".

Hugo said it could be expected to underpin the economic upturn that was gathering momentum.

Welcoming the increased tax-free allowance for married women, he said this meant the effective maximum rate of tax for a working wife would be 34,8%.

A statement issued by the Economics Committee of the Chamber of Industries said that although there were concessions for individuals "nothing has been done for companies and little has been done to stimulate real investment in the economy".

University of Cape Town economics professor Brian Kantor described the mini-budget as "pretty lack-lustre".

But he thought the tax cuts and other measures which would result in an injection of about R1-billion into the economy would "help quite a lot".

He thought cutting income tax rates to encourage spending was "a sensible thing to do but I think it would have been better for everybody if the Minister had cut sales tax".

The director of the Stellenbosch Bureau for Economic Research, Ockie Stuart, also thought GST should have been cut by 1%, "which would have both improved the economy and brought down the inflation rate."

The repayment of the 1983 loan levy would "collectively make a difference" although the amounts in the hands of each individual consumer would not be very much".

'Greater thrust'

Stuart said he was glad that pressure to freeze prices and incomes had been resisted.

"I am not in favour of control measures because they tend to distort relative prices."

A statement issued by the Federated Chamber of Industries (FCI) said the "increased spending power in the hands of consumers should indeed put greater thrust into the upswing, which will be welcomed by all.

"The chamber can only hope that other actions in the government pipeline will not neutralize the positive effects generated in this budget."

INCOME TAX PAYABLE: 1987 AND 1988

MARRIED UNDER 60

	NO CHILDREN			1 CHILD			2 CHILDREN			3 CHILDREN		
INCOME	1987	1988	Reduction	1987	1988	Reduction	1987	1988	Reduction	1987	1988	Reduction
5 500	—	—	—	—	—	—	—	—	—	—		
6 000	2	—	2	—	—	—	—	—	—	—		
6 500	78	—	78	—	—	—	—	—	—	—		
7 000	154	55	99	59	—	59	—	—	—	—		
7 500	230	130	100	135	30	105	40	—	40	1		
8 000	306	205	101	211	105	106	116	5	111	21	—	21
9 000	458	355	103	363	255	108	268	155	113	173	55	118
10 000	610	505	105	515	405	110	420	305	115	325	205	120
11 000	762	655	107	667	555	112	572	455	117	477	355	122
12 000	914	805	109	819	705	114	724	605	119	629	505	124
14 000	1 263	1 136	127	1 168	1 036	132	1 073	936	137	978	836	142
16 000	1 689	1 544	145	1 594	1 444	150	1 499	1 344	155	1 404	1 244	160
18 000	2 177	2 018	159	2 082	1 918	164	1 987	1 818	169	1 892	1 718	174
20 000	2 704	2 532	172	2 609	2 432	177	2 514	2 332	182	2 419	2 232	187
25 000	4 188	3 994	194	4 093	3 894	199	3 998	3 794	204	3 903	3 694	209
30 000	5 905	5 702	203	5 810	5 602	208	5 715	5 502	213	5 620	5 402	218
40 000	9 951	9 590	361	9 856	9 490	366	9 761	9 390	371	9 666	9 290	376
50 000	14 318	13 831	487	14 223	13 731	492	14 128	13 631	497	14 033	13 531	502
60 000	18 873	18 228	645	18 778	18 128	650	18 683	18 028	655	18 588	17 928	660
80 000	28 367	27 225	1 142	28 272	27 125	1 147	28 177	27 025	1 152	28 082	26 925	1 157
100 000	37 867	36 225	1 642	37 772	36 125	1 647	37 677	36 025	1 652	37 582	35 925	1 657

NB:— (i) The above amounts have been calculated on the basis that the taxpayer's wife has no income and that he has no other dependants.

(2) The standard deductions for medical expenses and rebates for insurance premiums have been allowed more....

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10/2/87

R545m in tax relief

TAX-PAYERS will pay R545m less in direct taxation this year, the Minister of Finance, Barend du Plessis, said yesterday.

He introduced a mini-budget containing over R1 000m in concessions, of which a reduction in the tax rate was the major contributor.

He said this general concession would provide some alleviation of the burden of fiscal drag (or bracket-creep), "and to meet our 1984 commitment that the proceeds from the phasing-in of taxation on fringe benefits would be used for adjustment of income tax tables.

"The continued increase in the amount of tax paid by individuals, in spite of the substantial concessions made in recent years, remains a cause for great concern."

Fiscal drag

Collections were not only increasing in absolute terms, but also as a percentage of the total amount of tax collected from all sources. The cause was without doubt fiscal drag.

Whatever the causes, the problem required to be addressed within the limited means at the country's disposal. No country had found a completely satisfactory solution and such palliatives as there were, involved a substantial sacrifice of revenue.

"However, some relief is possible from time to time."

He therefore proposed a new table of rates with the first band of income taxed at a rate of 15% instead of 16%.

The new rate of tax would apply from March 1, 1987 and would result in a loss of revenue for 1987/88 of R545m. — Sapa

Income Tax Payable: 1987 and 1988

Two-breadwinner Family

Income Husband R	Wife R	1987 R	1988 R	Reduction R
2 000	8 000	336	168	168
5 000	8 000	792	618	174
8 000	12 000	2 079	1 850	229
10 000	12 000	2 597	2 350	247
12 000	10 000	2 704	2 467	237
15 000	10 000	3 566	3 305	261
20 000	12 000	5 761	5 450	311
25 000	12 000	7 694	7 330	364
30 000	12 000	9 780	9 310	470
35 000	12 000	11 959	11 390	569
40 000	15 000	15 225	14 543	682
45 000	15 000	17 505	16 743	762
30 000	30 000	16 137	15 258	879
50 000	15 000	19 817	18 956	861
55 000	15 000	33 192	21 206	986
45 000	25 000	21 242	20 194	1 048
60 000	20 000	26 467	25 200	1 267
45 000	45 000	28 842	27 169	1 673
80 000	20 000	35 967	34 200	1 767
60 000	40 000	34 067	32 175	1 892
80 000	40 000	43 567	41 175	2 392
80 000	60 000	51 167	48 150	3 017
80 000	80 000	58 767	55 125	3 642

'Economy equipped for further growth'

THE SA economy was now better equipped for further growth than it had been in the past few years, the Minister of Finance, Barend du Plessis, said yesterday.

"Seen in general terms, the economy is clearly in a moderate revival phase, which can, with a little push, gradually develop greater momentum," Du Plessis said in his review of the short-term economic situation.

Done better

"A real growth rate of close enough to 1% for the 1986 calender year was achieved," he said.

Some sectors of the economy had done better than others.

It was particularly the real private consumer spending that had shown a noticeable increase in the second half of 1986, while the real fixed investments by public authorities in the fourth quarter also showed an upwards trend.

Total fixed investment in the first half of 1986 had decreased sharply but had since shown only a slight drop — an encouraging trend.

However, the unemployment figures were still high.

Another problem in the economy was the continuing high rate of inflation.

The banking sectors' total advances to the private sector over the year had increased by an estimated less than 5% — well below the inflation rate.

At the same time interest rates had declined relatively sharply.

The broad money supply (M3) had also increased at a much lower rate than the Reserve Bank had provided for in its targets.

"The country's balance of payments over the last two years has performed particularly well," the minister said.

"Final figures for 1986 are not yet available but the present indication is that the surplus is more than R7 billion."

Increased

The Reserve Bank's gross gold and foreign exchange reserves had increased from a low of R3,2 billion at the end of April 1986 to R4,5 billion at the end of December.

In January, these had increased by a further billion rand.

SA's total gold and other exchange reserves were presently at about R6 billion.

Even at its present level, the value of the rand was still promoting greater economic activity through expansion of exports and import substitution. — Sapa

Taxpayers to pay R545m less

330 DD 10/2/87

MR DU PLESSIS

CAPE TOWN — Taxpayers will pay R545 million less in direct taxation this year, the Minister of Finance, Mr Barend du Plessis, said yesterday in the House of Assembly.

He introduced a mini-budget containing over R1 000 million in concessions of which a reduction in the tax rate was the major feature.

He said the concessions would provide some alleviation of the burden of fiscal drag (or bracket creep), "and to meet our 1984 commitment that the proceeds from the phasing in of taxation on fringe benefits would be used for adjustment of income tax tables.

"The continued increase in the amount of tax paid by individuals, in spite of the substantial concessions made in recent years, remains a cause for great concern."

Collections were not only increasing in absolute terms, but also as a percentage of the total amount of tax collected from all sources. The cause was without doubt fiscal drag.

The problem had to be addressed within the limited means at the country's disposal. No country had found a completely satisfactory solution, and such palliatives as there were involved a substantial sacrifice of revenue.

"Some relief is, however, possible from time to time."

He therefore proposed a new table of rates with the first band of income taxed at a rate of 15 per cent instead of 16 per cent. The thresholds would also be raised.

The new rate of tax would apply from March 1, 1987 and would result in a loss of revenue for 1987/88 of R545 million.

He said the R29,10 billion mini-budget was historic in that it was the first time funds for the four provinces had to be voted by means of an Act of Parliament.

From April 1 this year the provinces would be subject to the provisions of the Treasury and Audit Act. This meant that funds would have to be voted for each of the four provinces to put them in a position to carry on with their activities.

He said the measures to stimulate the economy announced in the mini-budget could not be delayed until parliament met after the white election.

There was consensus among economists that there was enough leeway in the economy for stimulation without the danger of excess demand developing and putting pressure on prices and the balance of payments.

"These measures have been determined after taking account of the necessity of a higher economic growth rate, especially to create more jobs, but without creating unnecessary pressure on the current account of the balance of payments or causing inflationary pressure."

The government was trying to provide tax and other relief to the widest possible spectrum of people and to give further stimulus to the economy on a wide front.

Mr Du Plessis said the tax relief he had announced did not conflict with the spirit of the Margo Commission into the country's tax structure.

The "framework" for the coming year would have to wait until the main Budget was delivered, he said.

Mr Du Plessis said the tax free portion of interest income on savings would be increased from the first R500 to R1 000.

Personal saving remained a high priority, particularly when the personal saving ratio was at a low ebb.

He said various incentives had been introduced to make savings worthwhile. Apart from government stock, Post Office savings, and building societies, the first R500 of savings which were not already exempt from tax had been made tax-free.

He now proposed this be increased to R1 000 which would represent a R119 million loss to the state and raise the effective after-tax rate of interest.

He said it was much more difficult for South Africa to repay its international commitments than it was for other countries.

One of the factors to which the South African economy had had to adjust in recent years was an important swing in the attitude of the international banking community away from investment in developed countries in general.

In its annual report for 1986 the International Monetary Fund indicated that nett loans by banks, who represented the most general source of funds against commercial considerations for developed countries, dwindled from $51 billion in 1982 and $14 billion in 1984 to only $3 billion in 1985.

"In a new study of international capital markets which was released in December 1986, the Fund estimates that the developed countries as a group had to pay back a nett amount of R7 billion to the international banking community in the first half of 1986.

"South Africa is therefore not the only country that is coming under pressure to discharge a portion of its outstanding commitments to foreign banks."

Mr Du Plessis said another development which had required economic adjustment was the large-scale capital outflow which had taken place since 1984.

This was partly related to a deterioration in overseas perceptions of the economic situation in the country.

Negative political views on South Africa also contributed to the introduction of compulsory sanctions and disinvestment actions.

He said the economy was now better equipped for further growth than it had been during the past few years.

"Seen in general terms, the economy is clearly in a moderate revival phase, which can, with a little push, gradually develop greater momentum," Mr Du Plessis said in his review of the short term economic situation.

In spite of numerous problems that had to be dealt with, the economy had been in an upward phase from about the middle of 1985.

The revival had started from a low base and had initially been slow, almost coming to a standstill in the first half of 1986.

Since the middle of last year, however, the economy gradually built up steam, and a real growth rate of close to one per cent for the 1986 calender year was achieved, he said.

Total fixed investment during the first half of 1986 had decreased sharply but had since shown only a slight drop, which was an encouraging trend.

Mr Du Plessis said that in spite of these slight improvements, the unemployment figures were still high. The government had taken steps during the last year, at considerable cost, to relieve this problem.

Another problem in the economy was the continuing high rate of inflation, with its increase showing a hike from 16,2 per cent for 1985 to 18,6 per cent for 1986.

The broad money supply (M3) had also increased at a much lower rate than the Reserve Bank had provided for in its targets.

"In spite of serious pressure from abroad, the country's balance of payments over the last two years has performed particularly well," the minister said.

The current account still showed a large surplus, having run to R5,9 billion in 1985, partly as a result of reduced total demand in the economy, which had kept imports at a low level.

"Final figures for 1986 are not yet available, but the present indication is that the surplus is more than R7 billion."

The Reserve Bank's gross gold and foreign exchange reserves had increased from a low of R3,2 billion at the end of April 1986 to R4,5 billion at the end of December.

● The main Budget would be announced on June 3, and would include civil servants' salary increases, Mr Du Plessis said. — Sapa

Today's business

CAPE TOWN — Resumption of second reading debate on the Part Appropriation Bill (mini-budget) in all three Houses. — Sapa

New GST system for liquor from May 1

Cape Post 3/20

CAPE TOWN — A new system of sales tax collection to combat tax evasion by wholesale and retail liquor vendors will become applicable on May 1, the Department of Finance has announced.

Registered vendors will in future have to pay sales tax on acquiring stocks. However, this will not alter the amount due in sales tax on liquor.

The tax paid on stocks, or "input tax", will be credited against ~~sales~~ tax payable in respect of actual liquor sales, defined as "output tax".

The Minister of Finance, Mr Barend du Plessis, was empowered last year by an amendment to the Sales Tax Act to adopt alternative means of collecting tax to combat sales tax evasions

New regulations were published in the Government Gazette on Friday. — Sapa

Avoid euphoria, taxpayers warned

10/2/87 By Michael Chester Star (49) 320

Total tax bills are likely to be higher than ever in the next 12 months, taxpayers were cautioned today by the Econometrix research unit.

It warned taxpayers not to fall into the trap of euphoria over the mini-budget tax concessions.

Dr Azar Jammine, director of the unit, said though the Minister of Finance had trimmed tax rates to absorb part of the impact of fiscal drag, it was inevitable that 1987 pay increases would mean still heavier tax demands on most salary and wage earners.

"The package of concessions will still fail to surmount problems of the steepness of marginal tax ladders or the pace of inflation and within the next six months most taxpayers will find they will be worse off than ever," he said.

"When the initial applause subsides and there is calm analysis of the mini-budget, taxpayers will find that only the higher income groups look likely to benefit and that the buying power of the vast majority of lower and middle income families will be even lower.

"We are now seeing a repeat of the euphoria that first greeted the 1986 Budget when everyone was promised better times from the scrapping of the seven percent surcharge and a five percent discount on individual income tax.

"Taxpayers are advised to review the actual results: the taxes snatched by the Department of Inland Revenue in the 1986/87 year, rather than being less, actually climbed by as much as R1 500 million to a new record.

"Of course, the mini-budget concessions must be welcomed, but all the Minister of Finance has done is extend the 1986 Budget, with none of the bold new moves that are essential to set South Africa on a route to better economic performance."

Johannesburg tax consultant Mr Nic Nel said he was bitterly disappointed that the Finance Minister had not shown more boldness and tackled the concept of a radical new strategy to flatten the marginal tax ladder and introduce a flat-rate of around nine percent for individual and company tax rates.

"Taxpayers will find the Minister is feeding still more fuel to inflation and that by June everyone will be worse off," he said.

● See Page 15.

Loan levies repaid end March

320
10/2/87

PARLIAMENT. — One million taxpayers will receive a total of R287m in loan levies and interest by the end of March.

The Minister of Finance, Barend du Plessis, announced this as part of his economy-stimulating package in his Part Appropriation speech yesterday.

It was a measure which would immediately contribute to an increase in personal disposable income, he said.

The 1983 loan levy would be repaid early and would comprise R210m paid by tax-payers and a further R77m in interest.

"The interest is calculated at 7,5% simple and is not subject to tax, he said. To persons in a higher income bracket this represented an effective rate of 15%.

"It was hoped that it would be possible to make repayment by the middle of next month, but this is unfortunately not so."

The repayment cheques would be issued not later than March 30, he said. — Sapa

First R1 000 interest income is tax-free

THE tax-free portion of interest income on savings is to be increased from the first R500 to R1 000, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Introducing his mini-budget he said that personal saving remained a high priority, particularly when the personal saving ratio was at a low ebb.

He said various incentives had been introduced to make savings worthwhile.

Apart from government stock, Post Office savings and building societies, the first R500 of savings which were not already exempt from tax, had been made tax-free.

He now proposed this be increased to R1 000 which would represent a R119 million loss to the State and raise the effective after-tax rate of interest. — Sapa

Cut discretions

FM 13/2/87

Pierre du Toit is a chartered accountant and advocate. He is a partner with Arthur Andersen & Co.

Undoubtedly the biggest indiscretion in our income tax law is the number of discretions granted the Commissioner for Inland Revenue (not to mention several which involve ministers).

Someone has counted these to exceed 300. That is, there are more than 300 instances where parliament has abrogated its responsibility to pass precise, definitive law; where the already hard-pressed administration is saddled with an uninvited duty to dispense justice instead of administering the law as given to all; and where the entrepreneur, key to our future and already straining under all the uncertainties of business, cannot determine his rights and obligations in terms of clear, precise legal prescription.

In many instances these discretions are not subject to objection and appeal. Unless an aggrieved taxpayer can therefore show that the official involved had not applied his mind to the matter in question, or had acted in bad faith, there is no recourse to the courts. Even then the only remedy generally is for the matter to be referred back to the official.

The Appellate Division (AD) recently, however, confirmed an important protection for the taxpayer in cases where objection and appeal is in fact allowed (CIR v Da Costa — 47 SATC 87). In that case the taxpayer had been issued with additional assessments which had increased the assessed tax burden, and the commissioner had added a penalty of the same amount, over R15 000. On appeal, the Special Income Tax Court replaced the commissioner's discretion with its own and reduced the penalty to R3 000. On the commissioner's appeal, the Ad was at pains to re-emphasise the right of the Special Court "to exercise its own, original, discretion" in overruling the way the commissioner may have exercised a given discretion.

At a time when the battle between fiscus and citizen can be expected to become increasingly intense, it is as well to be reminded that an unfavourably exercised discretion by the commissioner may be reconsidered in full by the Special Court, at least in cases where the Act provides for objection and appeal.

On a practical note, where no right of objection and appeal is granted taxpayers will be wise to study the exact scope of discretion a particular provision grants the commissioner. The writer has recently again come across an instance where only one aspect of an allowance was subject to the commissioner's discretion, yet the assessor treated the claim as if the allowance in total was discretionary.

A last thought for the beleaguered subject of taxation by discretion: if full disclosure is made by a taxpayer and the Revenue official rules on a discretion in writing or an assessment is issued, that discretion cannot be reversed more than two years after the notice or assessment. Where taxpayers have additional assessments issued, say after a comprehensive Revenue audit, it should be remembered that where a discretion is involved the "prescription period" is in fact two, not the usual three, years.

Ultimately, of course, the whole system will be better served by reducing statutory discretions to a minimum, and leaving the formulation of laws with parliament.

(329) FM 13/2/87

THE MINI-BUDGET

Trendy without tendons

In this week's mini-Budget, Finance Minister Barend du Plessis announced a list of personal tax concessions amounting to about R700m. Though he had room to afford more, the general thrust of the proposals was in the right direction. And impatient advocates of supply-side economics will be pleased because it will have a favourable impact — though modest — on economic growth.

What is interesting, is that he could have achieved a similar fiscal impact, and much faster, had he cut GST by 1%. That would have cost R850m and helped the poor more than the rich.

He was wise not to do so. For GST is economically a tax that does not interfere with the creating of wealth by attempting to redistribute income. This could imply that the Margo Commission has recommended a radical change to indirect taxes, possibly a value-added tax.

On the other hand, should authorised (as opposed to modest actual) expenditure shoot ahead, receipts from GST would decline, especially if inflationary pressures reduce.

Du Plessis made no commitment on government spending. Nor did he announce changes to company tax rules, while the much-maligned regional service council imposts are to go ahead. But he sacrificed more than R1 billion revenue for 1987-1988 by tax reductions that will most benefit working married couples with children.

The farmers are to be given a package of R237m in the main Budget, along with news on public service pay increases.

Funding the R1 billion of concessions should not be a problem considering the liquid position of the Exchequer. But much depends on how strong the supply-side stimulus proves to be and whether government spending is allowed to race ahead.

Government spending in 1987-1988 must at least keep up with inflation, which should average at least 15%. So that probably represents the minimum increase.

The absence of changes in company tax in the mini-Budget suggests that on June 3 he will tackle corporate allowances and some questionable tax advantages. Companies that are part of large groups find these advantages by devices such as transfer pricing and favourable tax opportunities in other group companies.

Du Plessis says, correctly, that revised personal tax tables will provide "some alleviation of the burden of fiscal drag." In a realistic, working example (see table), the *FM* calculates that a couple earning R54 400 in 1986-1987 (husband: R36 000; wife: R14 400) will benefit in tax terms, although they will still lose after inflation.

OLD & NEW TAX RATES

Working it out

	1986-87 joint income R	1987-88 (no pay rise) R	1987-88 (14% pay rise) R
Taxable income	50 400	50 400	57 456
Wife's earnings allowance	−2 880	−3 240	−3 694
	47 520	47 160	53 762
Standard deduction	−300	−300	−300
Taxable income	47 220	46 860	53 462
Tax payable	14 841	13 560	16 433
Primary rebate	−880	−920	−920
	13 961	12 640	15 513
Discount 5%	−698	—	—
	13 263	12 640	15 513
After Tax Income	37 137	37 760	41 943

If the couple is given no salary increase in 1987-1988, after-tax income rises just 1,8% to R37 760 — well below expected inflation. PE Corporate Services' preliminary estimate of private-sector increases for 1987 is 14% (based on 1 000 companies). This raises after-tax income by 12,9% to R41 943 — again, below expected inflation.

In detail, the 1983 (personal) loan levy is to be repaid with some R287m expected to be posted to taxpayers before March 31. There is an increase in the portion of a working wife's tax-free income to 22,5% of earnings with a minimum of R2 250, which will cost the fiscus R74m.

Allowed tax-free interest (including building society dividends) is doubled from R500 to R1 000. The cost is not given. Reconstruction of the tax tables, raising thresholds and clipping the top marginal rate from 47,5% to 45%, will cost R545m. Primary rebates for married and unmarried taxpayers are increased marginally.

With SA's tax burden at its highest ever in overall terms, it is difficult to criticise any tax cuts.

Predictably, PFP finance spokesman Harry Schwarz has accused Du Plessis of cutting taxes now to gain electoral advantage. There is no doubt some truth in this, but he could have gained even more advantage had he been bolder in his tax cuts. What a pity he let the opportunity pass.

The mini-Budget asks for R29 billion of additional expenditure for the current fiscal year and for expected disbursements up to November of the new fiscal year. This is against last year's R10 billion, but the delayed main Budget makes comparison inappropriate.

On the broad economic front, preliminary 1986 statistics show that SA had a R6 billion surplus on current account and a R15 billion trade surplus. Du Plessis says the current account surplus has allowed SA's private and public sectors to continue repaying foreign debts, honouring more than R3 bil-

P.T.O

TAX RATES (1987-88)

Married persons

If taxable income does not exceed R12 000 15%.
If taxable income exceeds:

R	R
12 000 but not 13 000	1 800 + 16%
13 000 but not 14 000	1 960 + 18%
14 000 but not 15 000	2 140 + 20%
15 000 but not 16 000	2 340 + 22%
16 000 but not 18 000	2 560 + 24%
18 000 but not 20 000	3 040 + 26%
20 000 but not 22 000	3 560 + 28%
22 000 but not 24 000	4 120 + 30%
24 000 but not 26 000	4 720 + 32%
26 000 but not 28 000	5 360 + 34%
28 000 but not 30 000	6 040 + 36%
30 000 but not 35 000	6 760 + 38%
35 000 but not 40 000	8 660 + 40%
40 000 but not 45 000	10 660 + 42%
45 000 but not 50 000	12 760 + 43%
50 000 but not 60 000	14 910 + 44%
60 000 —	19 310 + 45%

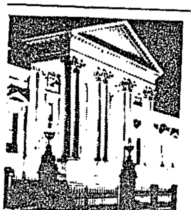
Unmarried persons

If taxable income does not exceed R10 000 15%.
If taxable income exceeds:

R	R
10 000 but not 11 000	1 500 + 16%
11 000 but not 12 000	1 660 + 18%
12 000 but not 13 000	1 840 + 20%
13 000 but not 14 000	2 040 + 22%
14 000 but not 15 000	2 260 + 24%
15 000 but not 16 000	2 500 + 26%
16 000 but not 18 000	2 760 + 28%
18 000 but not 20 000	3 320 + 30%
20 000 but not 22 000	3 920 + 32%
22 000 but not 24 000	4 560 + 34%
24 000 but not 26 000	5 240 + 36%
26 000 but not 28 000	5 960 + 38%
28 000 but not 30 000	6 720 + 40%
30 000 but not 34 000	7 520 + 42%
34 000 but not 38 000	9 200 + 43%
38 000 but not 42 000	10 920 + 44%
42 000 —	12 680 + 45%

Source: Ernst & Whinney

PARLIAMENT



MINI-BUDGET

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Barend apologises for loan levy interest error

By FRANS ESTERHUYSE
Parliamentary Staff

THE Minister of Finance, Mr Barend du Plessis, has admitted an error in his mini-budget speech which could have meant a half-percent loss in loan levy interest for taxpayers.

Mr du Plessis admitted the error and apologised to the House of Assembly after an opposition threat to take the Government to court.

The incorrect figure given in the Minister's mini-budget speech meant that the interest on the 1983 loan levy of R210-million to be repaid to taxpayers would have been a half percent below the interest rate promised by the Government.

The issue was raised by Mr Harry Schwarz (PFP Yeoville), chief opposition spokesman on finance, during yesterday's third-reading debate on the Part Appropriation Bill.

Promised figure

Quoting from Hansard, Mr Schwarz said the Government had promised in 1982 to pay eight-percent interest on the 1983 loan levy.

Yet the figure given by the Minister in his recent mini-budget speech was only 7,5 percent — a half percent less than the promised figure.

"Why is he taking away a half percent? If he tries, we will take him to court," he said.

He added that the Minister would not make a mistake in favour of taxpayers.

Replying, Mr du Plessis said Mr Schwarz was right — the interest rate was eight and not 7,5 percent as stated in the mini-budget speech.

A "very senior official of absolute integrity" had been responsible for the mistake.

"I tender my apology to the House and to the public at large. It was a bona fide mistake. Nobody intended to pinch anything from anybody," Mr du Plessis said.

Sats 'notes the needs of its clients'

Parliamentary Staff

THE South African Transport Services took into account the "needs and preferences" of all its clients, said the Minister of Transport Affairs, Mr Eli Louw.

He was responding to opposition criticism that there was either too much or too little apartheid in Sats.

He said South Africa was in a process of reform. Sats monitored the situation and adapted accordingly.

Reacting to a call by Mr John Malcomess (PFP Port Elizabeth Central) for the removal of racial discrimination from Sats passenger services, Mr Louw accused Mr Malcomess of being "a white radical liberal".

Mr Louw said: "We have direct channels for negotiation with all groups."

TAKEN BY CAR

Reacting to Conservative Party complaints about the "crowding-out" of whites at railway stations, Mr Louw said adaptations were made to ensure that racial clashes would not occur.

Earlier Mr Jan Hoon (CP Kuruman) said there had been racial friction and clashes since Sats did away with apartheid at railway stations.

He told of an incident where whites refused to travel on a Sats bus from Kuruman to Kimberley because there were coloured people on booard.

The whites were then taken by car.

Mr Hoon said Sats should go back to its old policy of racial segregation. This would prevent racial friction.

Argus 17/2/87

Govt denies having manufactured inflation

153 17/2/87 Argus

IT was unfair electioneering to accuse the Government of "manufacturing" inflation, the Minister of Finance, Mr Barend du Plessis, said.

Replying to third-reading debate on the mini-budget, he said there was no clear-cut policy that could address the issue of inflation and eradicate it without causing an enormous number of unpleasant side effects.

"We can kill inflation but we will kill the economy in the process," he said.

SOCIAL WELFARE

If South Africa had a more comprehensive social welfare system the Government would be able to embark tomorrow on a programme to kill inflation, as it would have been able to cope with a much larger unemployment figure.

"I'm prepared to accept the criticism levelled at us for the relatively high rate of inflation. But what are our choices?

"My problem in this job is to reconcile the difference between the demands for equalisation now or in the near future, and the ability of the economy in terms of growth to pay for it."

Mr du Plessis denied that the mini-budget was a "blank cheque" for Government spending. Opposition members should not be too sure that the Government was not getting departmental expenditure under firm control.

Mr Derrick Watterson

Earlier, Mr Derrick Watterson (NRP Umbilo) said he wondered whether inflation was "deliberately being maintained" by the Government for its own purposes.

One advantage of such a move to the Government was that inflation eased the balance of payments situation by making imports expensive and exports more attractive to overseas buyers.

Mr Watterson said he believed there was no hope of inflation decreasing under the present "bloated bureaucracy" which would increase with the new Regional Services Councils. — Sapa.

'Squeegee affair harms SA'

Parliamentary Staff

THE Squeegee banning incident and the "local option" it represents have been condemned as "ridiculous" in the House of Representatives.

The Rev Allan Hendrickse, chairman of the Ministers' Council for the house, said the banning of Nkululeko Skweyiya from the school athletics at Menlo Park would "harm the relationship among all South Africans and destroy existing goodwill".

It gave "credence and ammunition to our critics who say reform is meaningless".

He commended the Minister, Mr Stoffel Botha, for his statement condemning the action.

"But I also want to draw the attention of the National Party to the ridiculousness of what they term the "local option'."

argus 17/2/87

BDay 19/2/87

R50m down the drain in GST fiddle

(320)

LINDA ENSOR

THE STATE is estimated to have lost as much as R50m in GST because of South African car-owners who registered their vehicles in Bophuthatswana.

Inland Revenue is investigating 3 000 suspected cases which, at an average GST of R6 000 on a R50 000 vehicle, means a loss of about R18m.

These are estimated to be only a third of the 9 000 cars involved in the cross-border racket.

A senior Inland Revenue spokesman said in Cape Town yesterday he was confident most of the 3 000 suspected vehicles had been illegally registered in Bophuthatswana because they had been regularly spotted outside homes in SA — particularly in Pretoria and Johannesburg, but also as far afield as Cape Town.

He said it was illegal to register a vehicle in Bophuthatswana if the purpose was to evade tax. Vehicles bought there were subject to GST when they were "imported" into SA.

With penalties of 10% a month on the GST which should have been paid, owners of ten-month-old vehicles would have to pay double tax, if caught, he said.

Those who had given false home addresses in Bophuthatswana, or had obtained trading licences for non-existent businesses, would be prosecuted for fraud, the spokesman said.

The department would be taking a hard line with those found guilty.

Its staff of 6 000 countrywide had been active in efforts to net the culprits. Six months ago they were instructed to report on those addresses where cars bearing Bophuthatswana registration plates

● To Page 2

R50m goes down the drain in GST fiddle

● From Page 1

were regularly seen.

Local and provincial traffic officers joined the operation from the beginning of January.

The spokesman would not disclose the two other methods being used to catch evaders and he refused to comment on whether the co-operation of the Bophuthatswana authorities had been obtained under the double-tax agreement with SA.

Once Revenue has details of suspected vehicles, it examines the tax records of the owners, "makes inquiries", and then either goes to see them or calls them in to the local office.

And if no objection is lodged by the suspected evader assessments are raised.

Too few in SA bear too much

AHI chief calls for meaningful tax reform

Finance Staff

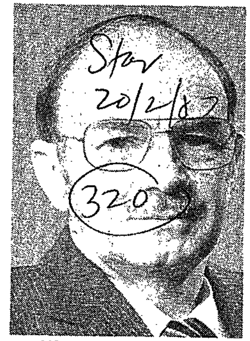
A strong plea for meaningful tax reform which will remove the excessive burden from a minority of the population has been made by the President of the Afrikaanse Handelsinstituut and senior general manager of Saambou National Building Society, Mr Christie Kuun.

Speaking at the annual dinner of the Oudtshoorn Afrikaanse Sakekamer, he said it was essential in a developing economy that there should be a redistribution of income to reward all participants in the economy for their initiatives. This, however, must take place on merit and on the basis of economic input and not out of pity or possibly a guilt complex.

If the redistribution took place for the latter reasons, a situation would soon arise where there was nothing left to distribute.

Mr Kuun said there were clear indications that rationalisation could be expected in the tax structure. Efforts to reform taxation had originated from the fact that personal tax, particularly the contribution by whites, placed an extraordinarily high burden on the individual. The Government would not like this to continue, but the situation had arisen from the concept of taxation by inflation.

If this problem were not addressed in the June Budget, it would rapidly lead to the erosion of real income for the public.



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MR CHRISTIE KUUN . . . "erosion of real income."

Mr Kuun said that although a revival in economic activity could be expected, this should not be misconstrued as a solution for all problems. Growth cycles in the economy were becoming shorter while the deviation phases were tending to become longer.

However, all things considered, he beleived external factors were at work which could make their impact on the economy softer by the end of the century. Among these factors were the efforts towards greater co-operation between government and the private sector, the expressed policy in favour of a free-market economy, the programme of regional development as announced during the Good Hope summit, and the efforts to establish a new political dispensation and better employment of the labour potential of all South Africans.

Taxation must be one of the most talked-about subjects in South Africa. Recently the Government appointed the Margo Commission to investigate all aspects of the present tax structure. This report has now been completed and will be handed to the Government soon. The Star has asked several tax experts for their views on the South African tax structure, its inadaquecies and deficiencies, and canvassed their suggestions on how it can be improved. This series will start on Monday.

The difficulties of the current situation required that businessmen be informed at all levels. It was important, Mr Kuun said, that South Africa had a sound and strong economy, and this in turn depended on the effectiveness of its business undertakings.

It was the duty of every businessman to make his contribution by utilising opportunities, eradicating unsound tendencies and putting efficiency first at all times.

R50m in tax lost in cross border racket

Dispatch Correspondent

JOHANNESBURG — The state is estimated to have lost as much as R50 m in GST as a result of South African car-owners registering their vehicles in Bophuthatswana.

Already Inland Revenue is investigating 3 000 suspected cases which at an average GST of R6 000 each for a R50 000 vehicle, means a loss of about R18 m.

And these are estimated to be only a third of the total of 9 000 cars involved in the cross-border racket.

A senior Revenue spokesman said in Cape Town yesterday he was confident that most of the 3 000 suspected vehicles had been illegally registered in Bophuthatswana because they had been regularly spotted outside homes in South Africa — particularly in Pretoria and Johannesburg, but also as far afield as Cape Town.

According to the spokesman it is illegal to register a vehicle in Bophuthatswana if the purpose is to evade tax. Vehicles bought there are also subject to GST when they are "imported" into South Africa.

With penalties running at 10 per cent a month of the GST which should have been paid, 10-month old vehicle owners caught out by Revenue, will have to pay double tax.

As two-thirds of the pin-pointed vehicles are luxury cars and about 10 per cent heavy vehicles, these penalties are likely to be stiff.

In addition, those who have given false home addresses or obtained trading licences for non-existent businesses in Bophuthatswana, will be prosecuted for fraud, the spokesman said.

Six months ago, revenue's staff of 6 000 countrywide were instructed to report on those addresses where cars with Bophuthatswana registration plates were regularly seen.

Local and provincial traffic officers joined the operation from the beginning of January.

Once Revenue has details of suspected vehicles, it examines the tax records of the owners, and either goes to see them or calls them in to the local office.

And if no objection is lodged by the suspected evader assessments are raised

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New tax upsets print industry

DD 21/2/87

Dispatch Correspondent

JOHANNESBURG — The South African paper and print industries have been thrown into confusion by a government move which has seen a 15 per cent import duty slapped on carbonless paper.

Printers now fear cost pressures which they can't pass on, while importers say the state is protecting a lone manufacturer, Nampak Paper, and inflating prices.

But Nampak says it can't make enough profit at present prices to expanding to meet local demand.

Paper importers Wiggins Teape say Nampak already has a 20 per cent price cushion over imports and cannot meet more than half the local demand.

The managing director of Wiggins, Mr Derek Smith says: "Over 50 per cent of requirements will have to be imported at the inflated level".

A 15 per cent duty already existed on the top sheet of the paper which is sold in triplicate. The row erupted after the Board of Trade extended a further 15 per cent duty to the middle and bottom sheets.

But the Nampak managing director of Nampak, Mr Ian Cameron, says importers have about four months stock left.

"So I don't see any need for immediate price increases. Sure it will affect many people, but it won't affect anyone supporting us."

Politics, not economics, dictate the tax imbalance

Star 23/2/87

The tax burden on individuals in the last six years has risen out of all proportion, while company tax as a proportion of total tax revenue has shown a steady decline. In this article, the first in a series on taxation written exclusively for The Star, Mr MICHAEL STEIN, of Divaris Stein Publishers, argues that hopes of dramatic tax reform are more fanciful than fact.

I believe that while our income-tax law is essentially sound and well-developed, the politicians have allowed serious and fundamental problems to develop in its administration.

The most serious of these problems lies in the relationship between income-tax collections from individuals and those from companies. The published figures reveal the magnitude of the problem.

In the 1980 fiscal year, income-tax collections from all companies, including the mines, exceeded collections from individuals by 68,8 percent. Companies paid R3 283 million while individuals paid only R1 944 million.

In the current fiscal year, which will end on March 31, 1987, the revised estimated collections from individuals are expected to amount to a whopping R10 276 million, while the collections from companies are expected to be R8 430 million.

In other words, collections from individuals are expected to exceed those from companies by as much as 21,9 percent. In the past seven years, therefore, there has been an incredible increase in the proportionate tax burden borne by individuals.

And the sad fact is that in the 1983 fiscal year (the latest year for which I have figures available) individual taxpayers earning more than R20 000 a year — about 288 000 taxpayers in all, or 13 percent of individual taxpayers — paid more income tax than all companies, including the mines.

How has this manifestly unfair situation arisen, when the Minister of Finance has been making adjustments to the individual tax tables each year and the company rate of tax has been slowly but steadily increased over the last few years?

The answer is that the progressive tax system, coupled with inflation, has become the greatest and most reliable ally of the tax collector in South Africa.

While there have been tiny adjustments in the tax rates for individuals in the last few years, many individuals have been pushed into higher tax brackets purely through inflation.

As taxable incomes have increased in nominal (but scarcely in real) terms, individuals have been called upon to pay bigger and bigger proportions of their taxable incomes in tax. On balance, the adjustments to tax rates have fallen far short of what has been needed even to begin to compensate for inflation.

Small wonder then that in the fiscal year that will end next month, tax collections from individuals have been budgeted to grow by as much as R1 756 million, or 20,6 percent, despite the introduction of the 5-percent tax discount and the generous increase in the wife's earnings allowance last year.

Why have tax collections from companies not grown apace?

Firstly, companies are not taxed on a progressive basis and so do not pay a higher rate of tax purely because of an increase in their taxable income; secondly, because companies are the principal beneficiaries of the various tax concessions that have eroded the corporate tax base.

While the normal rate of company tax is at present 50 percent of taxable income, the true rate of tax that companies pay as a percentage of their reported accounting profits is, for many companies, very much lower.

Apparently, the true national average corporate rate of tax is nearer to 20 percent than 50 percent. And, although a previous Minister of Finance pointed out this anomaly and indicated that tax concessions or expenditures would be phased out, virtually nothing has happened since.

It is true that the investment allowances for manufacturers have been eliminated, but they have been replaced by generous initial allowances. And at the same time new concessions have been created, such as the notorious sponsorship allowance.

As a result, collections from companies have grown relatively slowly.

There is a solution to the problem — at least in theory.

The authorities must phase out the various tax concessions so that taxable incomes approximate more closely to accounting profits and apply the revenue generated towards a major revision of the individual tax tables.

I that this is theoretically possible, but I doubt whether it is politically feasible. It will require the withdrawal from a host of powerful, vested business interests of all their hard-won concessions.

And, I regret, it will take a courageous, or foolish, politician to antagonise the manufacturer, hotelier, co-operatives, farmers, exporters, mines and other major beneficiaries of the tax concessions in order to appease the relatively small and politically weak group of taxpayers in the private sector who bear the bulk of the nation's tax burden.

True tax reform, then, in my view, is more fanciful than feasible.

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I wish to point out to hon members that should the above-mentioned figures be brought into perspective, it will be noticed that crime tendencies fluctuate. In some instances crime reflects drastic increases and in others it reflects similar decreases. Crime tendencies differ from one area to another, while the population density is also an important contributing factor. Increases in crime can mainly be ascribed to:

(a) The economical recession,

(b) resulting unemployment; and

(c) the abuse by criminal elements of unrest situations to commit crime.

The increase in crime is an universal tendency, and even causes great concern during international crime conferences.

Durban South: offences

182. Mr P H P GASTROW asked the Minister of Law and Order:

How many cases of *(a)* murder, *(b)* culpable homicide, *(c)* assault with intent to do grievous bodily harm, *(d)* common assault, *(e)* rape, *(f)* burglary of business premises, *(g)* burglary of residential premises, *(h)* robbery with aggravating circumstances, *(i)* robbery, *(j)* common theft, *(k)* theft of vehicles and cycles, *(l)* possession of drugs and *(m)* dealing in drugs were reported at each specified police station in the Durban South police district of the Port Natal Division in 1986?

The MINISTER OF LAW AND ORDER:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
Amanzimtoti	95	35	266	174	38	121	349	115	—	1 795	192	—	—
Isipingo	112	21	477	320	51	93	160	51	160	1 059	162	1	—
Montclair	96	26	181	384	46	128	209	103	72	977	218	—	—
Umbumbulu	113	22	144	52	25	5	144	45	33	145	8	—	—
Umlazi	228	54	677	1 341	144	60	274	22	391	1 297	170	—	1
Wentworth	23	1	131	472	18	31	150	57	42	583	101	—	—
Brighton Beach	17	6	62	199	5	183	264	28	26	920	163	—	—

Note: Statistics are furnished for the period 1 July 1985 until 30 June 1986. Because statistics for the period 1 July 1986 until 31 December 1986 are not yet programmed, particulars for this period are not readily available.

I wish to point out to hon members that should the above-mentioned figures be brought into perspective, it will be noticed that crime tendencies fluctuate. In some instances crime reflects drastic increases and in others it reflects similar decreases. Crime tendencies differ from one area to another, while the population density is also an important contributing factor. Increases in crime can mainly be ascribed to:

(a) The economical recession,

(b) resulting unemployment; and

(c) the abuse by criminal elements of unrest situations to commit crime.

The increase in crime is an universal tendency, and even causes great concern during international crime conferences.

Hansard

Training of policemen/women

183. Mr G B D McINTOSH asked the Minister of Law and Order:

(1) *(a)* How many colleges for the training of (i) policemen and (ii) policewomen are there in the Republic, *(b)* where are they located in each case, *(c)* how many (i) Whites, (ii) Coloureds, (iii) Asians and (iv) Blacks are on the teaching/instructor staff of each of these colleges and *(d)* in respect of what date is this information furnished;

(2) how many *(a)* Whites, *(b)* Coloureds, *(c)* Asians and *(d)* Blacks were trained at each of these colleges during the latest specified 12-month period for which information is available?

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The MINISTER OF LAW AND ORDER:

(1) *(a)* (i) and (ii) 4 colleges.

(b) Pretoria.
Bishop Lavis, Cape Town.
Wentworth, Durban with additional accommodation at Cato Manor.
Hammanskraal.

(c) (i) 228 members.

(ii) 27 members.

(iii) 12 members.

(iv) 85 members.

(d) 9 February 1987.

(2) *(a)* 4 233 members.

(b) 696 members.

(c) 264 members.

(d) 2 412 members.

Randburg: crimes

Hansard

184. Mr D J DALLING asked the Minister of Law and Order:

23/2/87

How many cases of *(a)* murder, *(b)* culpable homicide, *(c)* assault with intent to do grievous bodily harm, *(d)* common assault, *(e)* rape, *(f)* robbery, *(g)* theft of vehicles and cycles, *(h)* damage to property, *(i)* housebreaking with intent to steal and theft and *(j)* possession of drugs were reported at each specified police station in the Randburg police district in 1986?

The MINISTER OF LAW AND ORDER:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Randburg	43	25	172	476	49	242	1 468	498	3 430	—
Alexandra	116	8	451	274	69	161	97	359	62	—
Bramley	31	44	57	154	15	547	1 249	383	1 250	—
Halfway House	12	41	44	50	13	36	159	62	676	—
Sandton	13	34	73	225	25	113	951	255	1 649	—

Note: Statistics are furnished for the period 1 July 1985 until 30 June 1986. Because statistics for the period 1 July 1986 until 31 December 1986 are not yet programmed, the particulars for this period are not readily available.

I wish to point out to hon members that should the above-mentioned figures be brought into perspective, it will be noticed that crime tendencies fluctuate. In some instances crime reflects drastic increases and in others it reflects similar decreases. Crime tendencies differ from one area to another, while the population density is also an important contributing factor. Increases in crime can mainly be ascribed to:

(a) The economical recession,

(b) resulting unemployment; and

(c) the abuse by criminal elements of unrest situations to commit crime.

The increase in crime is an universal tendency, and even causes great concern during international crime conferences.

General sales tax

23/2/87

185. Mr B B GOODALL asked the Minister of Finance:

Hansard

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 1986-87 financial year as at the latest

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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 1986 to 31 October 1986 was as follows:

			R
(i)	Building and Construction		711 659
(ii)	Retail		2 897 087 501
(iii)	Wholesale		871 164 179
(iv)	Manufacturing		822 189 247
(v)	Services: Business	R366 520 096	
	Personal	R 35 277 278	401 797 374
(vi)	Other: Agriculture and Mining		46 308 664
	Catering and Accommodation		183 278 425
	Advertising		67 116 443
	Unclassified		2 158 678
	TOTAL		5 291 812 170

Citizen Force/Commandos

190. Mr B B GOODALL asked the Minister of Defence:

How many (a) Whites, (b) Coloureds, (c) Asians and (d) Blacks were rendering voluntary service in the (i) Citizen Force and (ii) Commandos as at 31 December 1986?

The MINISTER OF DEFENCE:

It is policy not to divulge personnel strengths. The information, expressed as a percentage of the number of volunteers of the population group in the relevant forces, is however as follows:

		(i)	(ii)
(a)	Whites	75.27	86.75
(b)	Coloureds	24.73	8.53
(c)	Asians	—	2.18
(d)	Blacks	—	2.54

Resettlements

191. Mr E K MOORCROFT asked the Minister of Constitutional Development and Planning:

23/2/87

(a) What total number of Black persons in the Republic was resettled in 1986, (b) (i) from what places were they removed, and (ii) in what places were they resettled, and (c) for what reasons were they resettled, in each case?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

The figures furnished in this reply do not include figures given in reply to question 63.

(a) 61 228.

(b)

(i)	(ii)
Kabah/Langa	KwaNobuhle
Oukasie (Brits)	Lethlabile
Ennerdale	Soweto
Dalmany	Avon-Innes

(c) People from Kabah, Langa and Oukasie near Brits were resettled on a voluntary basis due to the fact that they were living in unhygienic squatter conditions, whilst those from Ennerdale were living in a Coloured group area. In respect of Dalmany they were resettled as a result of implementation of consolidation proposals.

Hansard

Resettlements

192. Mr E K MOORCROFT asked the Minister of Education and Development Aid:

(a) What total number of Black persons in the national states was resettled in 1986, (b) (i) from what places were they removed, and (ii) in what places were they resettled, and (c) for what reasons were they resettled, in each case?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(a) and (b) The power to settle Blacks in the self-governing territories vests in the governments of the territories concerned. The Department of Development Aid has no information regarding such settlement actions, but, at the request of the heads of the families themselves, resettled 764 families from Moutse, KwaNdebele, in the Immerpan/Saliesloot area, which is later to be incorporated within Lebowa.

Decentralisation Board

195. Mr A SAVAGE asked the Minister of Constitutional Development and Planning:

(1) How many applications were made to the Decentralisation Board during 1986 or the latest specified period for which figures are available;

(2) (a) how many applications (i) were approved and (ii) failed to meet the requirements and (b) what was the value of the applications in each category;

(3) (a) how many employment opportunities were created in consequence of the approved applications that had been finalised and (b) what estimated number of employment opportunities will be created in consequence of such applications;

(4) what was the total (a) number and (b) value of the applications involving foreign investors?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) The Board received 843 applications for the period 1 April 1986 to 31 December 1986.

(2) (a) (i) 765 applications were approved and 16 were held back pending clearance of certain policy guidelines or obtaining further information from the applicant;

(ii) 62.

(b) The proposed capital investment in respect of the applications in each category is as follows:

Approved—R839,3 million.
Held back—R13,5 million.
Not approved—R111,6 million.

(3) (a) Since it can take up to two years for a project to be physically established and real employment determined only after the industrialist's first quarterly claim is submitted to the Decentralisation Board, it is not possible to furnish particulars of employment opportunities created in respect of the applications approved for the above-mentioned period.

(b) The proposed employment creation in respect of applications received and approved is 53 515.

(4) (a) 37.

(b) A proposed capital investment of R80 million.

Abuse of Dependence-producing substances and Rehabilitation Centres Act

196. Dr M S BARNARD asked the Minister of Law and Order:

(1) Whether any persons were detained in 1986 for interrogation in terms of

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ported during the (i) period 1 January to 31 December 1986 and (ii) last specified 12-month period for which figures are available and *(b)* in how many cases were recoveries made in respect of each of these periods?

The MINISTER OF LAW AND ORDER:

(a) (i) and (ii) 131 033 cases for the period 1 July 1985 until 30 June 1986.

(b) Because of the extent of the work involved in the compilation of the statistics, the particulars are not readily available.

Note: Because statistics for the period 1 July 1986 until 31 December 1986 are not yet programmed, the particulars for the period are not readily available.
The increase in this crime can mainly be ascribed to:

(a) the increase of motor vehicles especially among the coloured and black populations in the Republic, while the necessary storage facilities are not always available.

(b) the fact that individuals increasingly neglect to secure their vehicles against burglaries and also unnecessarily leave lose articles in their vehicles.

Hillbrow/Norwood/Lombardy: offences

103. Mr H H SCHWARZ asked the Minister of Law and Order:

How many cases of *(a)* murder, *(b)* culpable homicide, *(c)* assault with intent to do grievous bodily harm, *(d)* common assault, *(e)* rape, *(f)* robbery, *(g)* theft of vehicles and cycles, *(h)* damage to property, (i) housebreaking with intend to steal and theft and *(j)* possession of drugs were reported at each specified police station in (i) Hillbrow, (ii) Norwood and (iii) Lombardy in 1986?

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The MINISTER OF LAW AND ORDER:

	(a)	*(b)*	*(c)*	*(d)*	*(e)*	*(f)*	*(g)*	*(h)*	*(i)*	*(j)*
Hillbrow	42	18	211	934	86	491	5 131	783	2 548	—
Norwood	11	11	58	120	14	114	1 170	234	974	—
Lombardy-East	9	5	24	68	4	77	578	150	645	—

Note: The particulars are furnished for the period 1 July 1985 until 30 June 1986, because the statistics for the period 1 July 1986 until 31 December 1986 are not yet programmed and therefore the particulars are not readily available.

I wish to point out to hon members that should the above mentioned figures be brought into perspective, it will be noticed that crime tendencies fluctuate. In some instances crime reflects drastic increases and in others it reflects similar decreases. Crime tendencies differ from one area to another, while the population density is also an important contributing factor. Increases in crime can mainly be ascribed to:

(a) the economical recession,

(b) resulting unemployment; and

(c) the abuse by criminal elements of unrest situations to commit crime.

The increase in crime is an universal tendency, and even causes great concern during international crime conferences.

GST

104. Mr H H SCHWARZ asked the Minister of Finance:

Whether he intends *(a)* reducing and *(b)* effecting any other changes to general sales tax; if not, why not; if so, (i) what *(aa)* reductions and *(bb)* changes and (ii) when?

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The MINISTER OF FINANCE:

(a) No.

(b) No major changes are envisaged. As I mentioned in my Second Reading Speech, in the House of Assembly on Monday, 9 February 1987, due to the fact that the Margo Commission has made recommendations with regard to indirect taxation, it would be inopportune to propose substantive changes in general sales tax until such time as the recommendations have been considered.

It may, nevertheless, be necessary to propose certain technical amendments in the customary Sales Tax Amendment Bill which will be introduced later in the year.

(i) and (ii) Fall away.

Decentralisation/deconcentration benefits

105. Mr H H SCHWARZ asked the Minister of Constitutional Development and Planning:

23/2/87

What was the total amount paid out in respect of decentralisation or deconcentration benefits from 1 February 1986 to 31 January 1987? Hansard

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

R463 000 000.

Films

106. Mr H H SCHWARZ asked the Minister of Economic Affairs and Technology:

(1) What amounts were paid in subsidies in the 1985-86 financial year in respect of films in *(a)* Afrikaans, *(b)* English and *(c)* the Black languages;

(2) in respect of how many films in each language were these subsidies paid?

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

(1)	*(a)*	Afrikaans	R2 221 966
	(b)	English	R1 250 580
	(c)	Black languages ...	R5 574 349
			R9 046 895

Note: The amounts were paid in respect of films released during the 1985-86 financial year as well as in respect of films released during previous years but which still qualified for the subsidy.

(2)	*(a)*	Afrikaans	13
	(b)	English	4
	(c)	Black languages	129

Browne Commission

109. Dr W J SNYMAN asked the Minister of National Health and Population Development:†

(1) Whether certain bodies or persons have been requested to comment on and make recommendations in regard to the report of the Browne Commission; if so, when;

(2) whether the Government intends making its decisions in this connection known after these comments and recommendations have been received; if so, *(a)* when is it anticipated that the decisions will be made known and *(b)* in what manner will this be done?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) Yes, during February 1987.

(2) The Government will consider further steps at an appropriate time depending on the comments received.

To give perspective to the figures the following particulars are furnished:

69 persons were killed by members of the Security forces.

22 persons were killed by members of Municipal Police forces.

This represents 91 deaths by law enforcement institutions.

12 members of the security forces were killed and 201 persons were killed by other persons, and I draw attention to the fact that virtually without exception, these deaths were caused by radicals.

Unrest

81. Mr R R HULLEY asked the Minister of Law and Order:

(1) With regard to 1986, *(a)* what total number of persons was (i) killed and (ii) injured in unrest, *(b)* how were they killed or injured in each case, *(c)* how many persons were killed or injured by members of the South African Police acting in the course of duty and *(d)* how many, persons were killed or injured by gunshots;

(2) whether any members of the South African Police were *(a)* killed and *(b)* injured in unrest in 1986; if so, (i) how many and (ii) what was the cause of death or injury in each case?

The MINISTER OF LAW AND ORDER:

(1) I refer the honourable member to my oral reply to question number 2 on 17 February 1987 and my reply to written questions numbers 25 and 74 which is suffice.

(2) Yes.

(a) (i) 27 members.

(ii) As result of a variety of causes inter alia necklace murders, attacks with firearms, pangas, axes, hand grenades, petrol bombs and burnings.

(b) (i) 185 members.

(ii) As result of the same reason mentioned in paragraph *(a)* (ii).

Note: The attention of the honourable member is drawn to the fact that the figures mentioned in paragraph 2 *(a)* (i) and *(b)* (i) are, over and above the deaths and injuries which occurred during attempts by the South African Police to contain rioting and to which written question number 59 refers.

Internal Security Act

82. Mr R R HULLEY asked the Minister of Law and Order:

(1) With regard to 1986, *(a)* what total number of persons was detained under the Internal Security Act, No 74 of 1982, for reasons related to unrest, *(b)* in terms of what section of this Act was each detained and *(c)* for how long was each person held in detention;

(2) whether any persons so detained were *(a)* charged and *(b)* convicted; if so, how many in each case?

The MINISTER OF LAW AND ORDER:

(1) *(a)* 3 512.

(b) Section 50 of the Internal Security Act, 1982.

(c)

Persons	Days
1 060	1
193	2
18	3
13	4
94	5
38	6
89	7

23/2/87 Hansard

(c)

Persons	Days
69	8
79	9
78	10
84	11
97	12
1 047	13
553	14

These persons were detained in terms of section 50 before 12 June 1986. Some of them were detained in terms of Regulation 3 (1) of the Emergency Regulations since 12 June 1986 when the State of Emergency was promulgated in terms of the Public Safety Act, 1953.

(2) Yes.

(a) 159 persons.

(b) 21 persons.

Note: I wish to draw the attention of the hon member to the fact that section 50 of the Internal Security Act, 1982 and section 3 (1) of the Emergency Regulations are preventative of nature to combat situations of public unrest and riots.

Alexandra Township

83. Mr D J DALLING asked the Minister of Constitutional Development and Planning:

23/2/87 Hansard

(1) Whether any families living in Alexandra Township, Johannesburg, are in arears with rental payments; if so, *(a)* how many families are (i) in arrears and (ii) up to date with their rental payments and *(b)* what is the extent of the arrears in rental payments in this township;

(2) in respect of what date is this information furnished?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) Yes.

(a) (i) approximately 15 000.

(ii) approximately 500.

(iii) R1,9 million.

(2) 31 December 1986.

23/2/87 Tax 320

86. Mr H H SCHWARZ asked the Minister of Finance:

Hansard

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 1986?

The MINISTER OF FINANCE:

The total cost of the tax concessions granted to these industries during the 1985-'86 financial year is estimated at:

R47 735 951—Companies.
R 33 238—Individuals.

General sales tax

87. Mr H H SCHWARZ asked the Minister of Finance:

(a) How many cases of irregularities in respect of general sales tax have been discovered since 1 January 1986, *(b)* what is the amount of tax involved and *(c)* in respect of what date is this information furnished?

The MINISTER OF FINANCE:

(a) 8 893.

(b) R97 161 007.

(c) For the period 1 January 1986 to 31 December 1986.

Taxpayers

88. 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 1985-86 tax year and (b) what percentage of each group of taxpayers is Black?

The MINISTER OF FINANCE:

(a) and (b) (i) and (ii)

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	8 180	0,45	0,00
Nil	36 003	4,54	0,00
0— 1 000	15 394	10,67	0,00
1 001— 2 000	18 866	11,30	0,00
2 001— 3 000	19 570	17,61	0,00
3 001— 4 000	26 572	21,90	0,00
4 001— 5 000	35 551	21,44	0,03
5 001— 6 000	42 118	22,39	0,08
6 001— 7 000	50 347	20,59	0,17
7 001— 8 000	60 025	19,04	0,32
8 001— 9 000	66 971	19,64	0,53
9 001— 10 000	69 143	19,16	0,76
10 001— 11 000	65 573	17,23	0,94
11 001— 12 000	60 279	12,49	1,10
12 001— 13 000	54 041	10,34	1,21
13 001— 14 000	49 881	8,02	1,34
14 001— 15 000	46 569	6,50	1,49
15 001— 16 000	45 156	4,93	1,69
16 001— 17 000	44 273	3,74	1,91
17 001— 18 000	42 487	2,86	2,09
18 001— 19 000	41 071	2,69	2,28
19 001— 20 000	39 675	2,08	2,45
20 001— 25 000	174 616	1,01	14,31
25 001— 30 000	128 287	0,48	15,45
30 001— 35 000	81 751	0,25	13,45
35 001— 40 000	47 525	0,19	10,14
40 001— 45 000	26 187	0,22	6,94
45 001— 50 000	14 776	0,18	4,68
50 001— 60 000	13 927	0,19	5,42
60 001— 70 000	5 528	0,16	2,75
70 001— 80 000	2 938	0,17	1,78
80 001— 90 000	1 642	0,12	1,17
90 001—100 000	1 077	0,19	0,89
100 001—150 000	2 031	0,20	2,18
150 001—200 000	543	0,00	0,87
200 001—250 000	184	0,00	0,38
250 001+	305	0,33	1,18
TOTAL:	1 439 062	100,00	100,00

Note:
(1) The statistics above do not include taxpayers under the final Deduction System.
(2) The statistics are not complete because ± 35 per cent of individual taxpayers have not yet been assessed.

Company tax

89. 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 each month of 1986?

The MINISTER OF FINANCE:

1986	Mining	Non-mining
January	1 896 646	666 790 587
February	1 100 239 075	209 308 561
March	69 397 403	323 992 030
April	42 710 786	402 288 584
May	373 086 421	53 079 477
June	129 013 942	592 834 131
July	50 382 795	889 197 892
August	746 443 341	171 028 269
September	12 559 855	482 478 399
October	129 546 709	606 093 398

The figures for November and December have not yet been finalised.

Taxpayers

90. Mr H H SCHWARZ asked the Minister of Finance:

How many taxpayers in each income category in respect of the 1985-86 tax year were *(a)* White, *(b)* Coloured, *(c)* Indian and *(d)* Black?

The MINISTER OF FINANCE:

Taxable Income Group	(a) White	(b) Coloured	(c) Indian	(d) Black
Loss	7 845	150	148	37
Nil	28 330	3 643	2 396	1 634
0— 1 000	10 786	1 999	967	1 642
1 001— 2 000	12 603	2 989	1 143	2 131
2 001— 3 000	10 887	4 020	1 216	3 447
3 001— 4 000	12 461	6 629	1 663	5 819
4 001— 5 000	16 826	8 705	2 397	7 623
5 001— 6 000	20 343	9 334	3 000	9 431
6 001— 7 000	26 146	9 944	3 892	10 365
7 001— 8 000	32 652	10 813	5 134	11 426
8 001— 9 000	35 695	11 709	6 415	13 152
9 001— 10 000	37 469	11 853	6 576	13 245
10 001— 11 000	37 823	10 497	5 955	11 298
11 001— 12 000	37 616	9 701	5 432	7 530
12 001— 13 000	35 680	8 126	4 646	5 589
13 001— 14 000	35 105	6 949	3 826	4 001
14 001— 15 000	34 372	5 828	3 342	3 027
15 001— 16 000	35 086	4 905	2 939	2 226
16 001— 17 000	35 688	4 291	2 636	1 658
17 001— 18 000	35 247	3 711	2 313	1 216
18 001— 19 000	35 162	3 062	1 780	1 067
19 001— 20 000	34 582	2 659	1 609	825
20 001— 25 000	159 746	7 950	5 154	1 766
25 001— 30 000	121 891	3 296	2 481	619
30 001— 35 000	78 856	1 514	1 175	206
35 001— 40 000	46 154	718	562	91
40 001— 45 000	25 501	295	333	58
45 001— 50 000	14 463	133	154	26
50 001— 60 000	13 664	80	157	26
60 001— 70 000	5 447	20	52	9
70 001— 80 000	2 892	8	33	5
80 001— 90 000	1 620	2	18	2

Taxable Income Group	(a) White	(b) Coloured	(c) Indian	(d) Black
90 001—100 000	1 063	3	9	2
100 001—150 000	2 006	6	15	4
150 001—200 000	536	0	7	0
200 001—250 000	180	3	1	0
250 000+	299	0	5	1
Total	1 082 722	155 555	79 581	121 204

Note:

(1) The above statistics do not include taxpayers under the Final Deduction System.

(2) The statistics are not complete, because approximately 35 per cent of individual taxpayers have not yet been assessed.

Income tax

91. Mr H H SCHWARZ asked the Minister of Finance:

Whether any income tax was written off in the 1985-86 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) Yes.

(i) 4 403.

(ii) 205.

(b) (i) Individuals .... R3 021 542,98.

(ii) Companies .... R2 652 968,24.

Government: amounts owed

92. Mr H H SCHWARZ asked the Minister of Finance:

What amounts were owing to private bodies and persons by the Government, other than on bank facilities and stock issues, as at the latest specified date for which figures are available?

The MINISTER OF FINANCE:

R1 178 264 ~~844~~—as at 31 January 1987.

(This amount excludes foreign loans, stock issues and Treasury Bills).

Income tax

93. Mr H H SCHWARZ asked the Minister of Finance:

What is the total amount of income tax assessed for the 1985-86 tax year in respect of *(a)* companies and *(b)* individuals?

The MINISTER OF FINANCE:

(a) Companies:

Mining	R1 239 578 550
Other	727 805 274
	R1 967 383 824

(b) Individuals: R4 561 686 000

26,42% of companies and 64,36% of individuals have been assessed for the 1986 year of assessment.

Gold

95. Mr H H SCHWARZ asked the Minister of Finance:

23/2/87 Hansard

What quantity of gold was made available in the Republic in 1986 to *(a)* jewellers and *(b)* other concerns for manufacturing purposes?

The MINISTER OF FINANCE:

(a) 1 064 522,200 gram (741 048,314 gram in 1985).

(b) 858 388,100 gram (1 146 366,700 gram in 1985).

Burglaries 23/2/87

100. Mr H H SCHWARZ asked the Minister of Law and Order: Hansard

How many burglaries were reported to the South African Police in *(a)* 1986 and *(b)* the latest specified 12-month period for which figures are available?

The MINISTER OF LAW AND ORDER:

(a) and *(b)* 197 400 for the period 1 July 1985 until 30 June 1986.

Because statistics for the period 1 July 1986 until 31 December 1986 are not yet programmed, the figures are not readily available.

Note: The figure represents an increase of 15% in comparison with the previous period. Some of these cases occurred in unrest areas and the situation in those areas was exploited by criminal elements to commit burglaries. A further contributing factor to the increase is the economical recession with resulting unemployment.

What worsened the situation is the fact that a large percentage of the members of the South African Police had to be withdrawn from white areas to curb unrest in black areas which prevailed at its highest level during that reported year. The result was that the unemployed loiterer, had excellent opportunities to commit housebreakings.

Due to the notable decrease in general, in unrest related crime, the South African Police is again in a position to direct crime prevention actions. Crime prevention units operate country-wide on a full-time basis.

These actions have already resulted in a notable improvement in the crime patterns of various police divisions, also with regard to burglaries. The South African Police applies every measure at its disposal to curb crime in general.

Motor vehicles stolen

101. Mr H H SCHWARZ asked the Minister of Law and Order:

(1) *(a)* How many motor vehicles were reported stolen during the period of 1 January to 31 December 1986 and *(b)* what is the value of the motor vehicles stolen during that period;

(2) how many such vehicles were recovered in *(a)* an undamaged, *(b)* a damaged and *(c)* a cannibalised condition?

The MINISTER OF LAW AND ORDER:

(1) *(a)* 58 119.

(b) R871 785 000.

(2) *(a)* 20 217 with an estimated value of R303 255 000.

(b) 6 069.

(c) 2 745.

Although the number of stolen vehicles represents an increase of 36%, almost 35% undamaged, 11% damaged and 5% cannibalised vehicles of the total number were recovered, in comparison with respectively 3%, 1% and 8% of the stolen vehicles recovered during the previous period.

Thefts from cars

102. Mr H H SCHWARZ asked the Minister of Law and Order:

(a) How many thefts from cars were re-

To give perspective to the figures the following particulars are furnished:

69 persons were killed by members of the Security forces.

22 persons were killed by members of Municipal Police forces.

This represents 91 deaths by law enforcement institutions.

12 members of the security forces were killed and 201 persons were killed by other persons, and I draw attention to the fact that virtually without exception, these deaths were caused by radicals.

Unrest

81. Mr R R HULLEY asked the Minister of Law and Order:

(1) With regard to 1986, *(a)* what total number of persons was (i) killed and (ii) injured in unrest, *(b)* how were they killed or injured in each case, *(c)* how many persons were killed or injured by members of the South African Police acting in the course of duty and *(d)* how many, persons were killed or injured by gunshots;

(2) whether any members of the South African Police were *(a)* killed and *(b)* injured in unrest in 1986; if so, (i) how many and (ii) what was the cause of death or injury in each case?

The MINISTER OF LAW AND ORDER:

(1) I refer the honourable member to my oral reply to question number 2 on 17 February 1987 and my reply to written questions numbers 25 and 74 which is suffice.

(2) Yes.

(a) (i) 27 members.

(ii) As result of a variety of causes inter alia necklace murders, attacks with firearms, pangas, axes, hand grenades, petrol bombs and burnings.

(b) (i) 185 members.

(ii) As result of the same reason mentioned in paragraph *(a)* (ii).

Note: The attention of the honourable member is drawn to the fact that the figures mentioned in paragraph 2 *(a)* (i) and *(b)* (i) are, over and above the deaths and injuries which occurred during attempts by the South African Police to contain rioting and to which written question number 59 refers.

Internal Security Act

82. Mr R R HULLEY asked the Minister of Law and Order:

(1) With regard to 1986, *(a)* what total number of persons was detained under the Internal Security Act, No 74 of 1982, for reasons related to unrest, *(b)* in terms of what section of this Act was each detained and *(c)* for how long was each person held in detention;

(2) whether any persons so detained were *(a)* charged and *(b)* convicted; if so, how many in each case?

The MINISTER OF LAW AND ORDER:

(1) *(a)* 3 512.

(b) Section 50 of the Internal Security Act, 1982.

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23/2/87 Haward

Persons	Days
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1 047	13
553	14

These persons were detained in terms of section 50 before 12 June 1986. Some of them were detained in terms of Regulation 3 (1) of the Emergency Regulations since 12 June 1986 when the State of Emergency was promulgated in terms of the Public Safety Act, 1953.

(2) Yes.

(a) 159 persons.

(b) 21 persons.

Note: I wish to draw the attention of the hon member to the fact that section 50 of the Internal Security Act, 1982 and section 3 (1) of the Emergency Regulations are preventative of nature to combat situations of public unrest and riots.

Alexandra Township

83. Mr D J DALLING asked the Minister of Constitutional Development and Planning:

23/2/87 Haward

(1) Whether any families living in Alexandra Township, Johannesburg, are in arears with rental payments; if so, *(a)* how many families are (i) in arrears and (ii) up to date with their rental payments and *(b)* what is the extent of the arrears in rental payments in this township;

(2) in respect of what date is this information furnished?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) Yes.

(a) (i) approximately 15 000.

(ii) approximately 500.

(iii) R1,9 million.

(2) 31 December 1986.

Tax

23/2/87 (320)

86. Mr H H SCHWARZ asked the Minister of Finance:

Haward

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 1986?

The MINISTER OF FINANCE:

The total cost of the tax concessions granted to these industries during the 1985-'86 financial year is estimated at:

R47 735 951—Companies.
R 33 238—Individuals.

General sales tax

87. Mr H H SCHWARZ asked the Minister of Finance:

(a) How many cases of irregularities in respect of general sales tax have been discovered since 1 January 1986, *(b)* what is the amount of tax involved and *(c)* in respect of what date is this information furnished?

The MINISTER OF FINANCE:

(a) 8 893.

(b) R97 161 007.

(c) For the period 1 January 1986 to 31 December 1986.

Taxpayers

88. Mr H H SCHWARZ asked the Minister of Finance:

(a) What was the (i) number of individual taxpayers in each income category and

ARGUS 24/2/87

BUSINESS

220

TAXATION

RSC levies may hit R375-million

From MICHAEL CHESTER

JOHANNESBURG. — Business alarm over Government plans to go ahead with special levies on business to finance Regional Services Councils grew today when private sector studies revealed that the annual cost of the new taxes may run as high as R375-million a year.

The confidential leakage of estimates coincided with fresh pleas from big business to freeze moves to introduce the levies at least until the findings of the Margo Commission on Taxation are disclosed and the whole issue of tax reform is examined.

PAYROLLS

The Association of Chambers of Commerce and the Federated Chamber of Industries joined forces to close ranks in opposition to RSC levy regulations.

There is also widening concern in business circles that the Government has still given no official indication of the precise level of the proposed levies nor whether rates may vary from one RSC to the next.

But it is generally assumed that the Government intends to clamp special levies of 0,25 percent on all payrolls, assessed at about R5 0000-million a year in private sector studies, plus 0,1 percent on all business turnover, reckoned to be around R15 0000-million a year.

Assocom and the FCI issued a joint statement that argued: "It is difficult to accept the justification for promulgating at this stage — before the publication of the report of the Margo Commission of Inquiry — regulations with the force of law to introduce new and drastic forms of taxation.

"The Margo commission was appointed to make recommendations for a cohesive tax structure at all levels of government and it would surely be preferable for the authorities to providing bridging finance for the Regional Services Councils while the commission proposals are evaluated.

"The actual content of the regulations also occasions anxiety. It is characterised by a lack of precision untypical of taxation laws, which should leave no room for doubt as to their interpretation.

OBJECTIONS

"Still more seriously, there is no provision for the lodging of objections and appeals, as there was in the draft regulations published in error some months ago.

"Taxpayers may be at the mercy of requirements imposed by new and inexperienced RSCs, without any opportunity for objections and securing a hearing and review by a competent and impartial body as the Income Tax Special Court."

R163-m recovered by GST 'hit squad'

ARGUS 25/2/87

320

PRETORIA. — The GST "hit squad" has recovered R163-million, including R66-million in penalties from 9 000 GST defaulters.

Department of Inland Revenue chief director Mr Schalk Albertyn said the 9 000 sales tax fiddles uncovered last year totalled R97,16-million.

Heavy penalties were imposed, from 10 percent of the tax owing for every month after payment was due, to a maximum of 100 percent of the amount owing.

"We know there is much more outstanding and we intend to continue — even more intensely — to look for it," Mr Albertyn said.

"The recovery rate is satisfactory and far higher than it was two years ago. We are getting on top of the problem."

More staff were being trained and the detection rate could be expected to increase substantially.

Mr Albertyn said there was no specific section of taxpayers responsible for the evasion. GST dodgers came from a wide spectrum of society.

Progressive Federal Party finance spokesman Mr Harry Schwarz said the investigation team should be increased.

It was obvious large amounts were being lost to the Treasury. It was obvious, too, that salaries of investigators were insignificant compared to the fiddles they could uncover.

The rate of GST collections was still running far behind the Budget expectation of R9,45-billion.

Tax consultants claim the Department of Inland Revenue's default recoveries are the tip of the GST-evasion iceberg.

It has been estimated evasions account for R1-billion a year. — Sapa.

JSE tax would save billions, claims Obie

Star 3/2/87 320

Municipal Reporter

Private income tax and GST could be wiped out if buyers on the Johannesburg Stock Exchange paid GST on transactions, Johannesburg City Council's management committee chairman, Mr Francois Oberholzer, told a council meeting last night.

He was replying to a PFP attack on the turnover and payroll levies to be imposed by regional services councils.

Mr Oberholzer said the turnover for the JSE from January to December was R160 939 million. Stamp duty at 12 percent on this was R19 312 million.

The GST collected countrywide for 1986/87 was R9 450 million and income tax, including company tax, amounted to R19 457 million.

"The transaction costs levied by the JSE normally amount to 0,25 percent. This means the income of the various companies and partnerships may amount to as much as R402 million annually," he said.

Taxation of share transactions would release billions for reinvestment.

The PFP's Mr Ian Davidson, a stockbroker, said the figures were "wild-eyed and dizzy", but Mr Oberholzer said he had got his details from the JSE and Department of Inland Revenue.

Pay date for loan levy

Cape Times 25/2/87

Political Staff 320

A R286-MILLION boost for individual taxpayers, through the repayment of the 1983 loan levy, will be repaid after Wednesday, March 18, the Minister of Finance, Mr Barend du Plessis, announced yesterday.

A spokesman for Mr Du Plessis's office said in a statement that the minister had determined that March 18, 1987, "to be the date after which the loan levy, paid in 1983, shall be refunded".

"The loan levy and interest amounting R286 million is refundable to 1 190 297 individuals.

"Simple interest, at the rate of eight percent, is payable and is exempt from income tax," the spokesman said.

Tax inspectors make a killing

GST dodgers pay R66m in penalties

320

B/Day 23/2/87

THE GST hit squad has recovered R163m, including R66m in penalties, from 9 000 GST defaulters.

Department of Inland Revenue chief director Schalk Albertyn said yesterday the 9 000 sales tax fiddles uncovered last year totalled R97,16m.

Heavy penalties were imposed, from 10% of the tax owing for every month after payment was due, up to a maximum of 100% of the amount owing.

"We know there is much more where that came from and we intend to continue — evenly more intensely — to look for it," Albertyn said.

"The recovery rate, however, was satisfactory and far higher than it was two years ago. We are getting on top of the problem."

More staff were being trained and the detection rate could be expected to increase substantially during 1987.

Albertyn said there was no specific section of taxpayers responsible for the evasion. GST dodgers came from a wide spectrum of society.

Meanwhile, PFP finance spokesman Harry Schwarz said the investigation team should be increased.

It was obvious large amounts were

GERALD REILLY

being lost to the Treasury. It was obvious, too, that salaries of investigators were insignificant compared with the fiddles they could uncover.

The rate of GST collections was still running far behind the Budget expectation of R9,45bn.

Albertyn said up until February 19, collections for the financial year totalled R7,675bn.

He said it was clear inflation was cutting into disposable incomes and people were spending less in real terms.

Tax consultants claim the Department of Inland Revenue's default recoveries are the tip of the GST evasion iceberg.

It has been estimated evasions could amount to up to R1bn a year.

Asked whether value added tax (VAT) would not be a more efficient system, Schwarz agreed VAT made it more difficult for taxpayers to cheat.

He said the Keith Commission on Taxation in Britain had recommended penalties for VAT evasions should be increased steeply. The recommendation had been accepted.

Schwarz said: "And clearly stiffer penalties are part of the solution."

port ordered by Presi-

New tax deal for low-income earners

Cape Times 26/2/87

320

Financial Staff

LOWER income earners can expect almost immediate relief from their entire income tax burden.

From March 1 taxpayers earning salaries and wages below recently revised tax thresholds will not have PAYE deducted from their earnings.

A notice from the Commissioner of Inland Revenue last night said it was not possible to issue revised deduction tables reflecting the reduced rates of income tax and increased primary rebates which had effectively raised the level at which people become liable for tax. In order to obviate this over-recovery of tax which would have to be refunded later, employers would be authorised not to hold back tax in terms of the tables if remuneration is below the revised levels.

Mainly affected are people earning less than R8 000 a year.

An unmarried person under 60 with no children will not be liable for tax if monthly pay is below R392, or in the case of weekly paid workers, below R90,38. Married women should attract no tax deductions at earnings below R187,50 a month, or R43,27 a week.

Other threshold levels are provided in the tables which appear below:

Monthly remuneration

Married

LOTS OF

Many rich whites staying single to save on taxation

327 27/2/87 B/Day

NORMAN SHEPHERD

WHITES in the higher income brackets are steering clear of marriage in an attempt to avoid SA's combined taxation system on married couples.

There were 5 000 fewer white marriages in 1985 than in 1980. If coloured and Indian couples are included, the fall was about 7 000.

Central Statistical Services figures show the number of marriages has fallen steadily over the five-year period, with a slight interruption in the trend in 1984.

The figures from 1981 were 76 155, 75 528 in 1982, 73 654 in 1983, 74 122 in 1984 and 69 319 in 1985. Figures for 1986 will be published next month.

Tax consultants say couples, especially top earners, are increasingly seeking tax advice relating to marital status.

It is difficult to establish how many couples are living together, instead of marrying, or are getting divorced because tax on married couples is too high, they add.

One consultant says: "Nowadays people are happy to live together as it does not pay to get married. Usually the reasonably high earners are affected.

"Marriage does not make much difference to the tax of those with low incomes."

Commenting on the move away from marriage to save on tax, NGK moderator Jan Heyns says: "You can't change the law to adapt to unethical behaviour."

Own Correspondent

WHITE men and women in the higher income brackets are steering clear of marriage in a bid to avoid South Africa's combined-taxation system on married couples.

There were 5 000 fewer white marriages in 1985 than in 1980, and including coloured and Indian couples, the fall was about 7 000.

The latest figures from Central Statistical Services show that the number of marriages has fallen steadily over the five-year period, with a slight interruption in the trend in 1984.

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High earners dodge marriage and tax

in 1982, 73 654 in 1983, 74 122 in 1984 and 69 319 in 1985. Figures for 1986 will be published next month.

Tax consultants said couples, especially top earners, were increasingly seeking tax advice relating to marital status.

But they said it was difficult to establish how many couples were living together instead of marrying or were divorcing because tax on married couples was too high.

Said one consultant: "There are people who are not getting married for tax purposes. This applies particularly to people who have high incomes — whether it is the man, the woman or both, and whether the incomes are from investments or salaries."

Said another: "Nowadays people are happy to live together, as it does not pay to get married. Usually the reasonably high earners are affected. Marriage does not make much difference to the tax of those with low incomes."

Total divorces numbered 21 486 in 1985, compared with 20 611 in 1981, but fluctuated over the years.

Women are increasingly moving into top professional positions and some could have decided not to get married because they would have to pay higher taxes.

The Manpower Research Institute (MRI) director, Mr Steve Terblanche, said MRI studies showed the proportion of women to men had increased in university posts, sales and particularly computer-related professions.

He said women now outnumbered men in the occupations of dietetics, physiotherapy, occupational therapy and pharmacy.

Working women of all races were expected to number four million or 35% of the 11,7 million total workforce by the end of this year, up from about 1,3 million or 23% of the 5,7 million workforce in 1960, he said.

Tax laws untimely — big business

By Michael Chester

Big business today urged the Government to freeze moves to introduce special tax levies to finance Regional Services Councils (RSCs).

The Association of Chambers of Commerce and the Federated Chamber of Industries issued a joint statement, saying: "It is difficult to accept the justification for promulgating at this stage — before the publication of the report of the Margo Commission of Inquiry — regulations with the force of law to introduce new and drastic forms of taxation. The Margo Commission was appointed to make recommendations for a cohesive tax structure at all levels of government and it would surely be preferable for the authorities to providing bridging finance for the Regional Services Councils while the commission proposals are evaluated.

"The actual content of the regulations also occasions anxiety. It is characterised by a lack of precision untypical of taxation laws, which should leave no room for doubt as to their interpretation.

"Still more seriously, there is no provision for the lodging of objections and appeals, as there was in the draft regulations published in error some months ago."

Taxpayers might be at the mercy of requirements imposed by the inexperienced RSCs, without being able to object and secure a hearing by an impartial body, the statement said.

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TAXATION TODAY

A tax revolution?

(330) STAR 3/3/87

By Pierre le R du Toit, a partner in Arthur Anderson and Co.

There is much talk of a tax revolution. The extended hide-and-seek birth of the Margo Commission report adds fuel to the fires of fiscal rumour. Business, especially, is waiting for the promised "tax reform".

I was asked to comment on this tax revolution, but the revolution does not lie ahead — we are in it.

Anyone in the tax profession can testify to the way in which the authorities' administration of our tax laws have tightened. We see it in the disappearance of "benevolent" tax practices; we see it in a new sophistication and aggression on the part of the authorities; we see it in the growing imposition of penalties and increasing number of tax criminal prosecutions.

Within the last ten years we have seen another quiet revolution — the increasingly important role of indirect taxes. Not only is sales tax by now well established, whether in its own right or as father to a value added system, but the now imminent regional levies is another manifestaion of this.

The regional levies may well be the heralding of another revolution-in-process. Whatever South Africa's ultimate constitutional model, devolution of power seems to be an element of most proposals, whether it be Mr Heunis' towering structures or the townships' street committees. With any devolution of power is bound to come a devolution of taxing jurisdiction — the power to tax ultimately underlies and manifests the power to govern.

Few realise the longer term implications of the amalgamation of tax systems for blacks and non-blacks, brought in a few years ago — a revolution if ever there was one. Apart from the power-political implications of a common tax system, as the different communities grow towards economic parity each will increase its own demands on the way that common system should be structured and administered.

Perhaps the most subtle tax revolution playing itself out around us is in the ordinary man's attitude to tax matters. There have been few periods in our history when tax issues have commanded such an important part of the public debate as it does today.

These dynamics in our tax lives are of such a magnitude that it can hardly be seen as less than a revolution. So how does business react to the uncertainties which always accompany major environmental shifts?

Within the scope of this brief comment it is possibly only to paraphrase a few pointers:

- The importance of the tax consequences of business must be recognised at board level.
- Tax must be seen not as an inevitable consequence of business, but as a cost which must be managed like any other.
- Tax planning must reach beyond income tax to all taxes which represent a burden on the business.
- The "other side" must never be under-estimated.
- Legality must at all times be an absolute ingredient of planning.
- The right, on the other hand, to plan within the law, and to do so aggressively and by testing the law, must be defended vigorously and actively implemented.

Whether Margo reports in two months or two years, we are involved in a tax revolution right now. Those who recognise it will thrive; those who fail to will fail more generally too.

as

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REGIONAL SERVICES COUNCILS

Taxing times

With the recent announcement of the names of the chairmen of the four regional services councils (RSCs) demarcated in the Transvaal, the councils finally look set to start rolling on July 1.

The Transvaal RSCs and their chairmen are: Central Witwatersrand, Gerrit Bornman (a businessman and member of the President's Council); West Rand, Cornelius de Bruyn (Town Clerk of Randfontein); East Rand, Leon Ferreira (Town Clerk of Boksburg); Pretoria, Piet Delport (Town Clerk of Pretoria).

However, there still seems to be uncertainty about the practical implications of the RSCs, which are essentially meant to provide and maintain infrastructure and "hard" services such as transport, water and electricity. In some instances officials are defensive or unwilling to clarify matters.

Criticism, particularly of RSC tax mechanism continues; some local authorities are reportedly refusing to "act as tax collectors for the RSCs," and KwaZulu is refusing to take part because it was not consulted.

A joint statement issued by Assocom and the Federated Chamber of Industries (FCI) expresses their "deep concern" at the appearance of the RSC levy regulations before the Margo Commission has reported.

They criticise the vagueness of RSC taxes and the fact that there is no provision for the lodging of objections and appeals (as there was in the draft regulations published in error some months ago).

"Taxpayers may be at the mercy of requirements imposed by new and inexperienced RSCs without any opportunity for objections and for securing a hearing and review by a competent and impartial body such as the income tax special court," say Assocom and FCI (*Economy* February 27).

So a lot of basic questions remain unanswered. Although businessmen know they have to pay a turnover tax of 0,1% and payroll tax of 0,25% (one leading consulting engineering company says it will have to pay about R40 000 a year in RSC tax), they do not know how the money will be spent. How much of it will actually go towards providing bulk services, and how much will be poured into RSC administration and salaries?

CE (policy) of the Department of Finance and one of the architects of the RSC tax laws Gerhard Croeser says he has the "soft figures," but they are not ready for publication. He maintains RSCs will *not* be just another bureaucratic system.

A spokesman for the Johannesburg City Council says official staff will consist of only about six to 10 people. But the RSC Act of 1985 does not prescribe the number.

Central Rand RSC chairman Gerrit Bornman says existing services will be used as far as possible, and minimal additional staff will be required. But numbers could increase according to the type and quantity of services rendered.

Although council members will meet only occasionally, their transport costs and salaries also have to be taken into account.

But not everybody is pessimistic about RSCs. Nigel Mandy, chairman of the Johannesburg CBDA, says the best should be made of a bad job. There is a great need to upgrade certain areas, he adds, and the objectives of the RSCs therefore cannot be faulted.

Soweto Town Clerk Nico Malan says he is satisfied with the proposed RSCs. If services are rendered on an agency basis and the agents do not go profit hunting, he says, they will lead to the upgrading of areas and include black participation. This is an important aim of RSCs.

According to Wits University political scientist Mark Swilling the RSCs will not be able to raise the money to upgrade the infrastructure of poorer areas adequately and in a sufficiently short time.

CBDA's Mandy ... RSCs are a fait accompli

East Rand RSC chairman, Leon Ferreira, says RSCs are not instruments for redistribution of wealth. Rather they are designed to "create opportunities and improve the living conditions of the different communities. This ensures a more balanced distribution of resources."

It seems the RSCs will deal with practical problems as they arise. In the Transvaal, for example, the Johannesburg Metropolitan Transport Advisory Board (Jomet) is divided in two by the Central Rand and East Rand RSCs. Johannesburg Town Clerk Manie Venter says the matter is being investigated. The options are to either let Jomet continue and sign contracts with the Eastern and Central RSCs respectively, or to cut a piece of Jomet off and give it to Ormet (Jomet's equivalent on the East Rand).

But it might not pose an immediate problem. Although the RSCs are set to control 22 services eventually, they will start with only two or three. The Central Rand and East Rand RSCs are planning initially to handle only sewage services, water and electricity provision.

Bornman says the RSC will not really make any difference to the services rendered. The only practical change will possibly be that the RSC will receive accounts from the agents (like Escom) and then claim them from the local authorities, instead of the accounts going directly to the local authorities. But he says services will be rendered in a co-ordinated way over a large area, which will be economically advantageous. It will also be practical, as not every municipality has the facilities to render a variety of services.

Perhaps the ongoing argument for and against RSCs (*Current Affairs* September 26 1986), and the various amendments to the Act explain why the implementation of the councils has been postponed so often.

Swilling says the system is a "managerial monstrosity — an organisational nightmare." For better or worse, however, they are a *fait accompli.* ■

TAX REFORM

Through the back door

FM 6/3/87 (320)

In examining the levy structure for regional services councils (RSCs), it is clear that the tax rates are hopelessly inadequate. Current estimates for RSC levies, R240m a year, suggest that rates will have to be at least doubled to meet planned expenditure.

The rates are now 0,25% of payroll and 0,1% of turnover. Information, however, is scanty. Is Pretoria deliberately keeping a serious problem under wraps until after the general election?

By introducing the RSC levies in July, Pretoria will access a tax base the *FM* conservatively estimates at R270 billion. Finance officials will not be drawn on what figures they are working with. For one thing, RSCs will charge levies on new areas, such as professionals and the public service.

Perhaps more important, the probable turnover base of R170 billion is based on estimated GDP for 1986-1987, which excludes double-counting. A single item could go through five or more turnovers, giving the turnover tax a multiplier effect — to perhaps R500 billion.

Corporate boardrooms

Mystery creates uncertainty, of course, and corporate boardrooms can only begin to guess at the damage to cash flows RSC levies may inflict. One mining company has calculated RSC levies will cost it R390 000 a month.

The councils' levy rates could increase exponentially, as they did after GST was introduced as a broad-based low tax of 3%. It is now four times that. Pretoria officials will not be drawn on the question; nor will they say, for example, how many, if any, bureaucrats RSCs will create.

Ernst & Whinney's Roger Bramwell points out that the original legislation allows Finance Minister Barend du Plessis to increase rates in any RSC area simply by publication in the *Government Gazette* — at the RSC's request.

Given that the proposed rates will not raise what Pretoria needs, what is the scope for increases? Chris Frame of Price Waterhouse argues that RSC levies "allow government to increase its fiscal grip over the economic activities of the economy in general. They represent an inevitable fiscal progression, whose complexity will be increased by the fact that they are levied separately from the rest of the tax system. The precedent will undoubtedly be taken up at national level in due course."

It is clear that Pretoria is plunging SA into a tax revolution that could negate the work of the Margo Commission.

The other new tax introduced "through the back door" is valued added tax (VAT) which is said to be one of Margo's recommendations. Liquor outlets are now required to pay GST "up-front" on purchases — ostensibly to end revenue losses from shebeens, which do not pay GST.

Frame

Divaris

According to Frame: "To all intents and purposes the liquor trade is subject to VAT, but the label remains GST." The question is how many other sectors (grocers, for example), will in future be required to pay sales tax up-front.

Some argue that a combined RSC levy-GST/VAT system could replace the entire existing tax structure. Taking the total turnover and payroll taxbase as R270 billion, yield at (say) 9% would, of course, be R24 billion. This, topped up with contributions from GST, would quickly yield the R34 billion total revenue raised in 1986-1987.

Two taxes always make more sense than a single tax, since there is less incentive to evade. But would the two taxes make logistical sense in SA? There are 176 000 registered companies in SA, of which 56 000 are dormant, leaving 120 000 doing business and vulnerable to both GST/VAT and RSC levies.

Including close corporations, sole proprietorships and partnerships, some 250 000 enterprises would be SA's sole taxpayers in a GST/VAT-RSC levy system. This would eliminate the current system's some 2m personal taxpayers.

As Costa Divaris of Divaris Stein says, RSC levies would tax companies that do not pay income tax — at present 61 000 have assessed tax losses.

GST/VAT and the turnover tax are indirect taxes, regressive in nature, and inflationary. But savings at personal and corporate tax levels would have uncountable benefits, particularly in the short term.

If such a system is applied without exemption (so for example, food would again be subject to GST/VAT and the exemptions cut from RSC regulations), Pretoria would be free of pressure from vested interest groups.

Business decisions would not be distorted: though companies would not pay income tax, they could not claim allowances. Decisions as to what business to set up and where to locate it would thus not be distorted by tax considerations. ■

BANKING SUPERVISION

New custodian

6/3/87 FM

"Banking in a rapidly changing environment is a dynamic process," says the new Registrar of Banks and Building Societies, Chris de Swardt. "There are innovations on a daily basis; each may have far-reaching implications."

With the transfer later this month of bank and building society supervision from the

QUOTABLE

John Hays Hammond in his memoirs

My reason for joining the (1896 Jameson Raid) movement was the continued and exasperating series of government regulations which jeopardised the successful operation of the mines. I could not carry on my work efficiently, and I felt I had a heavy responsibility toward the people who had invested large sums of money on my professional recommendation.

RSC levies from July 1

13 Day (320)

6/3/87

CHRIS CAIRNCROSS

GOVERNMENT has thrown caution to the wind and is determined to take steps to ensure the two Regional Services Council (RSC) taxes — payroll and turnover levies — are imposed when the RSCs come into being on July 1.

This is in spite of:

☐ Commerce and industry strongly opposing the RSCs;

☐ No detailed budgets having been done in the respective regions;

☐ No decisions having been taken at local level as to what services will be provided and what revenues will be required;

☐ Several local authorities threatening to refuse to co-operate in becoming collection agents;

☐ The regulations being so imprecise as to create doubts as to their interpretation;

☐ No reductions in other taxes being contemplated to compensate, in part, for the levies.

Department of Constitutional Development and Planning director (constitutional promotion) Len Dekker said yesterday teams would implement the two taxes from July, particularly in the Port Elizabeth and Cape Town RSCs.

He said most of the necessary forms had been drafted and would be sent to the principal collection agents in due course.

The decision not to delay implementation of the RSC levies was because the financial year for regional administra-

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An oil find for Soekor

ALAN SENDZUL

EXPLORATION company Soekor struck an unquantified amount of oil 120km off the Mossel Bay coastline two weeks ago.

Director-general of Mineral and Energy Affairs Louw Alberts said from the initial assessment it appeared to be only a "small body of oil" and therefore not commercially viable.

But the precise volume and availibility of oil will possibly be known within a

RSC levies due from July 1

6/3/87 (320) 13 Day

tions started in July.

Dekker said: "Every month lost will mean that much less can be collected in levies."

The onus would be on businesses and employers — identified by address lists held by the Department of Inland Revenue — to pay the two levies from July.

And, as provided for in the RSC Act, the services of local Inland Revenue offices would be co-opted to ensure the law was complied with.

As none of the RSCs so far named had yet been able to decide what revenues would be needed, the blanket flat rates set out in the legislation would apply for the year.

Those were 0,25% of payroll and 0,1% of turnover which, together, were roughly estimated as likely to bring in about R240m a year.

There seems to be little doubt those rates will be lifted substantially in July 1988.

Officials are already preparing the way for this by saying the rates are much too low.

● From Page 1

In any event, substantial bridging finance will have to come from central government to prop up the RSC coffers, especially if difficulties are experienced in collecting the two levies — as has been the case in those depressed regional areas affected by rent and rates boycotts.

Aside from generally being opposed to the RSC framework of local government being foisted on the country, organised commerce and industry remain adamant that there is no justification in imposing the two levies before publication of the Margo Commission tax report.

Even then, the wisdom of the two taxes has been questioned — and is merely being viewed as a another means for government to further "debilitate" an already strained economy.

Political comment in this issue by Ken Owen. Newsbills by Trevor Bisseker. Headlines and sub-editing by Michael Allwright. All of 11 Diagonal Street, Johannesburg.

FM 6/3/87

CORPORATE TAXES (320)

Barend's target?

Are SA's corporate taxes in a mess, and would Finance Minister Barend du Plessis have good reason to announce reform in the June Budget?

Figures show that 16% of the companies that do pay tax, pay no less than 90% of company and mining tax (R6 billion, about 19% of total taxes). So a small number of companies are extremely vulnerable even to small tax changes, but these can have a big impact on revenues.

Justice Margo ... widening the tax base

Speculation that changes are on the cards reflect two main considerations. Firstly, company taxes are progressively contributing a lower percentage to the fiscus; secondly, the Margo Commission is certain to recommend a broadening of the tax base to allow tax rates in general to fall.

But taxes can be collected more easily from the corporate sector. Inland Revenue has about 250 000 registered vendors (including about 176 000 companies), as opposed to millions of personal taxpayers.

Taxable profit has no reference to a company's ability to pay tax, that is, cash flow. And the corporate sector (including financial institutions) has enormous untapped resources. For example, the life assurance industry paid only R102m tax in 1984. One assurer alone, Old Mutual, has assets of some R20 billion — though the industry would argue that it only holds assets in trust for investors and policyholders, so it would not be legitimate to tax them.

On average, companies pay tax at only half the nominal corporate rate of 50%. It is said that Margo will recommend broadening the tax base by abolishing as many allowances as possible — which abound in the corporate tax book. Companies could then pay a much lower tax rate — but the fiscus could still raise as much money, if not more. And the burden on the personal taxpayer could be eased.

Giving industry tax allowances to encourage investment was a fine idea. However, they have not worked, for many reasons.

A worrying feature is that start-up companies do not, in practice, qualify for tax allowances. It is big companies in manufacturing and mining that benefit; while the banking sector, for whom manufacturing allowances were never intended, has bought billions of rands' worth of plant, from paper mills to engine manufacturers.

Taxes affecting how companies raise capital distort decisions. Interest paid on debt is tax deductible, yet dividends paid on shareholders' funds must be declared after tax has been paid. This is to the detriment of small companies that find it difficult to borrow. ■

RSC taxes will bring in about R800m a year

320

B/Day 9/3/87

KAY TURVEY

TAXES from major metropolitan regional services councils (RSCs) will bring in R800m a year, government estimates.

The RSCs to come into being on July 1 will ultimately perform 22 regional functions, but Inland Revenue's legal expert Ian Mieklejohn says the councils will not be able to tackle all these functions from inception.

"It is therefore not out of the question that the levy will be pitched lower," he says.

Because none of the RSCs named so far have determined what revenues will be needed, the blanket flat rates of 0,25% of payroll and 0,1% of turnover will apply for the first year.

Potential levy-payers will be sent notices of where to register with their water and electricity accounts at the end of this month.

Johannesburg town council chief director of financial services Pieter Mathee says the notice will give broad outlines of who is eligible for the levy and where the registration forms can be obtained.

Levy-payers in the central Johannesburg area will be able to obtain forms from the Johannesburg City Hall. Additional venues for the Central Witwatersrand Regional Services Council — which includes the municipalities of Sandton, Randburg, Roodepoort, Lenasia, Eldorado Park, Soweto, Alexandra and Ennerdale — are yet to be determined.

Once a formal registration date is set and gazetted, companies and eligible rate-payers will have 30 days to register.

Mining houses to take action

Jo'burg CBD misses out on RSC levies

10/3/87 B/Day 320

CHRIS CAIRNCROSS

JOHANNESBURG'S CBD, host to the mining houses, will not become the major beneficiary of the two Regional Services Council (RSC) levies to be imposed on the mining industry when the RSCs start operating from July.

Department of Finance sources say the levies — on turnover and employment — are to be imposed directly on the operating mines themselves, and the revenue obtained is to be re-deployed to provide the infrastructure and services in those areas where the mines are located.

This could mean some of the smaller RSCs, located in outlying areas where economic activity is virtually "self-serviced", could also potentially become among the wealthiest — unless the local authority concerned decides to reduce the rates set in the RSC Act: 0,25% of payroll and 0,1% on turnover.

This is unlikely, at least in the 12 months from July, as these two rate levels are to be applied uniformly by all RSCs during this first year of operation, in view of the fact that no clear budget parameters have been established anywhere.

Official estimates are that the two levies could yield as much as R800m in the first year, providing for surpluses at the end of the 12 months.

And, with officials already saying these rate levels are still too low, it is probable these ceilings will be raised substantially a year from now.

This prospect is the cause of concern within the private sector, even though it is a development which comes as no surprise.

Although this third tier of government

● To Page 2

Jo'burg CBD misses out on levies

B/Day 10/3/87

● From Page 1

is not given the authority to raise levies beyond those prescribed in the RSC Act, it has now become obvious Finance Minister Barend du Plessis can simply bypass this by providing "bridging finance" in the main or mini budget and, at the same time, authorise increases in the ceiling on the two levies to be included in amendments to the legislation.

Given the early warnings issued by officials, it seems certain some sort of bridging finance will be provided this year — even though the full range of services will not.

Like the budget, therefore, these regional taxes are also open-ended.

The manner in which the mining industry is to be handled has, apparently, caused something of a quandry within this sector.

Mining house representatives are to meet within the next few days to decide on whether they should bow to this arrangement or seek an alternative option.

Their position is different to that to be imposed on the financial institutions — banks, building societies and life offices.

Although the establishment levy will be applied where the regional and other front offices employees are located, the turnover levy will be where these institutions have their head offices.

Thus, Cape Town, which hosts many of the life head offices, could benefit proportionately more than other centres from the premium and investment income enjoyed by those major institutions.

Another factor of intense concern to the business community is the principle laid down in the RSC legislation which excludes business areas in the determination of the voting power of the local body through which it is represented.

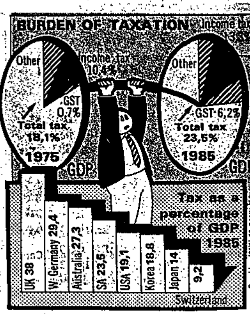
As the business community is to be the main source of revenue for the RSC, this feature in the legislation continues to arouse fierce reaction, with organised commerce maintaining it is still only equitable that the voting power of local bodies representing these interests should be commensurate.

Cape Town's Chamber of Commerce says the situation is tantamount to "taxation without representation".

So far these objections have fallen on deaf ears.

10/3/87 B/Day (320)

SA shoulders bigger tax burden



Graphic: JOHN McCANN

Source: Dr G ARIOVICH - MENELL RESEARCH

ALAN SENDZUL

SA'S overall tax burden rose 5,4% to 23,5% from 18,1% of GDP between 1975 and 1985, according to a Central Statistical Services (CSS) survey on household expenditure patterns.

This makes SA the sixth most heavily taxed nation in the world.

The survey shows that a grouping including income tax, insurance and investment jumped to 32% of GDP in 1985 from 23% in 1975.

Taxes have been increasing because of the unremitting rise in government expenditure, which is largely financed from tax receipts. In addition, inflation and fiscal drag leads to salary increases which push taxpayers into higher tax brackets.

The CSS does not give a separate breakdown for tax because its survey tracks only changes in the prices of goods and services used when calculating the consumer price index (CPI). Tax payments are lumped with "residual" items.

Nevertheless, economist Gad Ariovich estimates that of overall taxes collected in 1985, an amount equal to 13,3% of GDP came from income tax (10,4% in 1975), while GST accounted for 6,2% of GDP in 1985. The comparative figure for 1975 was only 0,7% because sales tax was introduced in the middle of that year.

Compared with other countries, SA has a disproportionately heavy tax burden, but it is less than France (41,9%) and the UK (38%).

Individual taxpayers losing more and more

320 SMAR 12/3/87

By Sven Lünsche

Much has been written about the need for government to provide some kind of tax relief to individuals in order to boost disposable incomes — but can the authorities really afford to be that generous?

Unless they drastically cut down on public sector expenditure, most economists feel that South African taxpayers should not expect substantial relief from their burden in 1987.

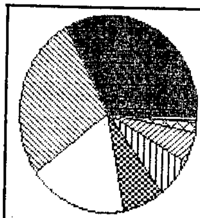
Gross state revenues now represents about a quarter of GDP or a third of net national income.

Says Nedbank chief economist Edward Osborn: "During the Eighties there has been a growing appropriation of net national income for the financing of state activities — from 29 percent in the 1980/81 fiscal year to 36 percent last year."

In addition, between 1975 and 1985, the county's overall tax burden has risen from 18,1 to 23,5 percent of GDP, according to a recently released survey by the Central Statistical Services.

A glance at this year's estimated composition of state revenue confirms these developments.

Corporate taxes are expected to contribute substantially less to the government's coffer than last year, while individual income tax will amount to about 33,1 percent of state revenue, compared with the 1985/86 budget figure of 28,2 percent.



Estimated State revenue for 1986/87.

The comparitive figure for gold mines is 6,5 percent (8,1 percent), while industrial, financial and other mining companies, at 17,9 percent, are estimated to contribute half a percent less than a year ago.

In the 1980/81 budget the country's gold mines contributed by far the largest proportion with 20,3 percent, but that was at a time when bullion hit the $800 an ounce mark.

This year's share for the gold mines has been calculated on the basis of bullion in the region of $300 to $350, but since then the fortunes of the gold producers have changed and most mines can look back at a prosperous 1986.

The restraints on the authorities in applying fiscal regulation through tax changes are compounded by the problems of forecasting revenues for an economy which is dominated by one commodity, gold, with a highly variable price.

The taxman is therefore not expected to get little more than the estimated amounts from the mines.

Says Mr Osborn: "The authorities could squeeze a bit out of the gold mines, but at the current expenditure rates they have little leverage on personal tax and GST."

"No doubt the authorities fear that a significant relaxation of taxation, whether direct or indirect, would simply open up the the budget deficit, resulting in intractable public debt management problems," Mr Osborn added.

In a recent letter to *Rapport*, Finance Minister Barend du Plessis admitted that the revenue received from GST will by all accounts be lower than originally planned.

He added that, although overall economic growth had been lower than expected, the amounts received from individual income tax would probably remain unchanged from the ones budgeted.

"However, government spokesman have admitted that the individual is carrying a heavy weight and the Margo Commission is subsequently enjoying a great deal of attention," Minister du Plessis wrote.

Until the commission releases its findings, however, the unremitting rise in government expenditure will continue to exert a heavy burden on individual income tax, making South Africa one of the most heavily taxed nations in the world.

208 4911 between 9am and 11am ...

CAPE TIMES 12/3/87 (320)

'Decentralization burdens taxpayer'

PRETORIA — Decentralization benefits were costing taxpayers millions with little in return in the shape of viable industries, PFP finance spokesman Harry Schwarz said yesterday.

Replying to questions posed by Schwarz, Constitutional Development and Planning Minister Chris Heunis said the total paid out in decentralization benefits from February 1 last year to end January this year amounted to a huge R463m.

Asked the amounts lost in company taxation because of concessions to relocated industries, Heunis said this amounted to R47,8m.

'Enormous cost'

There was merit in decentralization and in granting concessions to relocated industries, but only if within a reasonable time they became viable: "If they have to be continually supported by taxpayers' money then the whole purpose falls down.

"To entice industries which have no hope of ever making it on their own to border areas or homelands makes no economic sense," Schwarz said.

On SA's foreign debt, Schwartz had this to say.

South Africa could not afford to export the capital for job creation needed for stability in the country.

Schwarz said: "The question might well be asked, not only of ourselves, but of the overseas bankers as to what help it will be to pay off the debts at a faster pace if as a result we find ourselves seriously hindered in finding a solution to our socio-economic and political problems."

(Report by Gerald Reilly, 216 Vermuelen Street, Pretoria; and Heloise Henning, 626 Mutual Building, Harrison Street, Johannesburg)

MARCH 13 1987

Financial Mail

FM 13/3/87

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TAX AND THE RSCs

Time to think again

Almost everything about the new regional services councils (RSCs) suggests that they will bring administrative chaos to local government and fiscal decay to the economy. The next three pages examine the situation in substantial detail.

It would be far the best thing for President P W Botha to delay the processes of implementation — at least until the election is over. That would be both an act of statesmanship and of political astuteness.

As matters stand, it is hard to exaggerate the consequences — especially the economic ones — of the RSCs. It is not impossible that with their implementation will come such a plunge in business confidence that the fragile economic upturn will be aborted. Nor are the political consequences clear. They won't be salutary.

To believe that this proposed amorphous structure of local government will allow for greater participation of the community — especially black members — is nothing less than delusion. It does no such thing: it represents the heavy hand of centralised authority.

If the intention is to redistribute wealth, then the RSC proposals are a mightily inefficient way of going about this dubious task. Inflation — about which this government is far too complacent — already has that matter in hand.

But, as the *FM* has consistently pointed out, to impose a payroll tax when unemployment has reached a new peak is extreme folly. As Nobel economist Milton Friedman says: if you want less of something, tax it more.

If there is no way of postponing the RSCs, the next most sensible thing is for government to take Assocom's advice and provide bridging finance until the proposed payroll and turnover taxes have been referred to the Margo Commission. It is no secret that the commission has reservations about their consequences.

We have the uncomfortable feeling, too, that Pretoria stumbled unawares on the enormous untapped RSC taxbase, and that it will be tempted increasingly to exploit it to the hilt. If so, we will see in the months ahead a steady increase in the two RSC levies without an appropriate and compensating decline in steeply progressive income taxes.

Efforts to deregulate the economy and encourage the growth of small business become a mockery besides the RSC levies. There is simply nothing to recommend them. ■

TAPPING R650 BILLION

Inland Revenue has given some indication of the taxbase it is assuming for the RSC turnover and payroll levies.

The annual yield in SA's "major metropolitan areas" would be about R800m a year, according to Revenue's Ian Micklejohn. The 0,25% payroll levy, on 1987-1988 national remuneration of about R100 billion, would yield some R250m. The balance, to R800m, would come from a 0,1% levy on turnover to yield R550m. This assumes a turnover taxbase of R550 billion. The total taxbase of R650 billion is by far the greatest yet known in SA.

Has Pretoria stumbled on to something without realising it? The RSC levies taxbase of R650 billion can be compared with those of our current system: personal tax of about R100 billion; GST of R75 billion; and company and mining tax of some R24 billion. These current major taxbases total R200 billion.

One is forced to wonder if the RSC levies are not an experiment for a totally new tax system, evolved independently of the Margo Commission. If GST was retained at 12%, and the RSC levies increased to 9%, revenues raised would equal current government needs.

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Voters urged to use election to demand tax reform

STAR 13/3/87.

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By Michael Chester

When a young Johannesburg Post Office researcher named Russell Richter talks about the involved issue of tax reform he can make a reasonable claim to speak on behalf of the silent majority of taxpayers.

He senses an urgent need to find radical new solutions but despairs of the chance of a single man-in-the-street voice ever being heard above the din of endless academic and political arguments.

He has never studied economics as such and concedes that he flounders over such jargon as "fiscal drag" and "bracket creep". His job absorbs him in the technical problems of future trends in telecommunications.

Even so, Russell Richter has launched into the formidable task of trying to mobilise taxpayers to use their collective clout at general election time to force a radical swing in parliamentary attitudes in the tax reform controversy.

"There is a small core of us ordinary taxpayers convinced that taxation should be pulled out of the party political arena and judged on a purely non-partisan economic basis," he says.

"Now we are campaigning to encourage taxpayers in every single constituency to stand up and be counted at pre-election meetings and demand a commitment from each candidate to pledge active involvement in an entirely fresh approach to the tax muddle.

"The political banners carried by each candidate should make no odds to the commitments. It's snide political bickering and gamesmanship that seem to have blocked all real progress so far.

"We are convinced that the man-in-the-street can use his muscle at election time to put pressure on all candidates to pledge to bury the hatchet on tax reform and commit themselves to a round-table nonsense debate in Parliament.

"The most appealing solution may be contained in the tax reform blueprint prepared by Johannesburg tax consultant Nic Nel and strongly supported by the Econometrix research unit.

"The blueprint, in short, recommends the sweeping away of the entire present system and the introduction of a simple flat tax rate of about nine percent for all taxpayers — individuals and companies alike — in tandem with a special tax on cash transactions.

"Its simplicity is astonishing but it promises a square deal for everyone — means the scrapping of the general sales tax, spikes the row about convertng to a value added Tax system, closes all the loopholes used by corporate as well as individual taxpayers.

"Perhaps even more important, it promises to restore the incentives that are essential to business expansion at one end of the spectrum and productivity performance at the other. The results — better economic growth, far more job creation projects."

(Report by M F Chester, 47 Sauer Street, Johannesburg.)

Mr Russell Richter, a young man with a mission — bringing pressure on all general election candidates to pledge commitment to a re-think on tax reform.

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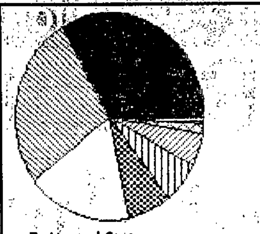
(320) STAR 14/3/87



Estimated State revenue for 1986/87.

Individual taxpayers lose more and more

By Sven Lünsche

Much has been written about the need for Government to provide some kind of tax relief to individuals in order to boost disposable incomes — but can the authorities really afford to be that generous?

Unless they drastically cut down on public sector expenditure, most economists feel that South African taxpayers should not expect substantial relief from their burden in 1987.

Gross state revenues now represents about a quarter of GDP or a third of net national income.

Says Nedbank chief economist Edward Osborn: "During the Eighties there has been a growing appropriation of net national income for the financing of State activities — from 29 percent in the 1980/81 fiscal year to 36 percent last year."

In addition, between 1975 and 1985, the county's overall tax burden has risen from 18,1 to 23,5 percent of GDP, according to a recently released survey by the Central Statistical Services.

A glance at this year's estimated composition of state revenue confirms these developments.

Corporate taxes are expected to contribute substantially less to the Government's coffer than last year, while individual income tax will amount to about 33,1 percent of state revenue, compared with the 1985/86 budget figure of 28,2 percent.

The comparitive figure for gold mines is 6,5 percent (8,1 percent), while industrial, financial and other mining companies, at 17,9 percent, are estimated to contribute half a percent less than a year ago.

In the 1980/81 budget the country's gold mines contributed by far the largest proportion with 20,3 percent, but that was at a time when bullion hit the $800 an ounce mark.

This year's share for the gold mines has been calculated on the basis of bullion in the region of $300 to $350, but since then the fortunes of the gold producers have changed and most mines can look back at a prosperous 1986.

The restraints on the authorities in applying fiscal regulation through tax changes are compounded by the problems of forecasting revenues for an economy which is dominated by one commodity, gold, with a highly variable price.

The taxman is therefore not expected to get little more than the estimated amounts from the mines.

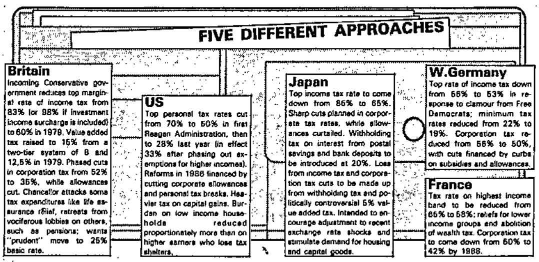
Says Mr Osborn: "The authorities could squeeze a bit out of the gold mines, but at the current expenditure rates they have little leverage on personal tax and GST."

"No doubt the authorities fear that a significant relaxation of taxation, whether direct or indirect, would simply open up the the budget deficit, resulting in intractable public debt management problems," Mr Osborn added.

In a recent letter to *Rapport*, Finance Minister Barend du Plessis admitted that the revenue received from GST will by all accounts be lower than originally planned.

Tax reform: the worldwide trend

JOHN PLENDER



Tax reform has become an all-pervasive feature of the industrialised world in the 1980s.

Since Prime Minister Margaret Thatcher's government cut Britain's top marginal rates of income tax at the start of the decade, the bandwagon has rumbled inexorably through such diverse economies as France and Belgium, West Germany and Sweden, Denmark and Australia.

The process culminated in an ambitious reform in the US, where President Ronald Reagan's administration has presided over a reduction in the effective top marginal rate of income tax to 33%.

Even Japan, no slavish adherent to foreign fashions, is now travelling the reformist route. Is there a common thread?

Ideology has clearly played a part. Both Thatcher and Reagan belong to the school which holds citizens are entitled to keep the lion's share of their earnings even if, as in Britain, the opinion polls suggest they would cheerfully finance more public works.

Supply-side economists have also exerted policy influence by reasserting arguments about the disincentive effect of high marginal tax rates on work, savings and investment.

In the US, the debate has been elevated from economics to the realm of metaphysics, with claims that Reagan's tax cuts would unleash such dynamic forces into the economy the cuts would pay for themselves in five years.

One of the more striking aspects of the global trend, however, is it cuts across political boundaries. In Australia, Bob Hawke's Labour government proposed cuts in top income tax rates from 60% to 49% as part of the corporatist deal with unions, in which cuts and increased employer contributions to pension funds provided the *quid pro quo* for cuts in real wages.

New Zealand's Labour government, in the meantime, cut personal taxes as part of a brave bundle of liberalising measures.

This suggests the symbolic importance of high marginal tax rates is lessening, except in countries like the UK.

London School of Economics Professor Mervyn King says changes in marginal tax rates above 59% do not have much redistributive effect nor any great impact on the exchequer; the more potent force for redistribution is the marginal rate on middle incomes.

That said, the UK rich are shouldering an increased share of the tax burden, because their pre-tax incomes have risen disproportionately under Thatcher. But there is no conclusive evidence to show how far, if at all, this reflects a genuine response to tax-cutting incentives as opposed to, say, a move by UK management to improve the top pay rates for the same degree of effort and risk in response to a more emollient political climate than in the 1970s.

The argument becomes even more contentious when the top rate plunges from 50% to 33% as in the US. In King's view such cuts are unlikely to generate any "efficiency" gain in the shape of additional tax revenues. He will not be popular with supply-siders.

It may be that the disincentive effects of high marginal tax rates are exaggerated too. There is certainly no correlation between marginal tax rates and economic growth: Japan and Sweden have high marginal income tax rates, while Britain, the US and Switzerland have low ones.

Nor are low US top rates likely to prompt a dramatic brain drain from other developed countries, as Thatcher fears. As Britain's Institute for Fiscal Studies (IFS) director Bill Robinson points out, tax rates are academic when individuals are being seduced by pre-tax incomes two or three times more than they earn in the UK.

At the same time, the tax base (income available to the tax man) has been eroded because of avoidance opportunities offered.

Here, surely, is the most powerful impetus for reform. Politicians of all persuasions have been forced to recognise their tax systems have ceased to work properly.

This can, of course, be rationalised in political terms. To a libertarian like Friedrich Hayek, allowances and tax expenditures are a reflection of a degenerate auction in which rival interest groups share out the spoils grabbed from fellow citizens.

Others, such as the American economist Mancur Olson, see in such interest group pressure an explanation for economic sclerosis in the advanced countries.

A more pragmatic rationalisation might be that tax systems have a life cycle. The problem for reformers is the encrustations that have fouled up the system are also the most valuable weapons in the arsenal of political patronage.

No doubt that explains why relatively ideological politicians like Reagan and Thatcher, quick to see a trade-off between cutting high tax rates and abolishing allowances, have not fully dispensed with reliefs for interest payments and pensions contributions.

The real divide is between those politicians who want to have their cake and eat it and those who pay for eye-catching income tax cuts by increasing taxes on consumption or by other means.

No marks here for Reagan, whose recent tax reform was intended to be "revenue neutral" despite the big budget deficit. By contrast, Thatcher has nearly doubled the rate of valued-added tax and increased most workers' national insurance since coming to power.

Although income tax cuts have caught the headlines, a fundamental economic debate still surrounds changes being made in incentives for savings and investment.

Some, like British Chancellor of the Exchequer Nigel Lawson, have dismantled corporation tax systems based on high rates and big allowances that included powerful incentives for investment.

Removing the investment subsidy will, it is argued, discourage companies from investing in projects that would otherwise show uneconomic returns. It also dilutes the bias in the tax system in favour of capital intensity at the expense of labour — a key point in view of Britain's high level of unemployment.

A relatively under-explored question is how far these changes will affect real investment returns and national competitiveness in an increasingly interdependent world economy.

Chicago-based Kemper Financial Services' chief economist, David Hale, argues the expansion of corporate depreciation allowances in the 1981 US Tax Bill helped increase the post-tax return on industrial investment and thus contributed to an increase in the level of US interest rates.

When the resulting upsurge in new investment outstripped domestic savings, capital was imported from Japan where savings were heavily subsidised. This, however, led to upward pressure on the dollar, which made the export sector of the US economy less competitive.

The 1986 US decision to reduce depreciation allowances, together with this year's Japanese attempt to introduce a withholding tax on interest income, could now affect their respective capital flows.

Forecasters of the Organisation for Economic Co-operation and Development (OECD) argue, for example, the US tax reform could cut two or three points off real interest rates, which would make the US a less attractive home for foreign savings and the budget deficit more costly to finance. How the Japanese react to a tax induced cut in the return on their savings is less easy to fathom.

In small open economies, policymakers have long been aware tax changes can affect economic relations with their trading partners.

The impact is particularly striking where a single trading partner plays a disproportionately large role; Canada, for one, is highly sensitive to the way the interaction of tax policies affects the flow of capital, people, plant and machinery across its border with the US.

Yet Hale and King are both convinced capital mobility will bring pressure for greater convergence in national tax policies. Where the US and Japan are concerned, the case seems irrefutable.

How long before the next tax upheaval? Since many reformers have removed inflation-proofing from their tax systems, any upturn in inflation might spark off another round.

And those countries that have overhauled the structure without addressing more fundamental problems of low savings ratios and big budget deficits will have to think again. In their case, reform has a different connotation — a euphemism, in fact, for hefty tax increases. □ *FINANCIAL TIMES*

Manufacturing ~~Metallic mineral~~ Products

Feb

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10/2/87

DP

GST to remain the same

CAPE TOWN — General Sales Tax would not to be increased, the Minister of Finance, Mr Barend du Plessis, said yesterday in the House of Assembly.

Introducing his mini-budget, he said the government did not want to limit its manoeuvrability to implement the Margo Commission's recommendations which contained extensive proposals for indirect taxation.

These proposals would only be considered by the government later in the year.

The commission's report on the country's tax structure was at present being translated from English to Afrikaans.

He said a small decrease in the GST rate would also hold questionable advantages for the consumer.

A single percentage point represented R850 million in lost income to the state, and "a larger concession cannot be considered at present". — Sapa

Argus 18/3/87

'Cut taxes'

Push personal saving — says Sanlam chief

By TOM HOOD, Business Editor

A CALL for tax concessions from the Government to promote personal saving after a sharp weakening of the country's personal savings effort was made today by Dr Fred du Plessis, chairman of Sanlam.

The country urgently needed to boost personal saving, replacing foreign capital which has dried up and to provide more jobs, he said at the insurance giant's 68th annual meeting in Bellville.

It was vital that the Government should actively promote personal saving through more generous tax concessions.

Dr du Plessis

The rebate for life assurance premiums, as well as deductions allowed for annuity premiums, should be increased, he said.

Some of the amounts on which tax rebates were granted for annuity contributions had not been changed for nine years. In real terms these tax incentives had dropped to unacceptably low levels.

Capital was urgently needed to create employment and since the country was largely cut off from foreign capital sources, a sound savings effort was of vital importance.

Sanlam's investments on behalf of policy-holders created 42 000 additional jobs in the past five years, a time of economic recession and massive unemployment, he said.

South Africa did not have a social security system, so individuals had to fend for themselves, partly by taking life assurance.

Driving force

"In our case we would expect assurance premiums to make up a relatively larger portion of gross domestic product, yet a large part of our population has little or no assurance.

"Indeed, if the premium income per capita is the yardstick, South Africa is last in the line of leading life assurance countries, with a figure of about R172 a year against R880 for Switzerland, R862 for Japan and R796 for the United States.

He disagreed with those who claimed that an increase in company saving had compensated for the weaker personal savings.

"They forget that company saving is often a reflection of the unwillingness of companies to invest.

"Investment is the strongest and most desirable driving force in the economy, but has been on the decline in South Africa for some years now."

Company saving could not exert a direct influence on consumer-spending, and neither did it help to lighten the burden of social security resting on the shoulders of the authorities.

It was obvious that personal saving and company saving were two totally different phenomena and that company saving would never be a substitute for personal saving.

Speaking of South Africa's national strategy, Dr du Plessis called for plans of action to be drawn up immediately now that consensus had been reached about the most pressing economic problems.

This should be in close co-operation with the private sector. These plans should be introduced to the public in an imaginative way to get everyone's support.

He was pleased that a long-term strategic plan had been drawn up by the President's economic advisory council and that it was discussed in detail at the Pretoria conference last November.

South Africa's problems were so serious, deep-rooted and complicated that one would not be able to solve them, nor be able to use the country's long-term economic potential, without such a plan.

Dr du Plessis said the Sanlam group need never rely on monopolistic powers to achieve success. Its successes were achieved in a strongly competitive market to the benefit of the entire community.

LOAN LEVY BONANZA!

Argus 19/3/87

End of the line for repayments

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Fiance Staff

REPAYMENT of the 1983 loan levy of R286-million could well be the last — no other amounts are outstanding.

And it could also be the last time the Government can put a lump sum into the pockets of individual taxpayers in the hope of a mini buying spree and ultimately an injection of more life into the economy.

Tax consultant Mr Godfrey Shev of Hurwitz Lewak pointed out that the Minister of Finance could have held the money for another four years. By law the repayment date was any time before February 28, 1990.

Some people regarded the repayment as a bonus but others looked on it as a tax and nothing more.

Virtually none of the developed countries go in for loan levies and since 1973 South Africa has moved away from the system by collecting taxes and keeping them.

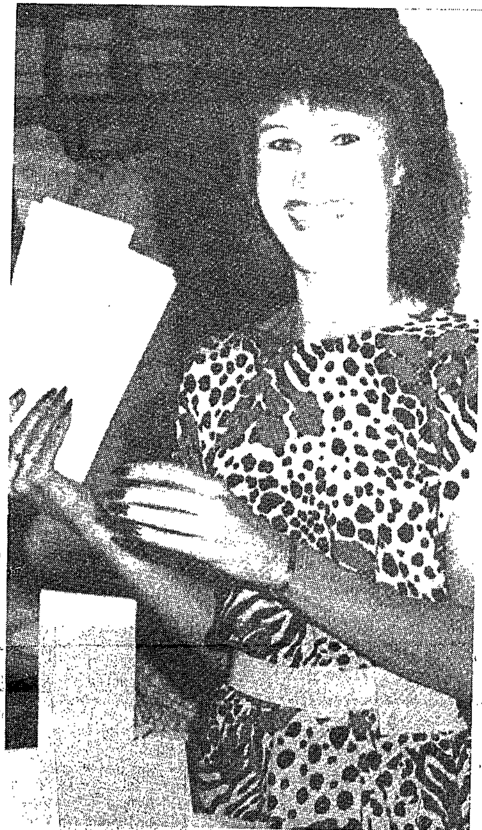
The loan levy of 2,5 percent pushed the maximum tax rate to 52,5 percent in 1983. This year the rate has dropped to 47,5 percent through a surcharge (discount) of 2,5 percent and no loan levy.

With interest adding 8 percent a year for four-year money when double that could be obtained for most of the time, it would be hard to think of a worse investment, according to a banker..

The levy's buying power is also about halved today compared with when the tax man took it, because of inflation running as much as 18 percent,

Borrowing R286-million at 8 percent, about half the inflation rate, is considered in banking circles to represent one of the bargains of the decade for the government.

Tax bonus likely to spark spending spree



FIRST THE GOOD NEWS: From a beaming Miss Sonja Kleinschmidt, a senior clerk at the Department of Inland Revenue in Pretoria, packing some of the 1 220 000 cheques sent taxpayers with R286-million in credits for loan levies paid in 1983. If you have not already received yours, it should be delivered in the next day or two. Next the bad news: In the next section of the Inland Revenue offices, still heavier bulks of mail were carrying the dreaded buff forms telling taxpayers to list every scrap of income they received over the past year so a fresh batch of tax demands can be sent out.

By HENRI du PLESSIS

BUSINESSMEN expect the repayment of the 1983 loan levies to be a shot in the arm for the economy as it is likely to increase consumer spending.

Mr Leonard Hotz, president of the Tygerberg Chamber of Commerce and Industrial Association, said he expected the repayment to inject about R250-million into the economy and ease unemployment.

"This repayment of the loan levy which was announced in the mini-Budget on February 9, is in line with recommendations made by the Associated Chambers of Commerce (Assocom) to the Minister of Finance," he said.

"I expect the R250-million to contribute to the economic recovery which we are seeking to promote during the course of 1987.

"The key to economic recovery is higher consumer spending and one of the devices which will help to strengthen both consumer spending and consumer confidence is the repayment of this loan levy.

"The levy only accrues to individuals and not to companies, making the total amount available for consumer spending."

Mr Hotz said the multiple effects of the repayment could be somewhat greater than the net R250-million anticipated.

"Our chamber is looking forward to the repayment of the loan levy and we certainly think it will help to stimulate consumer spending," he said.

"It is even possible that some consumers may already have spent it in advance, but it is very difficult to say just how many have already done so.

"Once taxpayers have those cheques in their hands we certainly think it will help, together with the other measures taken to stimulate the economy, to push South Africa closer to the target of 3 percent growth which we are aiming for this year.

"One of the concommitant effects of the repayment of the loan levy and the consequential increase in consumer spending will inevitably be an increase in job opportunities at a time when unemployment in our country has reached such alarming proportions."

LOAN LEVY BONANZA!

Argus 19/3/87

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Waiting for Margo: The quiet revolution

Finance Staff

THE man-in-the-street as much as business is waiting for the promised "tax reform", says Mr Pierre du Toit, a partner in Arthur Anderson and Co.

There is much talk of a tax revolution but it does not lie ahead — we are in it, he says.

The extended hide-and-seek birth of the Margo Commission report adds fuel to the fires of fiscal rumour.

Anyone in the tax profession can testify to the way in which the authorities' administration of our tax laws have tightened.

"We see it in the disappearance of "benevolent" tax practices; we see it in a new sophistication and aggression on the part of the authorities; we see it in the growing imposition of penalties and increasing number of tax criminal prosecutions."

VALUE ADDED SYSTEM

Within the last 10 years South Africans have seen another quiet revolution — the increasingly important role of indirect taxes.

Not only is sales tax by now well established, whether in its own right or as father to a value added system, but the now imminent regional levies is another manifestaion of this.

He believes the regional levies may well be the heralding of another revolution-in-process.

"Whatever South Africa's ultimate constitutional model, devolution of power seems to be an element of most proposals, whether it be Mr Chris Heunis's towering structures or the townships' street committees.

"With any devolution of power is bound to come a devolution of taxing jurisdiction — the power to tax ultimately underlies and manifests the power to govern."

Few realise the longer-term implications of the amalgamation of tax systems for blacks and non-blacks, brought in a few years ago — a revolution if ever there was one, he says.

Apart from the power-political implications of a common tax system, as the different communities grow towards economic parity each will increase its own demands on the way that common system should be structured and administered.

"Perhaps the most subtle tax revolution playing itself out around us is in the ordinary man's attitude to tax matters.

"There have been few periods in our history when tax issues have commanded such an important part of the public debate as it does today.

"These dynamics in our tax lives are of such a magnitude that it can hardly be seen as less than a revolution. So how does business react to the uncertainties which always accompany major environmental shifts?"

Within the scope of this brief comment, Mr du Toit says, it is possibly only to paraphrase a few pointers:

TAX PLANNING

- The importance of the tax consequences of business must be recognised at board level.
- Tax must be seen not as an inevitable consequence of business, but as a cost which must be managed like any other.
- Tax planning must reach beyond income tax to all taxes which represent a burden on the business.
- The "other side" must never be under-estimated.
- Legality must at all times be an absolute ingredient of planning.
- The right, on the other hand, to plan within the law, and to do so aggressively and by testing the law, must be defended vigorously and actively implemented.

"Whether Margo reports in two months or two years, we are involved in a tax revolution right now. Those who recognise it will thrive — those who fail to will fail more generally too."

De Jonge vigil soaks SA taxpayer not Dutch

SMR 19/3/87 (320)

By Claire Robertson
Pretoria Bureau

The police watch on Dutch fugitive Mr Klaas de Jonge has cost South Africa at least R600 000 in the 20 months he has been in the old Netherlands embassy premises in Pretoria.

This figure is based on a conservative estimate of the pay of the 30 policemen "staking out" the premises and follows Foreign Minister Mr Pik Botha's claim at an election meeting last week that South Africa could not detain Mr de Jonge more effectively for less money than the Dutch Government was doing on its behalf.

A spokesman for Mr Botha's office said the Minister had referred to Mr de Jonge's actual detention. She added: "That does not cost the South African Government one cent.

"The police do not work out costs on such a basis. It is silly to try to estimate the cost as far as protecting the public and maintaining public order is concerned.

"Effectively, he is being detained by the Dutch Government and the security presence is to ensure he does not escape."

The security presence was also to prevent actions against the old embassy building that would be contrary to international law, she added.

The Star's requests for details on the basic pay of the 10 constables, four lieutenants, four warrant officers and 12 sergeants watching Mr de Jonge were denied by the police public relations directorate as the information was "confidential".

However, it is known that constables earn a basic monthly salary of about R800 and lieutenants about R1 800. The average for the De Jong team is R1 000.

The directorate said the number of men was "the same as June last year" when then Law and Order Minister Mr Louis le Grange said it took 30 men to watch him every day.

If Mr de Jonge left his sanctuary and was jailed on the arms charges South African authorities want him to face he would cost the taxpayer about R10,86 a day, or R325 a month.

It now costs South Africa a minimum of R1 000 a day or R30 000 a month to maintain the police vigil.

Mr Botha told a Houghton election meeting recently that Dutch taxpayers were paying for Mr de Jonge's food, for two guards and rent.

However, in November, a spokesman for the Nedbank group, which owns the centre housing Mr de Jonge's bolthole, said the bank had not charged rent for "some time" because it did not want to harm any action for damages the bank planned to bring against the Dutch Government.

Dutch taxpayers thus pay only for Mr de Jonge's food and a rotating police guard which costs R100 000 a year. Keeping him and guarding him might cost the Dutch about R107 000 a year; South Africa pays R360 000 for the police presence alone.

Life insurance, annuity tax review

CAPE TIMES 19/3/87 (328)

Rebate increase to be considered

Financial Staff

THE MINISTER OF FINANCE, Barend du Plessis, will consider increasing the tax rebates on life insurance and annuity contributions, the Commissioner for Inland Revenue, Clive Kingon, said yesterday.

He said this matter was reviewed every year. But any increase in the rebates would depend on what the Treasury could afford.

Kingon was commenting on a call by the chairman of Sanlam, Fred du Plessis, for more generous tax concessions to encourage personal savings.

In his chairman's address at the annual meeting of Sanlam yesterday, Fred du Plessis said a higher level of personal savings was needed to generate more capital to provide badly needed jobs.

Pointing out that some of the amounts on which tax rebates were granted for annuity contributions had not been changed since 1977/78, he said: "In real terms these tax incentives have therefore dropped to unacceptably low levels."

Sharp decline

The sharp decline in personal savings in the past six years was a serious economic problem.

The average South African now saved only 3,5% of personal disposable income, compared with 10% in the previous decade.

This compared with an average savings level of 30% in Japan.

"No-one doubts the necessity of creating employment for our fast-growing population.

"This — as well as other equally essential investments — requires capital. And since we are largely cut off from foreign capital sources these days it is all the more necessary for sufficient capital to be generated within the Republic.

"A sound savings effort, to bring about this generating of capital, is therefore of vital importance."

Du Plessis said it was a mistake to claim that the high level of company saving compensated for low personal savings.

Inflation book-keeping

People who reasoned in this way forgot that company saving was often a reflection of the unwillingness of companies to invest.

"Investment is the strongest and most desirable driving force in the economy but has been on the decline in SA for some years now."

Company saving must also make up for inflation, since inflation book-keeping was not recognised for income tax purposes.

And company saving could not exert an influence on consumer spending, nor "lighten the burden of social security resting on the shoulders of the authorities".

□ At present, the rebate on life assurance premiums is 10% of annual premiums paid, with a maximum of R75 claimable from the Receiver. This has remained unchanged for about 10 years. Rebates for retirement annuity contributions are 15% for policyholders not contributing to any other pension scheme and a maximum of R1 750 for those already contributing to a pension scheme.

Sanlam chief calls for tax relief to boost savings

(320) STAR 19/3/87

By Tom Hood

CAPE TOWN — A call to the Government for tax concessions to promote personal saving was made yesterday by Dr Fred du Plessis, chairman of Sanlam.

The country urgently needed to boost personal saving to replace foreign capital which had dried up, he said.

This was needed to provide more jobs, he told at the insurance company's 68th annual meeting in Bellville.

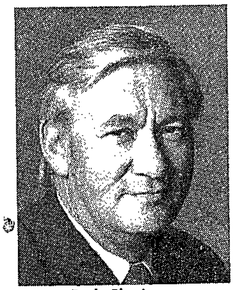
It was vital that the Government should actively promote personal saving through more generous tax concessions.

The rebate for life assurance premiums as well as deductions allowed for annuity premiums should be increased.

Some conditions governing rebates on annuity contributions had not been changed for nine years. In real terms these tax incentives had dropped to unacceptably low levels, Dr du Plessis said.

Capital was urgently needed to create employment. Because the country was largely cut off from foreign capital sources, a sound savings effort was of vital importance.

Sanlam's investments on behalf of policyholders had created 42 000 extra jobs in the last five years — a time of economic recession and massive unemployment.



Dr du Plessis . . . "savings vital".

The group currently employed about 420 000 people, Dr du Plessis said.

Between 1982 and 1985, figures for discretionary saving — an important source of risk capital — showed that "dis-saving had occurred instead of saving", he said. Premium income had actually exceeded net personal saving by 284 percent.

South Africa did not have as extended a social secutiry system as most foreign countries so that individuals had to fend for themselves, partly by taking life assurance.

"In our case, one would expect assurance premiums to make up a relatively larger portion of gross domestic product, yet a large part of our population has little or no assurance," Dr du Plessis said.

Indeed, if the premium income per head of population was the yardstick, he said, South Africa was last in the line of leading life assurance countries, with a figure of about R172 a year compared with R880 in Switzerland, R862 in Japan and R796 in the United States.

Dr du Plessis said he disagreed with those who claimed that an increase in company saving had compensated for the weaker personal savings.

"They forget that company saving is often a reflection of the unwillingness of companies to invest.

"Investment is the strongest and most desirable driving force in the economy, but (it) has been on the decline in South Africa for some years now," Dr du Plessis said.

Company saving could not exert a direct influence on consumer spending, and neither did it help to lighten the burden of social security resting on the shoulders of the authorities.

It was, therefore, obvious that personal saving and company saving were two different phenomena and that company saving would never be a substitute for personal saving.

In its past financial year Sanlam became the first life office with a South African premium income of more than R2 000-million. Its investment income, as well as payments to policyholders or their dependants, each passed the R1 000-million mark.

Dr du Plessis said the Sanlam group would never need to rely on monopolistic powers to achieve success. Its successes were achieved in a strongly competitive market.

Mr John Maree, chairman of the Electricity Council, told the meeting that Sanlam's policyholders had billions of rands invested in the economy.

Current investment in Escom alone was R550 million — funds that were employed to create facilities to supply power to all of Southern Africa, Mr Maree said.

The levy only accrues to in... alarming proportions.

ARGUS 19/3/87

Tax haul soars by 170 percent

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Finance Staff

PERSONAL tax collections soared by almost 170 percent to R8 520-million last year from R3 164 for the 1981-1982 fiscal year.

Speaking in the Second Reading Debate of the Income Tax Bill, Mr M A Tarr (PFP) pointed out that a person earning R10 000 a year in 1972 now has to earn R40 000 a year to stay at the same level.

In 1972, however, he would have paid 14,2 percent of his income in taxes, while today he pays 30,9 percent.

This situation is expected to have an adverse effect on the economy in the future.

A recent World Bank study indicated that countries with a low tax revenue relative to gross domestic product experienced a high growth rate in gross domestic product, exports grew and rapid technological progress was made in comparison to countries with high taxes levied.

Hope that the heavy tax burden on South African taxpayers can be alleviated is not likely to be realised, however, for the Government will continue to spend and will continue to need to collect funds to spend, says Desire Vorster, senior lecturer in accountancy at Rand Afrikaans University.

All that taxpayers can hope for is perhaps the creation of yet further taxes such as a capital gains tax or a capital transfer duty or expenditure tax, so that the tax burden be evenly distributed among the taxpayers via a broad, non-discriminating tax base and structure.

SOUTH 19/3-25/3/87

Thousands in GST ripoff

320

THOUSANDS who can ill afford it, are ripped off every day by paying GST on tax-exempt items

In a random survey done by SOUTH, 35% of shops visited charged 12% GST on exempted food items. These include,bread, butter, fish, fruit, maize-meal, margerine, meat, milk (both fresh and powdered), vegetables, brown-bread meal, beans and lentils.

The shops charging GST on exempted items were mainly in the lower income areas like Mitchells Plain, Athlone and Guguletu.

Lower-income families have been hard-hit by inflation and huge increases in food prices in recent months.

Many consumers have no idea which food-items are exempt and end up paying more than they legally should .

Although the Department for Inland Revenue has recovered R97,16-million from GST defaulters, tax consultants estimate the figure to be as high as R1-billion a year.

Clive Robson a senior tax officer at the Department of Inland Revenue said the figure was "exceptionally high but not impossible".

Regular checks at shops and retail outlets are being stepped up to counter the abuses on the GST system.

"This is a very difficult area to police,"Robson said.

Mr Schalk Albertyn, chief director at the Department of Inland Revenue, said the estimate was a "bit high" and that he was never a good one for guesswork.

The "Mama and Pappa corner cafes do cheat us," he said, "but that it could only count for a couple of million."

The biggest GST defaulters were the big companies, Mr Albertyn said

Business advised to ready itself

RSC levies are on their way

BUSINESS has been urgently advised to review and amend accounting systems before July 1 — the date set for the introduction of the controversial RSCs.

In an eight-page guide to assist business on RSCs, Assocom said businessmen should immediately start planning for the introduction of levies.

These are the regional service (payroll) levy — based on wages, salaries and allowances — and a regional establishment levy based on turnover.

For the first year the payroll levy would not exceed 0,25% and the turnover levy would not be higher than 0,1%. The levies would be tax deductible as operating expenses but may not be recovered from employees or customers.

The report warned that business would be required to pay the levies on a "self-assessment" basis, but was liable to heavy penalties in respect of non-payment or incorrect payment.

"Notwithstanding criticism from various quarters, the authorities appear determined to have the already demarcated eight RSCs operational by July 1, from which date levies will be payable," Assocom said.

Businessmen are strongly advised to acquaint themselves with the contents of the regulations. Courses of action should include the allocation of responsibility for administration of the levies within a company.

MICK COLLINS

"Ascertain which regions apply in respect of various business transactions. Companies should determine the nature of their transactions within the meaning of the various definitions contained in the regulations."

Business must establish the operational date of each applicable RSC, as these may vary from region to region.

"Consider the rationalisation of business activities. Investigate the necessity for continuing to operate within more than one region.

"Businesses with major contracts in the offing can save by concluding these contracts before July 1 and so escape payment of the turnover levy involved."

As the turnover levy is charged on all amounts, the levy-payer could elect to be taxed on a "receipts" basis or on an "accrual" basis.

"In terms of the regulations, if a consideration accrues or is received not more than six months after the commencement date of the liability for the levies, in respect of an agreement formally and finally concluded before this commencement date, then this consideration is exempted from the levy."

The Johannesburg Chamber of Commerce has published a booklet entitled "RSC Levies Handbook" which is available at R10.

STAR 23/3/87

Assocom attacks RSC tax

By Shirley Woodgate, Municipal Reporter

The Government has been taken to task by the Associated Chambers of Commerce for introducing new, wide-ranging taxation for the Regional Services Councils before the publication of the Margo Report.

Assocom said today the Government should have provided bridging finance for RSCs, launched before the implications of the Margo Report into the reform of the tax structure could be evaluated.

"The content of the regulations give rise to much anxiety and are characterised by a lack of precision untypical of tax laws," Assocom said.

"They not only contain several anomalies but also provide scope for uncertainty in interpretation.

"The regulations do not provide for objections and appeals."

Assocom report slams RSC law

23/3/87 320 NM 24A

Mercury Reporter

THE Association of Chambers of Commerce is concerned that Regional Services Councils will not attain 'desirable objectives'.

Assocom yesterday released a report which contains wide-ranging criticism of the legislation which is to bring RSCs into being and which expresses doubts about the way they are to be funded.

Levies on companies' turnover and payrolls would have 'a serious cost-raising effect' and would harm business performance, the report said.

Feared

The levies departed 'in almost virtually every respect from the traditional four canons of taxation of fairness, certainty, convenience and economy'.

Assocom was also worried that representatives on RSCs would be drawn from 'local bodies elected along racial lines that do not all enjoy the full support of the community that they serve'.

It feared that the size of the bureaucracy could mushroom if no determined rationalisation took place in the public sector.

It felt it was unwise to introduce 'a new, wide-ranging form of regional taxation prior to the publication of the Margo Report into the reform of the tax structure'.

'The actual content of the (levy) regulations give rise to much anxiety. (The regulations) are characterised by a lack of precision untypical of taxation laws,' the Assocom report said.

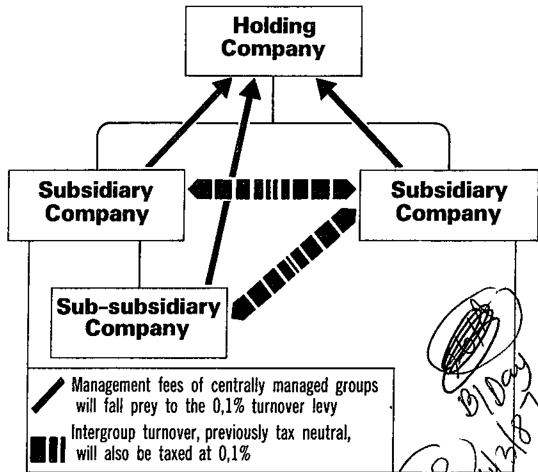
In spite of widespread criticism, the Government seemed determined to have eight RSCs in the Transvaal, Free State and Cape operational from July 1.

Assocom urged businessmen to start planning for the introduction of the levies and, if possible, to restructure their business operations to avoid paying levies unnecessarily.

Forewarned is forearmed

DAVID COHEN, in his final article on proposed RSC levies — due to come into effect in certain areas on July 1 — offers some tax planning suggestions

HOW GROUPS WILL SUFFER



WHEN BUSINESSMEN receive the Regional Services Council's (RSC) tax forms in three months' time they will be excused for thinking that they have received the incorrect forms.

The forms will call upon businesses to pay a monthly 0,25% regional services levy and 0,1% regional establishment levy from July 1. And if the lack of direct reference to either a turnover or payroll levy fails to elicit puzzlement, the maze of legislation spanning three *Government Gazettes* is guaranteed to confuse.

Levy rates, although fixed for one year, will undoubtedly spiral upwards in the years to come.

Costa Divaris, tax partner at Divaris Stein, estimates that RSC rates could eventually be into double-digit figures. The 300% rise in GST from 4% in 1978 to the current 12% is a trend which scares the hardiest entrepreneur, says Divaris.

Taxpayers could be forgiven for being both mystified and confused — but forewarned is forearmed.

Business has to seriously re-examine existing operational structures and trade methods to ensure they pay no more RSC tax than is absolutely necessary.

The levies may cause companies to re-evaluate their group structures. Companies with extended group structures will be levied on previously tax-neutral intergroup turnover. In order to counter this, groups may rationalise into branches or divisions.

Benefits

Ernst & Whinney's Ken Walton points to the simultaneous income tax benefits that often flow from rationalising into divisions.

"Under current tax laws, individual companies within a group are treated as separate taxable entities and are therefore unable to offset profits and losses. However, when rationalised, losses of unprofitable divisions are deducted from the taxable income of profitable divisions and the company invariably pays less income tax."

Ian Wilson, a tax partner at Price Waterhouse, notes that the introduction of levies ironically could aid business previously barred from rationalisation.

"In rationalising their operations, companies may consolidate their business into a company with an assessed loss. Previously, the Commisioner for Inland Revenue could attack rationalisation schemes under the Section 103 tax avoidance measures.

Cascade effect

"But because the levies are not administered by the Commissioner, it may prove difficult for him to attack such schemes, in view of the lack of inference that the sole or main purpose of the rationalisation was to avoid or defer liability of a tax administered by the Commissioner," Wilson said.

Business sectors with long manufacturing and distribution chains will also fall prey to the cascade effect of the levies, as each link of the chain will be levied.

This could lead to the formation of manufacturing partnerships. Such partnerships — in terms of which resources are pooled and profits derived in the form of profit distributions — limit the inflationary effects of the turnover levy within a sector to a minimum.

However, formation of partnerships should be viewed with caution, as drawings derived from these are taxable in terms of the RSC regulations.

Intergroup finance methods may also be reviewed. In groups of companies it is common for the holding company to exercise management centrally. The holding company recovers its outlay by charging a management fee to operating subsidiaries.

This previously tax-neutral transaction will now be subject to the 0,1% turnover levy.

The obvious alternative to management fees is the inter-company loan. Interest on loans for companies other than financial institutions is not leviable. Considerable scope is afforded, in that no hard and fast rule for charging of interest on such loans exists.

Similarly, it may be useful to decentralise management costs, whereby management fees are borne by the operating companies as a direct cost instead of indirectly by the holding company.

Techniques to defer liability of the new imposts could also be devised. Directors and shareholders of private companies could take loans throughout the year as an advance against salary — thereby limiting levy liability to a single payment at the end of the year.

For some time it has been departmental practice not to tax loans in lieu of salary as dividends in terms of Section 8 B.

Wilson suggests that groups with substantial in-house sales consider confining all invoicing to the last month of the year — again effectively deferring levy liability to a single payment.

Demographic changes could also flow once the levies are imposed. There are indications that some regions may impose higher rates than others. Businesses may wish to relocate the source of their transactions to outlying areas paying lower levies.

A loss

It may also lead companies operating in the independent states to expand operations there, ironically resulting in a loss of revenue to SA.

Finally, group companies paying rent to a central property-owning company within the group should review tenancy and rental agreements. Unlike GST, there is no facility for the authorities to impose minimum acceptable rents.

Possibly the only businessmen likely to benefit from the introduction of the RSC levies are tax consultants. This is no coincidence. Tax consultancy is based on the premise that, given an infinite amount of power, an infinite number of bureaucrats will weave an infinite number of loopholes.

Hardly surprising that it has become such a lucrative business.

 ARGUS 25/3/87 (320)

ECONOMY

Life will be better after Margo — JSE president

The Argus Correspondent

DURBAN. — Lower and flatter individual tax rates are likely to flow from the Margo Commission report which was handed to the State President last Friday, according to Tony Norton, executive president of the Johannesburg Stock Exchange.

Addressing the Natal branch of the Life Underwriters Association of SA at the Wild Coast Sun, he urged the Government to proceed with the report with speed — but only after the election.

Mr Norton said he believed the Government would be right to withhold the report until after the election.

The need for fundamental tax reform was so important that no risk should be taken of its issues becoming clouded in the run-up to the poll.

Beyond the election, there should be no unnecessary delay because in the present "hiatus period" companies were holding back investments. They could not make risk decisions without knowing the level of their greatest cost — tax.

Reform was urgently needed for at least four reasons — motivation, productivity, equity and to stimulate the investment needed for economic growth.

The country had not enjoyed a true period of fixed investment since the 1960s.

Reform also was critically needed to ease economic malaise of creeping socialism.

Individuals' share of total tax had risen from 28 percent to a massive 60 percent while the Government's share of gross domestic product had risen from 15 percent to 27 percent.

Handling of the report would be in four stages — publication, comment, the Government's response (including its White Paper) and the eventual legislation.

He said the commission's findings were a closely-guarded secret and he had no inside knowledge of what they contained.

However, after a long period of making submissions to it, he believed its report probably opted for substantial reform — a reduction in personal tax levels, improvement of GST and a standardisation of taxes applied to various corporate sectors.

It was likely to follow the international trend of lower and broader-based individual taxes.

It might even propose an all-in tax system which includes both capital and income. Such a system, which looks more to cash flow than income, would be important in an inflationary environment.

Although this would see taxing of capital profits (such as in share transactions), Mr Norton said the Johannesburg Stock Exchange would welcome it, provided the basic tax rate was low.

It would be better than the present hysteria created by not knowing whether a transaction would be treated as income or capital.

He believed the Government would react favourably to the report and the tax system would be improved.

All three elements pointed to this happening. Mr Justice Margo was a man of rare ability. The Cabinet, which took the ultimate decision on Margo, already had accepted, in whole, the Economic Advisory Council report calling for reform.

Also, Minister of Finance Barend du Plessis, who had inherited many problems on accession to office, would be keen to bring to fruition his first major project.

Tax man creates forex confusion

B/Day 26/3/87

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DAVID COHEN

AN UNPRECEDENTED number of queries by Inland Revenue into undertakings with unrealised foreign exchange losses had aroused confusion among companies, tax experts said.

The experts criticised the commissioner's interpretation of the law in that regard.

Inland Revenue is said to be disallowing the deduction of unrealised foreign exchange losses arising from loans to acquire trading stock, where these losses occur outside of the year of purchase of the stock.

Tax experts have attacked Inland Revenue's interpretation as "inconsistent, incomprehensive and illogical", and have called on the commissioner either to re-interpret or redraft the legislation.

An Inland Revenue spokesman said the matter would be addressed in due course. He said: "We are in the process of meeting with professional bodies with a view to establishing some sort of practice. But we will have to wait a while for something more explicit to emerge." He was unable to disclose when results could be expected.

Pim Goldby's Graham Richardson said: "The number of queries are legion. Almost all clients with unrealised foreign exchange losses — this involves

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Tax man creates forex confusion

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almost all stock importing business — have been carefully scrutinised by Inland Revenue and queries raised."

Ian Wilson, a Price Waterhouse partner, said the problem had come to a head because of the huge build-up of unrealised losses on unsettled foreign debt.

He said: "A large portion of these losses relate to debt caught inside the standstill net. These losses can only be avoided if the rand returns to pre-1985 levels."

Tax reform the No 1 economic issue — JSE boss

29/3/87

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Business Times Reporter

OF all South Africa's problems, tax reform is the most urgent on the economic agenda. That is the view of Tony Norton, president of the Johannesburg Stock Exchange.

He says reform is desperately needed because it involves matters such as motivation, productivity and new investment for growth.

"Our national savings are dangeriously structured. While they may look reasonable until analysed, their apparent health is as misleading as the glow on a cancer patient's cheeks," he told a Life Underwriters' Society conference this week.

Mr Norton said that although the contents of the Margo report were anyone's guess, "it is possible we will see a tax system making no distinction between capital and income gains, which makes sense with our high inflation rate".

He said an indirect tax on consumption was also likely to feature more prominently through a more appropriate GST system or value-added tax.

"Basically, the good news is that after Margo there will be life — and a good life — in the new tax regime likely to emerge."

Adding to his confidence, he said, was the fact that Mr Justice Margo was a man of outstanding ability. In addition, Finance Minister Barend du Plessis had inherited an impossible task and range of problems and the Margo Commission was his personal initiative.

Finally, the Cabinet had accepted the need for tax reform at the Pretoria economic indaba.

Mr Norton said that traditionally South Africa placed political considerations ahead of economic priorities.

"We should be concerned with economic reform and the need to stimulate the economy into 5% annual growth to avoid higher unemployment."

Deadline for levy-payers to register

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BD 11 Day 30/3/87

SOPHIE TEMA

BUSINESSES and all self-employed people who have to pay Regional Services and Regional Establishment levies have to start registering with the State on Wednesday.

This announcement was made by Director-General, Finance, Gerhard Croeser in Boksburg last week.

Croeser said the service levy would be calculated on remuneration, as defined in the Income Tax Act for PAYE purposes, paid to persons employed within the region.

The establishment levy would be calculated on turnover (excluding sales tax) derived by any person carrying on an enterprise within the region.

Religious, charitable and educational institutions of a public character would, however, be exempted from the establishment levies. But educational institutions were not exempt from the service levies, Croeser said.

Non-profit-making organisations engaged in nature conservation or animal protection activities would be exempt on all income received.

Minister of Finance Barend du Plessis would in due course publish in the *Government Gazette* the rates at which the levies were to be determined and the date on which those rates would come into effect.

Croeser also announced that for the first year government would make available an estimated R360m for the eight Regional Service Councils planned to start on July 1.

Empowering legislation on way

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Receiver to police levies on the RSCs

16/Day 31/3/87

DAVID COHEN

CHANGES will be made to existing legislation to empower the Minister of Finance to inspect company records to ensure Regional Services Councils (RSCs) levies are paid.

Rob Collins of the Receiver's Johannesburg office, who is responsible for interpreting and implementing RSC legislation on the Witwatersrand, said yesterday the Receiver's office would be policing the payment of levies.

Anthony Chait, a partner at Fisher Hoffman Stride, who has been consulting with the Receiver, said the Minister would be empowered to audit levy payers' records as part of investigations into tax payments.

"At present, Revenue is restricted to the role of an adviser."

As it now stands, say tax experts, the RSC legislation has no teeth, making it impossible to police payments.

Collins yesterday unexpectedly withdrew at short notice from a seminar in Johannesburg to discuss the proposed RSC levies, setting off speculation that there was uncertainty in the Receiver's office about its right publicly to interpret the legislation.

Solly Gerber, a senior partner at Fisher Hoffman Stride, said possible changes to RSC legislation could alter the Receiver's position, making any public statements premature.

He said: "Revenue are in a difficult situation. They are not sure where they stand. In order to avoid possible embarrassment, they decided not to stand on any public platform until their position is clarified."

Explaining his absence, Collins said: "Initially, we did not realise that participants would be charged a fee. A policy decision has been taken not to participate in seminars where a fee is paid."

He said that the RSC Act was not administered by the Minister of Finance, but fell under Constitutional Development and Planning.

Tax experts are wondering whether Ian Meiklejohn, another Inland Revenue representative, will participate in an RSC seminar, for which a fee is charged, and scheduled for tomorrow in Johannesburg.

Major changes expected to RSC levy legislation

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1/4/88

B/Day

GERALD REILLY

TWO important amendments to the Regional Services Council (RSC) legislation are to be introduced during the first session of the new Parliament.

They are provisions allowing for appeals on levy disputes to the Income Tax Court and empowering the Commissioner for Inland Revenue to scrutinise company records to ensure the turnover and payroll levies are being paid.

A senior Inland Revenue official told *Business Day* the department was working on July 1 as the date for the introduction of the levies in eight RSC regions.

Inspection of company books would be carried out by the same audit teams that checked records for PAYE and GST transgressions or omissions.

Deadline for July payments of the levies would be August 20.

The official said the Act placed the onus on those liable for the levies to register with the councils.

A maximum fine of R5 000 could be imposed for transgressions of the RSC legislation, including failure to register. Interest would be imposed on overdue levy payments.

Report by Gerald Reilly, 216 Vermuelen Street, Pretoria.

Producers win gains on liquor GST

B Day 1/4/87

(320)

KAY TURVEY

LENGTHY representations by liquor producers have won limited concessions to the proposed imposition of GST at producer level.

SAB and the Cape Wine and Spirit Institute representing Gilbeys, Douglas Green, Cape Wine Distillers and Union Wine last week succeeded in having government rescind its decision for GST to be charged on returnable crates and bottles at the producer level.

However, GST will still be charged on all liquor bought at the primary level as from May 1 and consumers will still be charged 12% on the liquor and its returnable container.

SAB marketing director Peter Savory said last night he was pleased no tax would now have to be paid on deposits at a primary level. The SAB had never been in favour of GST on bottles, as ownership

● To Page 2

Liquor producers win concessions on GST

(320) B Day

● From Page 1

was not passed on through sales.

He said the SAB was still not happy that the liquor industry had been "singled out" as the only industry to pay GST at source.

Savory said he hoped retailers would not push up markups because of the added costs of GST at primary level.

A spokesman from the Commissioner of Inland Revenue's office said GST would be charged on returnable liquor bottles and crates at wholesale and retail level, as it was "easier to levy a tax on the total purchase", which included the deposit.

It would be discretionary for bottlestores to refund the GST with the deposit.

He said there would be "no obligation" for the retailer or wholesaler to refund the GST, yet if they did they would be entitled to claim the taxable value from the Receiver of Revenue.

He said it had been decided to charge GST on all liquor right from producer to consumer to tighten control at all stages because of tax evasion in the liquor industry.

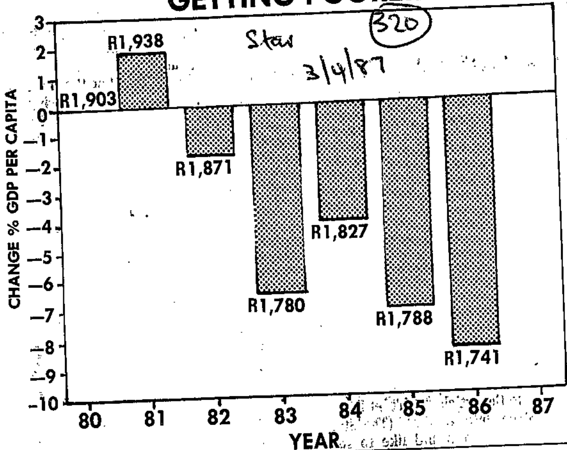
He said if GST was to continue to be paid only at the final stage as in the past, all tax would be lost if this GST was avoided.

Tax hikes leave average man poorer

(320)

Star 3/4/87

GETTING POORER



The tax concessions prior to the 1981 election were a small respite soon dissipated by government spending excesses in many areas, including the Tricameral Parliament extravaganza.

Despite record prices for gold in the 1980/82 period, higher GST and income tax coupled with the recession brought about by bad management of the economy has left the average South African at least 8,5 percent poorer today than he was when he last gave a mandate.

(Report by N Nel, Stand 43, Linbro Park.)

Lowveld promise for the holidays

Lowveld Bureau

NELSPRUIT — Good rains have transformed the Lowveld into a paradise and with perfect weather visitors can look forward to an enjoyable stay.

That's the promise from game parks and holiday resorts throughout the Eastern Transvaal Lowveld.

The Kruger National Park is beautiful and with plenty of grazing, particularly in the southern parts, and the animals are in excellent condition.

The reserve is fully booked for the holiday period and many day visitors are expected over the long weekends.

To avoid disappointment a spokesman suggested that day visitors telephone (012) 441-1919 to obtain a permit before leaving for the park.

Eastern Transvaal's Fedhasa chairman, Mr Barrie Sergay, said hoteliers were having a good season. Limited accommodation was still available.

The Lowveld's chief provincial inspector, Mr Jack van der Schuiff, has warned motorists to take care on deviations between Montrose Falls and Alkmaar.

"The roads are very slippery in wet weather and my men will be enforcing the speed limit strictly over the holiday period," he said.

Mr Van der Schuiff appealed to motorists not to drink and drive, and said a close watch will be kept for drivers not obeying road signs.

Electrical workers call for tax restructuring

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By Mike Siluma STAR 8/4/87

The Government has been called on to introduce legislation to narrow the disparity between individual and corporate tax, thus alleviating the tax burden on South Africa's working population.

The call was among resolutions passed by delegates to the 15th triennial conference of the SA Electrical Workers' Association (SAEWA), which ended in Johannesburg at the weekend.

Delegates to the conference, noting "with extreme concern the increasing burden being borne by individual taxpayers", urged that Government introduce legislation "to ensure that company tax cannot be evaded as is evidently being done at present".

They also called for an option to married couples on whether to be taxed jointly or separately.

Warning that "the greatest threat facing South Africa lies in the effects caused by an unacceptably high inflation rate", the delegates called on the authorities to halt a rise in prices, "especially where such price escalations are not justified and result purely from greed displayed by suppliers".

On social services, delegates called for measures to ensure that efficient and adequate medical care was made available to all.

The Government was urged to expedite the findings of the select committee on pension benefits, especially if the recommendations included the establishment of a national pension scheme.

Dealing with matters on the industrial relations front, the conference suggested an extension to the duration of the annual industrial wage agreement until agreement was reached on a new one.

Guests to the conference, at which the union's Golden Jubilee was celebrated, included the chairman of the Chamber of Mines, Mr Peter Gush, the editor-in-chief of The Star, Mr Harvey Tyson, and the executive director of the Steel and Engineering Industries Federation, Mr Sam van Coller.

Code firms under tax scrutiny

B/Day. 8/4/87

320

DAVID COHEN

THE RECEIVER of Revenue has recently begun querying Sullivan Code signatory companies that are deducting the costs of affirmative-action programmes for tax purposes, tax experts say.

These US companies are being asked to justify the link between social-responsibility expenditure and the production of income. The Income Tax Act says that in order for spending to be tax-deductible, companies must prove it is incurred for the purpose of earning income.

Commissioner for Inland Revenue Clive Kingon says these companies would have to justify the deductibility of affirmative-action expenses in terms of the general principles (section 11A and 23G) of the Income Tax Act.

However, he denies that Sullivan Code signatories are subject to special attention in this regard.

"No instructions have been issued specifically to query Sullivan Code expenditure. All queries are in terms of normal Revenue procedure," Kingon says.

The Signatory Association says that of about 200 US companies still operating in SA, 160 (80%) are Sullivan subscribers.

Affirmative-action expenditure is incurred typically in the form of donations to community-upliftment schemes. These include black education, housing

● To Page 2

Taxman queries Code deductions

B/Day 8/4/87

● From Page 1

and health as well as small business development.

The problem experienced by Sullivan subscribers is that only some donations are specifically deductible in terms of section 18A of the Income Tax Act, namely donations to any university, technical college, approved educational fund or the Bible Society of SA.

With all other donations, the onus is on the taxpayer to prove such costs are incurred in the production of income and are of a revenue nature.

Eric Louw, a partner at Coopers & Lybrand, says it could prove difficult for companies to establish a causal link between Sullivan-type donations and the production of income.

"Ironically, it is easier to prove a causal link when the intention lacks altruism. Donations that exact advertising mileage in the form of sports sponsorship are allowable," Louw says.

Companies would therefore have to argue that a social-responsibility profile is as necessary to business success as advertising is.

The other obvious argument, Louw says, is that the expenditure is necessary to ensure the continued survival of the company.

Fisher Hoffman Stride partner Anthony Chait says: "Affirmative-action expenditure is an inevitable cost for US companies in SA today."

Louw feels Inland Revenue is causing the Sullivan signatories unnecessary inconvenience.

"The idea is for employers to contribute towards the establishment of a nonracial SA. In my opinion, US-owned companies should, either individually or through the American Chamber of Commerce, approach Revenue with a view to obtaining suitable relief.

"The disinvestment of US companies will result in unemployment in SA, which the government can ill afford. The government must also take into account that the companies are financing social reform, costs that the government should be incurring," Louw adds.

Taxpayers in Transvaal coughed up more in 1985

(320) B/Day 9/4/87

GERALD REILLY

TRANSVAAL taxpayers paid more than half the total income tax collected in the 1985 tax year, figures compiled by the Inland Revenue Commissioner show.

The figures reflect the impact of the recession on total incomes in the province.

In 1985, Transvaal taxpayers totalled 794 073 (843 468 in 1984), or 47,38% of the national total; total income taxed was R14,584bn (R14,896bn), tax assessed R2,887bn (R3,031bn) or 56,65% of the total.

Combined income of the Cape's 508 492 taxpayers — R7,216bn — was less than half the Transvaal figure. Assessed taxation was well below half of the Transvaal's at R1,170bn or 23,3% of the total.

Natal figures were 266 058 taxpayers (15,87%), total income R4,095bn (14,96%) and tax assessed R704,5m (13,87%). The Free State had 98 496 taxpayers (5,88%), income R1 603bn (5,82%) and tax assessed R292,3m (5,75%).

The Witwatersrand was the biggest regional taxpayer in the 1985 tax year with 196 837 taxpayers earning R3,477bn and paying R710,7m in taxes.

Next was Pretoria with 141 946 taxpayers who earned R2,642bn and paid R533,6m. Durban had 141 016 taxpayers with earnings of R2,164bn paying R371m. Cape Town was fourth of the top earning regions with R1,871bn earned by 136 172 taxpayers and assessed tax of R304,6m.

ARGUS 10/4/87

BUSIN

(320)

INVESTMENTS

Tax-free windfall for stags attacked

By TOM HOOD, Business Editor

A TAX-FREE cash windfall is likely to come the way of Natal Building Society shareholders who made stagging profits of almost 100 percent when they sold their R2 shares for around R4 a share when NBS Holdings made its debut on the JSE this week.

This is the belief of tax consultants Costa Divaris and Michael Stein, who criticise an Inland Revenue ruling that exempts these profits from tax.

Normally investors become liable to tax when they sell shares, especially when they stag newly listed shares.

In the past, the small investor with only one or two share transactions might not be taxed. However, the authorities were now cracking down on everyone, Mr Divaris said today.

But the tax man, says Messrs Divaris and Stein, joint editors of Juta's monthly Taxgram, "having been persuaded to depart from well-established tax principles and practice to the great satisfaction, no doubt, of the building society lobby, can hardly do anything but extend the same privilege he magnanimously bestowed upon members of the UBS also upon those of the NBS and the Allied."

Allied will be listed on June 10 and about 90 000 of its members will be eligible to buy a certain number of quoted shares proportionate to their present qualifying investments, they say in Taxgram.

Another 80 000 with investments of less than R1 000 will not directly qualify for any quoted shares but a trust will stag their joint entitlement to quoted shares and "divide the spoils among them."

The date on which Allied members had to be members by virtue of their investments in subscription, indefinite-period or fixed shares was September 20 last year.

The public was given a week's warning of this cut-off date and fresh investments of R290-million and redirected investments from non-qualifying accounts of R110-million poured in over the week.

"Our information from a building society source is that the Commissioner of Inland Revenue has ruled that investors who held investments on September 20 will not be subject to tax should they stag the shares to which they are entitled," say Divaris and Stein.

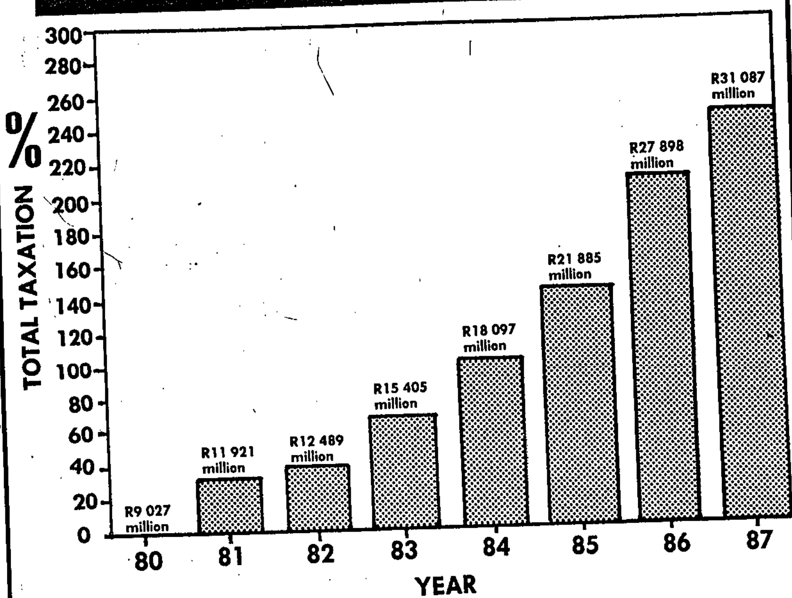
"Presumably the same rule will apply to those investors who will be beneficiaries of the trust's bulk stagging operation. But anyone who invested during the post-listing week will pay tax on his stagging profits.

"In our opinion, from a technical point of view there is no justification whatsoever for this distinction. A stag is a stag is a stag, and should pay tax on his profits, no matter how long he has had to wait for his stagging opportunity or how fortuitously it might have arisen."

Rulings on the NBS issue as well as any further rulings on the NBS and Allied issues should be withdrawn by the Commissioner, leaving it to his individual assessors to decide — on the particular facts pertaining to each building society investor who benefits from these issues — whether tax is payable.

(320) STAR 14/4/87

Giant leap in your taxes



Tax receipts on Inland Revenue account (excluding customs and excise) from 1980 to the present have risen 244,37 percent. Government spending is 3½ times what it was before you last voted.

● (Prepared by N Nel, Stand 43, Linbro Park.)

tax already paid to manufacturers from what they pay Inland Revenue.

The main advantage of VAT and its imitators is that, overall, less tax is lost if the retailer in the goods-chain evades tax. AVAT would have major advantages; but would certainly not completely replace GST.

It is said that Michigan is the only tax jurisdiction in the world to use AVAT. Like many of its other policies, perhaps SA wants its tax system to be unique — or near unique.

FM 17/4/87 (320)

While growth in Volkskas's capitalisation would reduce Remgro's holding, this would not be enough to remove legal obstacles.

There are, of course, ways round the restriction. According to the Banks Act, permission can be given by the minister "in special cases where he is satisfied that it is desirable in the public interest."

More simply, if a building society holding company is deemed to be a bank holding company, it could hold up to 100% of a bank. Perhaps UBS's application for a banking licence, which may have been in the pipeline since the beginning of the year, has been granted. That would enable it to go ahead.

Negotiations have been under way since March 9, when UBS's share price stood at 490c and Volkskas's at 1 075c. Since then prices rose to close Monday at 550c and 1 400c respectively.

If the deal was, in fact, concluded before Badenhorst went to Australia, the shares could have been valued at closing prices on March 27: 1 150c a Volkskas and 510c for UBS — a ratio of more than 2:1.

UBS would therefore have R147m worth of Volkskas shares. If, in return, Volkskas is to get a 10% stake in UBS, in the shape of 23,3m new shares worth R119m, this leaves R27,8m to be settled in cash.

This would help the capital position, in terms of the Banks Act, of Volkskas. As it was already within striking distance of its 1987 year-end capital requirement, it could use new strength for expansion.

The question of reserves does not arise in relation to UBS; building society ratios are based on liabilities to the public, and these will not be affected. Moreover, with its enormous surplus, the question of reserves is the least of UBS's worries.

So both institutions could be looking at growing new assets.

With existing assets, the UBS-Volkskas alliance could pose a threat to existing market leaders. Standard Bank Investment Corp has assets of over R20 billion; Barclays of over R19 billion. The combination of UBS's near-R10 billion and Volkskas's R13 billion-plus gives the team about R23 billion clout.

Other major considerations arise from the link-up.

UBS's operations are largely home loan lending, but include an insurance company which turned in underwriting profits in the last reported financial year; and a development company which reported declining profits. Volkskas recently divested itself of most industrial business to concentrate on banking.

By combining their operating strengths, UBS will provide a huge client base to Volkskas and obtain access to a ready-made banking operation. The deal will eliminate a competitor from the banking/building society market and open the way for a multiple of operational efficiencies in the future.

If the working relationship is close enough, we could see the formation of one of the most powerful financial institutions in SA.

Ethel Hazelhurst

MARGO FOR AVAT?

With the alleged departure of Justice Cecil Margo for the state of Michigan in the US, rumours that SA will have an "AVAT" indirect tax (Accounting Value Added Tax) are being whispered.

Findings of the Margo Commission are yet to be released; it could be that AVAT is one of the main recommendations.

The AVAT system recently came into use in the liquor industry, entailing collection of GST from manufacturers *and* retailers.

The latter may deduct the portion of tax already paid to manufacturers from what they pay Inland Revenue.

The main advantage of VAT and its imitators is that, overall, less tax is lost if the retailer in the goods-chain evades tax. AVAT would have major advantages; but would certainly not completely replace GST.

It is said that Michigan is the only tax jurisdiction in the world to use AVAT. Like many of its other policies, perhaps SA wants its tax system to be unique — or near unique.

Penalties for tax paid late

B Day 21/4/87 (320)

JENNY BOBERG

INDIVIDUAL provisional taxpayers earning a taxable income of more than R50 000 who have not paid their full tax liability for the tax year ended February 1987 by August 31 1987 will be subject to interest on any amount outstanding.

This is the effect of an amendment to the Income Tax Act in 1986 which has been implemented for the first time.

After August 31, interest will be charged on oustanding amounts at the rate of 15% until the date of payment.

Cooper & Lybrand partner Eric Louw says the amendment aims to improve Treasury's cash flow by forcing taxpayers to settle their tax liability more promptly.

Widespread extentions for submitting tax returns had in the past meant there was often a long delay between the close of the tax year and the date on which assessments for that year were made. This slowed the receipt by Inland Revenue of funds owed by taxpayers.

TAXATION

24/4/87 320 FM

Chasing tales

Within the next few weeks we can predict acrimony in the wake of a leading SA life assurer's launch of a Ciskei-based endowment policy. Revenue is expected to end such a policy devised by Lifegro.

The announcement will effectively end marketing of the policy from the date of the announcement. A retroactive law to give effect to the matter may be passed through parliament later in the year.

Retroactive law, unwanted in any legal system, has become commonplace in tax law. Finding tax loopholes, exploiting them, and skimming the cream until a crunch by Revenue, has become a high-powered game.

A senior Revenue official is the first to admit that law governing life policies, the Sixth Schedule to the Income Tax Act, is in a mess. Similarly, life assurers know it is one of the easiest areas of law where loopholes can be found.

When these are exploited, Revenue may step in. The life assurance industry has precedents on the point, particularly Finance Minister Barend du Plessis' "after-dinner" speech attacking a category of pure endowment policy.

Lifegro's Ciskei-based policy is transparently aimed at exploiting a loophole in SA's tax law. In the paper chase, money is routed out of SA to Ciskei, only to come back to SA. The main attraction is Ciskei's 15% top marginal personal tax rate and zero corporate tax, against 45% and 50%, respectively, in SA.

What is unusual about the Lifegro policy, perhaps, is that life industry spokesmen are highly critical of what it represents.

Says Life Offices Association Chairman Dorian Wharton-Hood: "We're very concerned. We have urged member offices not to follow this lead. We regard it as irresponsible marketing. But this is really a problem for Inland Revenue."

A letter from the Financial Institutions Office (FIO) to the life industry makes it patent that the scheme is regarded as contravening the spirit of SA's tax legislation. A crucial aspect is that Lifegro did not approach Revenue. If it had, it would have received a chilly response.

Says Lifegro senior GM Henry Worthington: "We received a letter from the commissioner in December. He asked certain questions. We answered them, and we've heard nothing since."

The scheme was not discussed with FIO either. "If we'd asked the registrar," says Worthington, "he might have referred it to an advisory committee which would have included representatives of other life offices. This would have amounted to telling competitors of our plans before we implemented them. So we decided to go ahead and market what seemed a reasonable scheme."

Worthington, who's unaware of the circular from FIO, insists: "We've not received any criticism from the registrar, or the commissioner.".

So far Lifegro has received R10m premium income from its Ciskei endowment policy. Its lead has not been followed. On the contrary, some competitors are highly critical of the move.

Says Liberty Life's Brian Hewitson: "There are a lot of opportunities one can exploit that, from a fiscal morality point of view, are questionable. But the commissioner has a jaundiced view. He's likely to act too harshly rather than too lightly. Intervention could retroactively hit existing products throughout the rand monetary area."

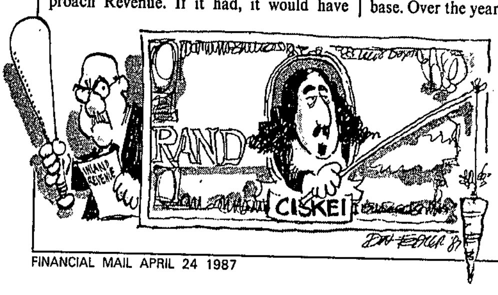
Says Sanlam's Francois Marais: "We resisted the temptation because we don't like doing business that way."

A tax consultant expresses a more cynical view: "Lifegro got a head start. It has the business as long as the situation lasts. It's not worth anyone else's while to structure something at this stage."

While Inland Revenue and FIO were ignored, Lifegro did approach the Ciskei authorities. They expressed interest, even though funds derived from Lifegro's endownment policies are not invested in Ciskei.

Says Worthington: "They seemed happy."

If, or indeed when, the tax authorities end Lifegro's Ciskei scheme, the primary motive will be to counteract erosion of the SA tax base. Over the years, there have been several official statements in which SA authorities have voiced concern at Ciskei's tax carrots.



The Lifegro scheme embraces some interesting technical aspects. Says Southern Life's Tony Davey: "It should be borne in mind that unilateral legislative changes to the Income Tax Act may not negate the relevant provisions of the double taxation agreement."

Other problems lie in the loose ends left by the Sixth Schedule. Says Marais: "It is a messy piece of legislation that badly needs tidying up."

Davey argues that legislation to counter the Lifegro scheme is unlikely to be retroactive. "Measures in terms of the Sixth Schedule have never been retroactive."

However, even if Revenue leaves untouched past proceeds of existing policies, it can still tax future proceeds. Worthington comments: "To provide for such a possibility, there is a surrender option, so the policyholder could get out at that point."

What would he stand to lose?

"There will be some loss on administrative expenses — but these are paid throughout the course of the policy, not front-end loaded." So the loss would not be as great as when a normal policy is lapsed.

The real losers are SA's taxpayers. Worthington's response: "These contracts are only a small part of the movement of funds to Ciskei, so that investment income can be sourced there."

If Lifegro's policy is hit by retroactive law, perhaps Revenue will get its message home at last. To avoid recurring acrimony, Revenue should re-draft the Sixth Schedule. ■

Argus 24/4/87 320

MINING

R148-m tax bill hammers Vaal Reefs earnings

By TOM HOOD, Business Editor

THE giant Vaal Reefs gold mine was hit by higher tax and a R2 600 a kg drop in gold revenue in the March quarter, earnings plunging by 33 percent to R134-million.

An even bigger drop was staved off by uranium bringing in profits of R69-million, up from R27-million in the December quarter.

The Anglo mine's tax provision jumped by 22 percent to R148-million as capital expenditure was R31-million lower at R47-million.

The price the mine received for its gold dropped by almost 9 percent to R27 192 a kg while working costs jumped by 6,6 percent in the quarter to R425-million or R86,05 a ton milled.

Gold production increased slightly from 31 264 to 31 880 kg after the tonnage of ore milled increased by 5 percent to 2,9-million.

Grade was marginally lower at 6,70 g/t.

● Anglo's **FREEGOLD** conglomerate benefited from a 70 percent (R80-million) cut in tax provisions to R35-million, so that earnings improved by R13-million to R226-million for the quarter.

This offset a fall in the sales receipts of the seven mines, which were also hit by the stronger rand and fell by R2 300 a kg to R27 100.

Freegold's capex of R146-million showed a R22-million increase on the previous quarter while another R161-million of capital expenditure orders and contracts were outstanding at March 31.

Turnover dropped by R56-million to R750-million, including gold revenue of R710-million (down R58-million).

Costs inceased by only 1 percent to R480-million and pretax profit fell by R68-million (21 percent) to R329-million.

The mines milled almost 6-million tons or ore and dump material, up from 5,7-million, but production fell slightly to 25 806 kg of gold as a result of a average yield of 3,34 g/t.

320 Cape Times 25/4/87

Tax and the elderly: Du Plessis replies

Financial Staff

RAISING the tax threshold for the elderly, and the ceiling for their allowable medical expenses, are among actions taken to help retired people, Minister of Finance Barend du Plessis says.

Replying yesterday to letters from retired people complaining about their tax burden in a period of inflation, the minister said it would be impossible to exempt all pensions from tax, because the rich would avoid paying their fair share by putting large portions of their incomes aside to be returned to them tax-free when they are older.

The government did, however, encourage people to provide for their old age by exempting pension contributions from tax throughout their working lives.

It also allowed special tax concessions to individuals making additional provision for old age through life policies and annuities, as well as to the insurance companies underwriting business.

"The important question, then, is the degree to which retired people should be taxed on their income — income, that is, not previously taxed.

"For many years now, the retired have enjoyed special deductions, whereby they have paid less tax than younger people with the same income.

"The justification has been that by virtue of their age they have had to face greater outlays in order to maintain a reasonable standard of life — on medicines, special foods, shoes and such like."

The minister said it would be impossible to exempt elderly people from paying GST, since this would be open to abuse.

"The solution lies elsewhere: By increasing the limit for deductible medical costs for the elderly and by raising their tax thresholds. In other words, complete tax exemption for a great portion of their income, only after which they will come into the tax net.

"One should always remember that the tax system must remain equitable towards younger people with the same income, but who are raising a family."

The minister said that: "For those above 65 the tax threshold has been raised to no less than R9 112 and R7 357 for married and unmarried respectively. And *all* their medical costs are now deductable.

"For ages 60 to 65, deductible medical costs increase to R4 000 and R3 000 for married and unmarried respectively.

"Since the elderly frequently have difficulties with the handling of provisional tax assessments, exemption from this requirement is granted to those above 60 with an income not exceeding R20 000 and derived from pension and investment income above."

Taxman's mean machine rings up the rands

320

DAVID COHEN

INLAND REVENUE'S "mean machine" netted substantial sums of additional taxable income and general sales tax in the last quarter of 1986, as a result of tax audits conducted last year.

"An additional R202m taxable income was uncovered and R35m general sales tax (GST) collected purely as a result of tax audits in the last quarter of 1986," said Commissioner of Inland Revenue Clive Kingon.

Ernest Mazansky, a partner at Kessel Feinstein, said the additional amounts collected were "a drop in the ocean compared to the tax lost through tax evasion and non-disclosure."

However, some tax experts feel the crackdown has been over-zealous and short-sighted.

"Although Revenue like to congratulate themselves on what they perceive to be a fantastic job, their authoritarian approach to the crackdown is self-destructive. It results in less co-operation from taxpayers," says Costa Divaris of Divaris Stein.

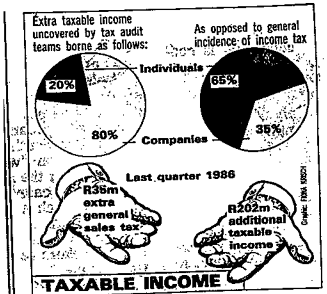
"Prohibitive taxes and Revenue's hardline attitude are deepening the recession and are responsible for many of the brightest people leaving SA. Tax has become a major cause of emigration," he says.

Of the R202m additional taxable income, more than 80% was from companies and the balance from individuals (see graph). This incidence, in stark contrast to the general incidence of income tax borne 65% by individuals, is "pregnant with significance", say tax experts.

"It shows they want the big fish," said Coopers & Lybrand's Eric Louw. "Revenue is more interested in the corporate sector because this is where the money is."

Said to be a "typical quarter", the significance of the R125m-odd quarterly boost to Revenue must be weighed against R13,5bn income tax and R8bn GST collected for the year ending March 31, 1986. On an annualised basis, this would boost Revenue's coffers by about 3%.

"This return," says Kingon, "is a significant amount of money in real terms. It must be remembered that amounts quoted exclude additional recoveries from standard queries and special investigations."



Letters

WRITE TO: The Editor, The Argus, PO Box 56, CAPE TOWN, 8000

Argus 27/4/87 320

Barend talks of tax relief for pensioners

THERE have recently appeared a number of letters by our older citizens complaining of the tax burden they carry. I should like to reply comprehensively to such letters from your readers.

The Government continues to encourage people to provide for their old age. To that end, pension contributions are exempt from tax — in other words, that portion of their income is completely free of tax during their working life. It is, however, only right that when they do retire and receive a return on their own contributions, interest thereon, and their employers' contributions, all of which are exempt from tax, that income should be taxable. If it were not so, the well-off could pour their surplus funds into pension funds and get it all back tax free — when they "retired".

The Government also allows special tax concessions to individuals making additional provision for old age through life policies and annuities, as well as to the insurance companies underwriting this business.

The important question, then, is the degree to which retired people should be taxed on their income — income, that is, not previously taxed.

For many years now, the retired have enjoyed special deductions, whereby they have paid less tax than younger people with the same income. Justification has been that by virtue of their age they have had to face greater outlays in order to maintain a reasonable standard of life — on medicines, special foods, shoes and such like.

But inflation and fluctuating interest rates as we have known them of late have dealt the retired person a heavy blow, as he is not in a position to protect or increase his income in the face of price rises.

Apart form the authorities' general economic policy measures, such as the continuing campaign to contain inflation — no simple or easy matter — there is thus only one way of helping the self-supporting retired person, and that is by bringing him tax relief on his income.

It would be impracticable, for example, to exempt the elderly from GST — how could this be controlled? Everyone would suddenly be "old" or get grandma to do their purchasing.

No, the solution lies elsewhere: By increasing the limit for deductible medical costs for the elderly and by raising their tax thresholds — in other words, complete tax exemption for the greater portion of their income, only after which they will come into the tax net. One should always remember that the tax system must remain equitable towards younger people with the same income but who are raising a family.

In the nature of things the Government can never say it is doing "enough" for the elderly and the retired; ideally we would certainly like to do more, but our limited resources mean that we can meet only the most pressing needs, particularly at a difficult time such as this.

We are thankful, however, that over many years we have been able to give special attention to the problems of the elderly; indeed, in the face of continuing high inflation we have gone even more out of our way to do something concrete for them as the following details for recent financial years will show:

1984-1985:

As in most of the preceding years, both tax thresholds and the medical cost deductions were raised.

People over the age of 70 become liable for tax only when their *taxable income* ie after all the approved deductions, exceed R6 883 married and R6 075 unmarried, while the ceiling on their allowable medical expenses is abolished — all such costs are now deductible.

For those aged 60 to 69, the threshold rises to R5 383 married and R4 575 unmarried, while the ceiling for medical costs rise to R3 000 married and R2 250 unmarried.

1985-1986:

The qualifying age (70) for maximum medical benefits is reduced to 65, to extend the benefit to more people.

For those above 65 the tax threshold is raised to no less than R9 112 and R7 357 for married and unmarried respectively. And all their medical costs are now deductible.

For ages 60 to 65 deductible medical costs increase to R4 000 and R3 000 for married and unmarried respectively.

Since the elderly frequently have difficulties with the handling of provisional tax assessments, exemption from this requirement is granted to those above 60 with an income not exceeding R20 000 and derived from pension and investment income above.

1986-1987:

No specific concessions could be made for them, but the elderly shared in the general reduction of five percent in income tax.

1987-1988:

In this year's "mini-budget" further tax reductions were announced, which, although not specifically directed at the elderly, will mean that the threshold for those above 65 will be raised to R9 966 for the married and R8 033 for the unmarried. The corresponding thresholds for those above 60 but not yet 65 are R7 433 and R5 500 respectively.

All South Africans share in the services provided by the state — the security of the country, roads, schools, hospitals, research, dams and so on; and alls should therefore help meet the costs.

It is one of the most difficult tasks there is, to spread these costs — in other words, the tax burden — equitably and evenly.

Ministers of Finance must, I fear, simply accept that they will always be criticised by someone for giving too little or taking too much — perhaps both.

We therefore seek constantly to cut Government expenditure, something however that is not easy in a developing country like ours with its many needs. To that end our whole tax system has recently been examined by a high-powered commission.

We cannot, unfortunately, satisfy all our retired citizens, but I do hope that these particulars will serve to create a better grasp of the problem and to impart a better perspective.

BAREND DU PLESSIS
Minister of Finance
Cape Town

New GST: more tax?

CAPE TOWN — The Receiver of Revenue stood to gain in the region of R200-million a year by the introduction of a new system of payment of General Sales Tax from May 1, said the President of Fedhasa, Mr Mike Kovensky.

The new system meant that the wholesaler would levy the GST on the retailer, who would then recover it from his customer and then pass on the outstanding GST on his markup to the receiver. — Sapa

3120 DD 28/4/87

CAPE TIMES 28/4/87

RSC tax break for timely contracts

320

JOHANNESBURG. — Enterprises concluding commercial contracts before July 1 will be afforded a six-month "tax holiday" on payment of Regional Services Council (RSC) 0,1% turnover levies.

Tax experts say that RSC legislation provides for a six month tax break on amounts received by, or accrued to enterprises for contracts concluded before the commencement date of RSCs. Accordingly, amounts received or accrued by December 31, 1987 in terms of a contract entered into before July 1, will be exempt from the 0,1% turnover levy.

Greater scope

The tax break — introduced to relieve long-term contractors locked into low margin, fixed price contracts — offers broad tax planning opportunities.

Price Waterhouse's Ian Wilson noted that: "Levy-payers opting for the accrual basis for purposes of determining leviable amounts, will be afforded greater scope for radical tax planning."

Sounding a word of caution, Kessel Feinstein's Ernest Mazansky, said: "Enterprises planning to front-end-load receipts or accruals should weigh this up against the cost of income tax and GST payable in advance."

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Cape Times, Tuesday, April 28, 1987 13

Divco tax to go with RSC change-over

By PETER DENNEHY

DIVISIONAL councils will be disbanded when the Regional Services Councils (RSCs) come into operation, and Divco taxes will fall away, administrator Mr Gene Louw announced yesterday.

He said local-area taxes would continue, since local areas "are essentially nothing other than municipalities in the first stages of development".

Many areas within the jurisdiction of the Divisional Council, such as Constantia, have long been declared "local areas" and residents there correspondingly pay local-area taxes — quite separate from Divisional Council taxes — to cover various services.

Mr Louw reassured potential payers that a situation could not arise in which the Divisional Council taxes and RSC charges would be levied simultaneously in the same RSC region.

July 1 change-over

All assets and liabilities of Divisional councils within an RSC jurisdictional area will be transferred to the RSC, and all Divisional Council staff will be transferred to the RSC and retain their existing service conditions, Mr Louw said.

All Divco functions would be entrusted to the RSC, he added.

The few "own-affairs" functions which Divco now handles would be dealt with by the RSC on an agency basis for an "own-affairs" department.

The change-over from Divco to RSC in Cape Town is now expected to occur on July 1, according to a recent speech by Mr Chris Heunis, Minister of Constitutional Development and Planning.

Tax 'holiday' for some on RSC levies

DAVID COHEN

ENTERPRISES concluding commercial contracts before July 1 will be afforded a six-month "tax holiday" on payment of Regional Services Council (RSC) 0,1% turnover levies.

Tax experts say RSC legislation provides for a six-month tax break on amounts received by, or accrued to enterprises for contracts concluded before the starting date of RSCs. Accordingly, amounts received or accrued by December 31, in terms of a contract entered into before July 1, will be exempt from the 0,1% turnover levy.

The tax break — introduced to relieve long-term contractors locked into low-margin, fixed-price contracts — offers opportunities for all types of business.

Price Waterhouse's Ian Wilson says: "Levy-payers opting for the accrual basis for purposes of determining leviable amounts, will be afforded greater scope for radical tax planning."

Sounding a word of caution, Kessel Feinstein's Ernest Mazansky, says: "Enterprises planning to front-end-load receipts or accruals should weigh this up against the cost of income tax and GST payable in advance."

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The tax that fuels inflation

Professor Hayek, when advising the Government over the introduction of general sales tax, warned it was a bad tax.

GST causes "tax-shift inflation" because people demand more pay when their cost of living dramatically increases without a concomitant rise in productivity.

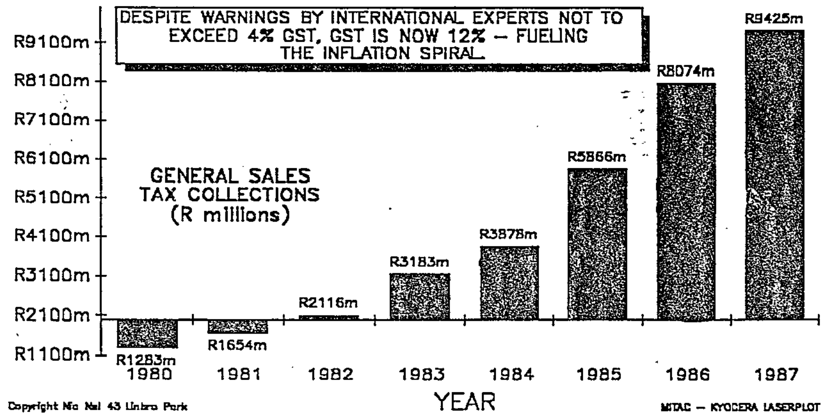
GST is not only being paid on the purchase price, but also on a major part of the cost of producing the goods.

GST is paid by manufacturers on capital expenditure for production purposes and gets fed into the purchase price.

GST is therefore a tax on tax and should always be kept at a low uniform rate to avoid excessive inflation.

Many think it a bad tax because avoidance is so easy. Consumers may pay it, but there is no way to check the Receiver receives it.

(Report by N Nel, Plot 43, Linbro Park.)



Sexual attacks on British children up 200 pc

The Star Bureau

LONDON — The number of sexual attacks on children reported to the National Society for the Prevention of Cruelty to Children in Britain has risen by nearly 200 percent over 12 months.

One in five children molested was under five. And some were under a year old.

Figures in the NSPCC's annual report show there were 1 261 known cases of sexual abuse of children in 1985-86 compared with 453 in the previous 12 months.

NSPCC director Dr Alan Gilmour said it was not clear whether more children were being abused, or more cases were being reported.

But he added: "We have over 1 000 cases of sexual abuse. Two or three years ago it was in the dozens." He said another worrying feature was that an increasing number of young boys were being molested by their parents or friends of their family.

Mr Jim Harding, the society's child care director, said: "It quite often wrecks their chances of being able to have a satisfactory adult relationship." And there was now evidence that sexually-abused children could grow up to be violent adults.

The NSPCCC is supporting changes in the Criminal Justice Bill to enable children to tell of sex attacks on video, and so avoid the ordeal of going into court to face their attackers.

A campaign in schools will urge children to tell if they are attacked.

RSC cost 'milking the taxpayer dry'

Argus 30/4/87 320

Political Staff

THE Government with its new tax on everything from schools to amateur sport and retirement golden handshakes is "milking the taxpayer dry", said Mr Harry Schwarz MP, Progressive Federal Party finance spokesman today.

Mr Schwarz was commenting on an announcement made yesterday on the extent of the controversial new taxes to fund the regional services councils.

"If ever there was a reason to vote against the Government it is the way people are being taxed.

"Every voter should look at his payslip and then at what they have to spend on necessities of life.

"The Government has gone tax crazy. Instead of encouraging growth, it is introducing additional taxation.

"It is now taxing employment when it should be doing something to reduce unemployment. It is taxing turnover, irrespective of whether a company is making a profit or a loss.

NEW BUREAUCRACY

"It is creating a whole new bureaucracy to collect the taxes. It is forcing companies to employ extra staff, who will be unproductive, to fill in Government returns."

Mr Schwarz said that at the very least the new taxes should have been submitted to the Margo Commission for examination.

At a symposium in Cape Town yesterdau, Mr Ian Meiklejohn, deputy director of the Department of Inland Revenue, said just about every business transaction would be taxed to raise money for the RSCs.

They would apply to golden handshakes on retirement, reveune from amateur sporting events, rentals, lay-by sales, transactions between countries and even to staff salaries at schools.

(Report by B Cameron, 85 Field Street, Durban)

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JSE chief rejects tax proposal

THEO RAWANA

IMPOSING a 2% levy on all stock market transactions would be flying in the face of the whole world, JSE president Tony Norton said yesterday.

Norton was reacting to a memorandum the Johannesburg City Council's management committee sent to Finance Minister Barend du Plessis.

This recommended that a 2% levy on all stock market transactions should be introduced as a means of financing reductions in personal income tax.

The levy would be in addition to the existing securities tax of 1,5% on transactions.

Management committee chairman Francois Oberholzer said yesterday a reduction in personal tax could raise personal expenditure and the overall level of economic activity dramatically.

Norton said: "Throughout the world the move is towards abolishing taxes on such transactions.

"Such a move would destroy the capital market. We are working for the scrapping of the existing 1,5%, and now they want to make it 3,5%.

"SA cannot afford to move north when the whole world is going south for a good reason."

A stockbroking source said: "It will kill the whole JSE. Taxation of transactions is already 4% in and out.

"This would make us one of the highest taxed stock exchanges in the world."

Sandra Swart, a director of Fisher Hoffman Stride Management Services, said: "It would have an unfavourable effect on our economy as a whole.

"It would certainly discourage foreign investment and it is doubtful if it would have the desired effect of reducing personal income tax rates."

A spokesman for the office of Barend du Plessis said the Minister could not comment as he had not yet received the document.

GOVERNMENT FINANCES

Tax cut follies

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The scope for tax cuts in the June 3 Budget may be negated by unprecedented demands on State spending. This could be the case even if the deficit is allowed to top R10 billion.

Events, political and constitutional, which affected 1986-1987, will continue to undermine financial manoeuvrability.

Final figures for 1986-1987 to end-March show spending of R40,7 billion — some 23% more than a year ago — and well ahead of the 13,9% original estimate. Revenue increased some 16% to R34,7 billion; also ahead of the 13% expectation. Spending for March alone, however, shot up 30%, to produce an overall (and record) deficit of R6 billion.

But 1986-1987's major changes in the structure of government finances exposed weaknesses that will pose distinct threats in the new fiscal year. For example, it will be the first full year that provincial accounts are included in the State Revenue account.

Just one danger on the previous provincial accounts is public health and hospitals, which suffered massive losses in 1986-1987. An economist sees "no change" in the year ahead, estimating that the account could drain R500m from the Exchequer.

In spite of the abolition of several development bodies, services must still be met. While in theory an RSC may assume responsibility for as many as 22 services, few are likely to be taken over in 1987-1988. Those taken over will be funded by RSC levies; others will need funding by the taxpayer.

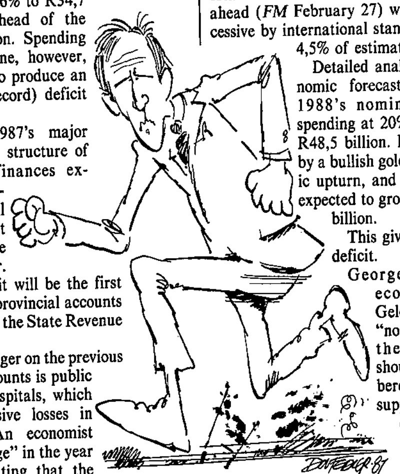
Another worrying area, says an economist, is the Foreign Affairs account, which funded "massive overspending" in the national states in 1986-1987. "I cannot see pressures from TBVC countries diminishing."

There are yet broader threats for the Exchequer. Events associated with destabilisation of the economy always cost money; for example, trade union militancy. Counteraction, such as the raid into Zambia, clearly strains the Exchequer too.

Trade unions seem set to consolidate their wage negotiation position in the year ahead. This pressure, along with Pretoria's determination to continue its costly (if necessary) education programmes, underscore the pessimistic outlook for tax cuts.

There is even pressure from the opposition. Says PFP finance spokesman Harry Schwarz: "I see job creation as the number one priority. This has to be funded by government. Much bigger figures will be needed to launch such a programme."

Indeed, it seems more a question whether tax rates can be held, rather than cut, in the Budget. The final deficit for 1986-1987 of R6 billion was R500m more than the revised estimates. Growth to R8 billion in the year ahead (*FM* February 27) would not be excessive by international standards, at about 4,5% of estimated GNP.



Detailed analysis by an economic forecaster puts 1987-1988's nominal growth in spending at 20%-plus, to about R48,5 billion. Revenues, aided by a bullish gold price, economic upturn, and fiscal drag, are expected to grow 17% to R40,5 billion.

This gives an R8 billion deficit.

George Huysamer economist Louis Geldenhuys expects "no fireworks" in the Budget. "It should be remembered that gold taxes supply less than 10% of total revenue."

And, as a government spokesman points out, GST revenues grow more slowly than the inflation rate; company tax payments can be delayed by as much as six months.

Unfortunately, the state of government finances offers taxpayers no joy. The tax burden continues to make new records, encouraging dubious tax schemes and increasing antagonism. The Margo Commission on tax, informed sources say, is unlikely to be given much attention in the Budget.

Its report was recently handed to State President P W Botha. It is unlikely that government departments will have time to form opinions before the Budget.

At least personal taxes have been cut in nominal terms for the past two years.

Price Waterhouse's Chris Frame points to the dilemma at the personal taxpayer level. Further tax cuts would be welcome, yet this group contributes the most to the fiscus.

Frame points to the further problem that "since the economy is now firmly mending, it is the time when tax cuts are least needed."

Previous tax cuts, plus other monetary and fiscal developments, have on all accounts contributed to the recovery; maybe that's as far as the authorities will go.

The Budget may well be cautionary, reflecting an intention to mark time pending political developments, and relying on the current modest upswing in the economy to gain its own momentum. ■

WK ARGUS 2/5/87

MONEY AND YOUR LIFE

Martin Spring

Tax and how it affects working married women

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IN RECENT years the Government has been generous in its tax concessions to working married women. But with that generosity has come some increasing complexity, which may lead to confusion when you fill in your tax return.

The basic concept of our tax law is that members of a family comprise a single taxpayer.

This excludes adult children, who are taxpayers in their own right and must submit their own tax returns, and occasionally excludes minor children who receive independent income (as I explained last week). But a wife is never excluded.

Her income is lumped together with her husband's, and he is responsible for submitting a return covering their combined income.

Because the effect of this system is to tax unfairly married women who work, the Government has introduced tax relief for many — but not all — such women.

Part of their income is tax free.

For the tax year that ended February 28 — that is, the year for which you have to complete and submit your buff form by the 13th of this month — the tax-free amount is calculated according to the following formula:

- R1 800; or
- 20 percent of the wife's earnings;
- Whichever be the greater.

So if a wife earned R10 000 last year, 20 percent of that — R2 000 — will be tax free. The balance of R8 000 will be added to the husband's income and taxed in full.

If we assume the husband earned R30 000, then without the concession their full joint income of R40 000 would carry a basic tax liability (before rebates and discount) of R11 520.

With the concession, the equivalent figure falls to R10 620. However, do not assume that your wife is automatically entitled to this tax relief.

She gets no concession at all on income derived from the following sources:

- Any trade practised in partnership or association with you, or which is linked in any way with a trade carried on by you. (If she helps you in your business, hard cheese. She would do better working for your friend down the road.)
- A partnership or close corporation of which you are a member, or a private company of which you are a director or a principal shareholder. (Rather give her her own close corporation.)
- Letting of property. (Put her on the payroll of a property-letting close corporation).
- Investments, such as shares, mutual fund units or fixed deposits.
- A pension or annuity.
- Use of a patent, trade mark, copyright or other "intellectual property" unless in the context of her own trade, business or employment.

The tax relief applies to a wife's net earnings.

That is, her earnings after deduction of allowable expenses, though certain allowable expenses such as retirement fund contributions may be added back to increase the base on which her tax-free amount is calculated.

If your wife is an employee, the tax already deducted from her pay under PAYE should approximately cover the tax due on the income she received during the year.

Depending on the level of the family's combined taxable income, there may be some more tax to pay on her earnings, or there may be a refund.

If you find you usually have to meet a nasty assessment for additional tax, you should plan to accumulate tax money in a special savings account during the course of the year, so the cash is there to pay when the assessment arrives.

Govt's gravy train bites deep — PFP

Dispatch Correspondent

JOHANNESBURG — Taxpayers were now paying 400% more income tax than at the last election in 1981, the Progressive Federal Party has claimed in an election pamphlet.

The pamphlet also said the consumer price index had gone up by 138%, food prices administered by control boards by 73% and government spending by 130%.

And, in spite of government promises of a civil service cut-back, the number employed in the public sector rose by 138 000 between 1981 and 1985.

A PFP spokesman, Mr Brian Goodall, said the figures were taken from Reserve Bank statistics.

He said: "The figures also show that at the end of 1985 the public sector owned 57,3% of all fixed capital assets in SA."

Viewed against the background of the latest pay demands — 12% to 15% — by the Public Servants' Association (PSA), the government gravy train was building up still more steam.

Last week, the PSA warned the government that if increases were not backdated to April 1, its demand would be raised from 15% to 18%.

The PFP pamphlet also raised the question of housing subsidies — the present ceiling is R50 000. Government spending on housing subsidies was over R200 million a year.

With more than 400 000 whites working for government, including parastatals such as the SA Transport Services and the Post Office, they form a powerful voting block. Along with voting members of families, they constitute almost a one-third of the total electorate.

Political commentators say the government's tardiness in announcing the rises is a clear indication the increases will be small and maybe retrospective.

In 1981, the amount collected from individual taxpayers was R2,09 billion. In 1984-85 it was budgeted to reach R7,26 billion.

The pamphlet said when the NP came to power in 1948, there was a total of 150 MPs with 14 Cabinet and Deputy Ministers.

That had grown to 308 MPs, 50 cabinet and deputy ministers with the promise of 14 assistant ministers to come.

The NationalParty has not reacted to the pamphlet.

(Report by J Collinge, 47 Sauer Street, Johannesburg.)

4/5/87 DD 330

Sustained growth depends on . . .

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'Higher real wages, lower tax'

CAPE TIMES 4/5/87

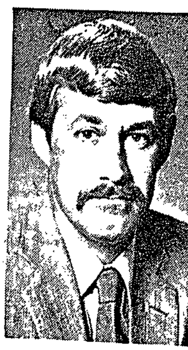
By AUDREY D'ANGELO
Financial Editor

HIGHER average pay rises and lower taxation are necessary "for the economy to embark on a path of sustained growth", Old Mutual chief economist Rob Lee says in the April issue of his Economic Monitor.

Pointing out that any revival in real private consumption expenditure (PCE) depends on an improvement in real wage increases, Lee says nominal wage increases are improving in most sectors of the economy.

But real wages are not picking up in all sectors.

"The coming-round of public-sector wage adjustments and a continuation of the improvement in company earnings will be crucial factors in sustaining this improving trend."



Rob Lee

Discussing the importance of savings to fund economic growth, Lee says SA has a high average gross savings ratio. But this figure includes provision for depreciation.

If this is excluded, the ratio of net savings, needed to finance net new fixed investment, is worse than at any time since the consolidation period after World War II, with a sharp fall in personal and government savings.

SA now has the lowest rate of personal savings out of a list of eight countries. It has 3,9% compared with 15,5% in Japan, 14,8% in Australia, 14,4% in Canada, 13,2% in France, 12,7% in West Germany, 11,3% in Britain and 5,7% in the US.

"Although a high personal savings ratio is not a complete safeguard against a potential shortfall of national savings, all countries with a satisfactory overall savings record have a strong personal savings performance.

"Without some improvement in our net savings performance or a drastic change in the attitude of foreign bankers and investors, the scope for the economy to embark on a path of sustained growth, of which net new fixed investment is the real engine, is severely limited."

Lee says the drop in personal savings matches the dramatic rise in individual taxation.

"The average direct tax burden on household income rose from 6,6% in 1980 to 12% in 1986.

"GST was introduced in 1978 at a level of 4% and has since rapidly escalated to 12% with some exemptions.

Reduction in tax burden

"The propensity to save fell sharply in this time and now the personal savings ratio is fluctuating between the range of 1% and 5%."

Urging a reduction in the tax burden on individuals, Lee says the authorities have acknowledged this need, but last year's Budget and February's mini-budget at most achieved a halt in the trend to increase it.

He also calls for a reduction in the public sector's share of the economy.

"Unless this occurs any cut in direct taxes on individuals will eventually result in escalating taxes on the corporate sector, thus depressing the key contribution that corporate savings have made in recent years."

Urging "reduced disincentives for saving", he says the current tax system is "highly unfavourable to savings, since interest income is taxed at marginal rates".

Other moves he suggests are adherence to the principle of matching current government revenue to current government spending, and a return to a positive level of real interest rates.

(320)

Government blunders threaten SA's recovery from recession, say experts

Tax cuts 'vital for economic growth'

By Michael Chester

The Government was hammered today by a non-political team of economic experts over blunders in taxation policies that now threaten to be serious obstacles to the current recovery from prolonged recession.

Cuts in individual income tax rates in the June 3 budget have become vital if South Africa hopes to hit new economic targets in its hard slog to pull out of recession and crack its chronic unemployment problems, according to the influential Econometrix think-tank.

The Johannesburg research unit stressed that its appraisal of Government errors and recommendations on taxation were not intended as a deliberate re-election ploy, since it steered clear of party political issues.

Its full report was scheduled to be printed and circulated to business clients only in the next week or two — but The Star had obtained copies of the draft and pursued the issues in exclusive interviews.

MOBILISATION

Econometrix, in its new quarterly review of the economic outlook, advocates the mobilisation of South Africa's income from higher gold prices to help pay for tax cuts.

Without tax reductions and far more reasonable marginal tax rates, says the unit, South Africa will flounder in its ambitions to generate a three or 3,5 percent expansion in economic growth in 1987 and shorten the jobless queues.

"The Government needs a total re-think about taxation policies," said Dr Azar Jammine, director and chief economist of the unit.

"Its failure to recognise the dangers of fiscal drag, the term used to explain how tax bills grow at even steeper angles than the upward curve of inflation, has resulted in South Africans being hit by falling living standards for six years on the run," he said in an interview.

REPEATED WARNINGS

Dr Jammine suspected the Government had failed to respond to repeated warnings about the impact of fiscal drag because it had been the main beneficiary of its impact — counting its swelling coffers as its revenue from taxation soared from R13,3 billion in 1980 to a record R34,5 billion in the last tax year.

But South Africans had been hoodwinked if they listened to theories that heavier taxation was the best indirect way of financing the upliftment of the impoverished black community.

"Many would argue, ourselves included, that within certain limits the best way of creating wealth for all the country is to reduce taxation on the middle-class white community.

"This would generate an increase in economic activity by spurring consumer spending and encourage an increase in savings which are needed to finance the extra fixed investment that is vital to create more jobs and prosperity for everyone.

"The taxing of white workers to the hilt by fiscal drag has been tried and tested for several years now. All it has succeeding in achieving is a drastic diminution in per capita disposable incomes and living standards for all, the black community included."

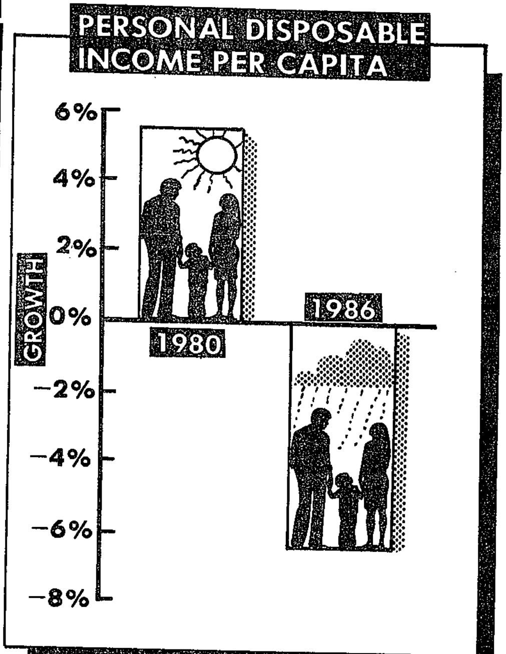
Econometrix argues that errors in taxation matters can be listed as only one example of misjudgment in economic management by the Government in recent years.

The Government is also blamed for mismanagement of opportunities in movements in world prices of gold bullion, one of the main pillars of the South African economy, and trends in rand exchange rates on currency markets.

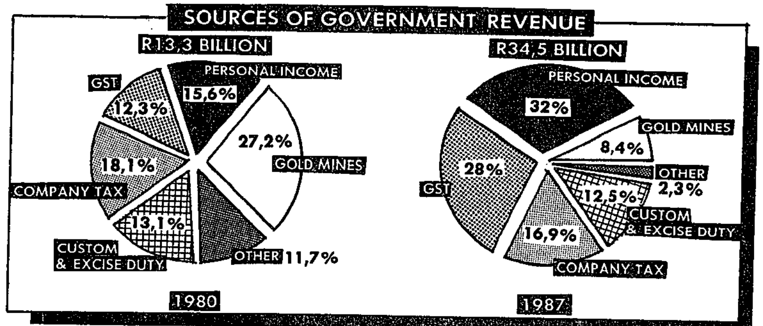
But its newest survey lays heaviest stress on the dire need for action to tackle fiscal drag.

The toll of fiscal drag is proving much worse in South Africa than elsewhere, it argues, because of high domestic inflation while inflation rates overseas have been shrinking to single digits or even zero.

It points out that in South Africa the mainstream of taxpayers, earning between R12 000 and R40 000 a year, have found the actual purchasing power of their pay packets shrinking non-stop for at least six years on the trot because of steeper income tax bills.



Government neglect of fiscal drag problems is blamed by Econometrix for a non-stop decline in average living standards that has hit South Africans for six years on the trot — ever since the gold boom of 1980.



The contribution from individual taxpayers to annual Government revenue has soared from R2 084 million in 1980 to R11 027 million, due largely, says Econometrix, to errors in taxation policies.

EFFECTS OF FISCAL DRAG WITH 20% INFLATION

SALARY 1986/87	TAX RATE		SALARY 1987/88	TAX RATE
R10 000	6,1%	→	R12 000	6,7%
R25 000	16,7%	→	R30 000	19,0%
R50 000	28,6%	→	R60 000	30,4%

Fiscal drag, says Econometrix, should be seen as Public Enemy No 1 in holding the brakes on the economy. Recent so-called tax reductions were a myth, it argues. Its table shows that still heavier income tax bills await wage and salary earners striving to keep incomes ahead of inflation.

Cape Times 5/5/87 320

RSC levy: Move to Natal proposed

By JANE ARBOUS

SOME companies may find it worthwhile to relocate to Natal where there are difficulties in introducing Regional Services Councils, tax consultant Kevin Carpenter told local businessmen attending a tax seminar on RSC levies yesterday.

One of several speakers at the seminar conducted by accounting firm Coopers & Leybrand, Carpenter said further that according to his information, there would be no RSC's introduced in Natal for political reasons.

Although the initial levies proposed for the other provinces are relatively small, firms, depending on their circumstances, could benefit long-term by relocating.

Eight areas have been demarcated so far, all in the Cape, Transvaal and Orange Free State and the deadline for companies to register was April 30. An RSC has the power to register a company unilaterally.

Calculations must be made from July 1 for first payments of the levies due by August 20.

Carpenter said that when he first read the RSC legislation he felt like "a woodpecker without a beak, commonly called a headbanger".

"It's clear that it was not drawn up by a fiscal draughtsman but by a constitutional draughtsman," he said.

Another suggestion he made was that employers could find it worthwhile to look again at fringe benefits. Many had turned to a straight salary renumeration to avoid the administrative burden of the new tax on fringe benefits but this could be work out more expensively with the new RSC levy.

Companies which operated within a group should also exploit the non-leviable transactions between companies, he said, and make good use of the agency concept to avoid paying a double levy. For instance, a distributor could act as an agent on behalf of a manufacturer.

Another speaker, Nick Gerhardt, said many RSC's would not be able to provide any services for up to a year in spite of payment for them starting from July 1.

MONEY AND YOUR LIFE

Martin Spring

Check your assessments: You could be paying too much to the Receiver

W/E Argus 9/5/87 (320)

CHECKING through a friend's tax documents last weekend to help her with her tax return, I discovered the Receiver had omitted to credit her with a provisional tax payment she had made, when sending her tax assessment last year.

This elderly lady paid several hundred rands more than she should have.

The mistake would never have been discovered had I not noticed a discrepancy between the amount I originally estimated her tax would be, and the amount she was charged.

I told her to go and see the Receiver straight away, as I was sure that although the three-week period for objecting to an assessment was long past, the tax man would happily rectify such an obvious mistake.

TWICE THE AMOUNT

I had a similar experence a few months ago when a relative asked for my help because his tax demand was more than twice the amount I had forecast it would be.

In that case the Receiver had calculated tax due on the scale for un unmarried person — for a man with a wife and five dependent children!

I quote these two instances to make the point that there is a serious competence problem in the Department of Inland Revenue, and you could easily find youself paying far more tax than is due.

There are three ways to protect yourself against this.

Firstly, you must carefully work out what your taxable income, deductions and rebates are on the basis of figures you are giving to the Receiver in your tax return, calculate the tax, and keep these details to compare with your assessment when you receive it.

Secondly, if there is anything complex about your tax affairs, or if you do not understand how your tax is calculated, go to a professional advisor — he will be well worth his fee.

Thirdly, don't be afraid to challenge your assessment if you don't agree with it when you get it back. Be courteous, of course, and clear in spelling out the basis of your objection.

Go through the following steps to calculate your tax for last year — that is, for the year for which you have to submit a tax return by May 13:

- Calculate your gross income by adding together the various kinds of income you have detailed for yourself, your wife and your minor children on your buff form.

Do not include capital gains, even though you have to declare such gains in your tax return, nor tax-free interest, even though you have to report that, too.

- If you have received taxable interest, deduct it all up to R500. If it is more than R500, deduct R500.
- Deduct one-third of your dividend income (the tax-free portion is higher than a third if your total taxable income is less than R4 600 a year).

Distributions from mutual funds consist of both dividend income (which enjoys tax relief) and interest income (which does not, apart from the R500 concession) — make sure you differentiate between the two.

- Deduct pension and retirement annuity contributions, assuming they are b within the limits for tax relief.
- If your wife had any earings, not from a business associated with yours, deduct 20 percent of them, or R1800, which ever is greater.
- Deduct the standard minimum deduction for medical expenses of R300 for a married or R200 for unmarried persons, or actual expenses if they were greater, up to the maximum of R1500 for married or R1000 for unmarried taxpayers aged under 60.

There are bigger allowances for those in the 60 to 64 age bracket, and those who are 65 or over can claim all medical expenses without limit.

- The balance is your taxable income. Calculate the basic tax on this by referring to the rates of tax table in the information brochure you received with your buff form.
- Deduct from basic tax your primary rebate of R880 for a married or R620 for an unmarried taxpayer.
- Deduct a rebate for R100 for each dependent child (R150 for each child in excess of five).
- Deduct a rebate for any dependants you support other than your minor children, of R30 in respect of maintenance of R200 to R350 a year, R50 for assistance of more than R350 a year.
- Deduct 10 percent of life insurance and/or provident fund contributions, up to a maximum of R750.
- Deduct a rebate of R120 if you are aged 60 to 64, or R500 if you are 65 or older.
- From the remaining balance, deduct a five percent discount.
- What is left is your tax liability for the year.

It is going to be a heavy burden, warn economists

Countdown to tax deadline

320 12/5/87 Star

By Michael Chester

More than a million taxpayers today faced a 24-hour countdown to the May 13 deadline for the lodging of their 1986/87 returns to tax offices in the annual avalanche of familiar buff tax forms.

When the dust settles with final assessments, most taxpayers will find the visions of lower tax bills and more spending power that were created in the 1986 Budget have proved to be a myth, according to economists.

The Department of Inland Revenue this morning advised laggards not to rely on being allowed automatic extensions of the deadline date.

"It is not impossible that extensions will be agreed to, but taxpayers should realise they run the risk of penalties if their buff forms are not in tomorrow," said Mr Shalk Abertyn, chief director of tax operations.

The Econometrix research unit warns taxpayers that the Government will be greedier than ever about the revenue harvest it is determined to reap — despite all impressions of an easier tax load.

Total individual tax payments for the 1986/87 financial year, which ended on February 28, are likely to be pushed to a record R11 000 million or more, no less than 22,5 percent higher than in the previous tax year.

"Taxpayers will now come to the crunch of final realisation that the notions of lower tax bills given by Finance Minister Mr Barend du Plessis in the 1986 Budget will prove to be illusory," said Dr Azar Jammine, director and chief economist at the Econometrix unit.

"The Minister made it sound at the time like a R1 billion giveaway when he announced the abolition of the seven percent tax surcharge and the five percent rebate for 1986/87.

Try to cope

"What he failed to explain was that income tax bills would in fact be pushed higher and higher as taxpayers battled for increases in their wages and salaries to try to cope with inflation."

Warnings about stiffer tax demands have also been issued by PE Corporate Services. It has compiled tables that show, as an example, the fiercer bite of taxation that awaited earners who received pay increases of about 12 percent last year.

The exercise examines the impact on a married man with a non-working wife and two children. According to PE:

- Income tax on basic salaries that moved from R20 000 to R22 400 a year will be up from about R2 027 to R2 366.
- Salaries that moved up from R40 000 to R44 800 will carry increases in tax from R9 041 to around R9 858.

"When breadwinners count the wear and tear caused by inflation on higher incomes, along with the tax traps they keep falling into, they will find their actual living standards have tumbled for a sixth year in succession", says Dr Jammine.

The taxman cometh — but not until June 30

13/5/87

(320)

By Inga Molzen

An extension until June 30 for the submission of 1986/87 tax returns was granted last night — but 34 000 salaried people in the Johannesburg, Randburg and Sandton areas have still not handed in their returns for the previous year.

Thirteen percent of 258 000 tax returns issued locally last year were still outstanding, said the Receiver of Revenue for the Johannesburg assessing area, Mr J W Hattingh.

Mr Hattingh told The Star yesterday that the final step for dealing with offenders was prosecution.

"There are about 200 prosecutions each week," he said.

In most cases, he said, it was difficult for the department to trace offenders because "they change their addresses without notifying us".

One of the five assistant Receivers of Revenue, Mr N Patterson, said that if people knew that there was a "bonanza" in store for them they would submit their returns.

"By not submitting their returns people are doing themselves a disservice because they lose out on any refunds they may be entitled to receive," he said.

A R100 admission of guilt may be imposed on people who evade tax payments.

But, said Mr Patterson: "Under the Tax Act, the department is entitled to impose the maximum penalty. It's quite severe — twice the amount of tax payable."

Queues of people waited to approach the Receiver of Revenue's tax assessors — in the main hall of their Rissik Street branch, Johannesburg. Most of the queries received were from people wanting an extension on today's deadline date. The assessors will assist taxpayers to complete their income tax returns up until May 29. The after-hours service is open between 4.15 pm and 6.15 pm every day.

● Picture by Ruvan Boshoff.

Tax return reprieve: don't put off evil day

STAR 13/5/87 (320)

By Michael Chester

Taxpayers who failed to meet the deadline to submit their 1986/87 returns by today were warned by experts "Don't dawdle" despite a reprieve until June 30.

The chief director, operations, at the Department of Inland Revenue, Mr Schalk Albertyn, announced last night an 11th hour reprieve for the late runners.

He said that the department would delay prosecutions to allow taxpayers to submit their forms by June 30, warning that after that date penalties would be "very heavy".

The department hinted that tax offices might turn a blind eye to minor delays, but taxpayers were told the longer they took to submit their buff forms the worse the risk of prosecution or penalties.

"Don't think you can evade the taxman for ever," laggards were told by Mr Bruce Sandilands of chartered accountants Pim Goldby.

"He has a thousand ways of keeping tabs on you and even if it takes three or four years, he'll trace you eventually."

Mr Sandilands offered a set of basic guidelines to taxpayers unsure about how to fill in their returns:

- Primary rebates for the 1986/87 tax year are R880 for married persons and R620 for single persons. Anyone over 60 is entitled to an additional rebate of R120. From 65 the rebate goes up by R500.
- There are also rebates for the support of children — your own children, step-children, adopted children or foster children. Divorced parents can also claim.
- Rebates on insurance policies amount to 10 percent of premium payments whether for life assurance or endowment insurance or contributions to provident or benefit funds, or into employment insurance policies. The maximum is R75.
- Salaried employees are reminded they must pin their IRP5 forms inside their returns. Provisional taxpayers must prepare schedules showing full details of income from businesses, trades or professions.
- Shareholdings in private companies must be declared and stand liable for taxation on dividends, though in most cases only two-thirds of gross income will be taxed.
- Tax-free investments include building society indefinite period shares, subscription shares, home ownership saving schemes, indefinite period Treasury bonds, national savings certificates and Post Office savings bank certificates.
- Turning to the section of the buff forms dealing with deductions, taxpayers are advised to examine items line by line.

Medical expenses, pension fund and retirement annuity fund contributions are all tax deductible.

- Deductions for working wives amount to R1 800 or 20 percent of nett earnings, whichever is the larger.

If, after all that, the taxman sends an assessment demanding still more tax and you can see no justification for it, consult an accountant.

He may set down objections to the assessment so he can do battle with the Receiver on your behalf.

SPEAK OUT!

Tens of thousands of taxpayers across the country are filing their tax returns — but economists have warned that despite impressions of an easier tax load the Government will take more money than ever from the man-in-the-street this year.

Total individual tax payments for the 1986/87 financial year, which ended on February 28, are likely to pushed to a record — R11 000 million or more, no less than 22,5 percent higher than in the previous tax year.

Are individuals being charged too much? What can be done?

Telephone The Star's Speakout on 834-7747 between 6.30 pm and 7.30 pm tonight.

SPEAK OUT!

Stop the RSC taxes, Assocom appeals to Govt

320 STAR May 1987 2612

By Michael Chester

The Association of Chambers of Commerce (Assocom) has appealed to the Government to shelve its plans to introduce special turnover and payroll levies on business from July 1 to finance the new Regional Services Councils.

The appeal was contained in a telex to the Minister of Finance, Mr Barend du Plessis, at the end of talks held by Assocom's executive council in Johannesburg yesterday.

Mr du Plessis today said he had no comment on the telex.

Assocom warned that price increases were imminent if the levies went ahead.

A study estimated that more than 190 000 business operations would be hit by the proposed levies on payrolls of R88 billion and on turnovers running at about R415 billion.

Although the rate of levies appears low — an establishment levy of 0,1 percent and a services levy of 0,25 percent — the overall cost to business now looks likely to reach R1 250 million a year.

The levies themselves would cost R692 million, but the administration would cost business at least another R558 million.

Mr H S Mabin, special consultant to Assocom, said: "There will be an inevitable backlash that will slow down the current economic recovery and dampen hopes of a 3 percent real growth rate.

"Substantial internal business reorganisation will be necessary to minimise multiple payment of the taxes and limit the cascading impact on prices."

There was also particular concern over the backlash of taxation on payrolls when unemployment was high.

Assocom chief executive Mr Raymond Parsons said the Government was being urged to halt the introduction of the levies at least until the recommendations of the Margo Commission on taxation were made known.

BEER TAX 320

Breweries' billions

SA Breweries (SAB) expects to hand over no less than R1,7 billion imposts to various authorities in its 1987-1988 financial year. This follows changes to the method of collecting GST in the liquor industry.

This is 152% up on tax paid in the closing financial year. Most of the increase will be sales tax collected on behalf of Inland Revenue. SAB has not yet estimated the increased administrative costs this will entail.

Excise duties are estimated to increase to R600m in 1987-1988. From May 1, SAB has been paying "GST at source," as part of a new tax mechanism for the liquor industry.

The system was instituted in an attempt to reduce losses Revenue suffered by liquor retailers who allegedly evade GST. Those who buy from SAB will now automatically bear GST. It is understood that retailers buying ahead of the new system were responsible for the recent unusual demand for stocks.

Assuming SAB's turnover again grows by 24% in 1987-1988, it will be liable to GST on R8,8 billion — R1 billion at 12%. And there's more, with the expected implementation of regional services councils (RSC) on June 1.

Assuming SAB pays the full rate of 0,1% on its turnover, one RSC levy will absorb an annualised R8,8m; the payroll levy another R25m. All these add up to about R1,7 billion taxes and levies.

SAB — which recently posted a sparkling 35% increase in dividends (see *Fox*) — paid over R1,1 billion to Inland Revenue in its 1986-87 financial year, including R122m income tax (R101m more than a year before), about R550m excise duties, and the balance mostly GST. The large increase in income tax charged was attributable to the timing effects of allowances on capital expansion programmes.

FINANCIAL MAIL MAY 15 1987

Margo tax report unlikely before end of the year

BDay 19/5/88 320

CHRIS CAIRNCROSS

THE Margo Commission report into a new tax structure for SA will not be released before the end of the year, say reliable Department of Finance sources.

This dashes hopes that the June 3 main Budget could be framed around any of the commission recommendations.

Although both the original English version and the Afrikaans translation have been with government for some time, the intention, apparently, is to release the report only when government has finally framed its responses to it in the form of a White Paper, unlikely to be published before the end of the year.

Because of the complex nature of the subject and the report, which is said to contain several minority dissenting views, this is going to take some time.

These extensive delays have been the subject of considerable criticism from the business community and opposition politicians.

Income Tax: Pitfalls and problems reviewed

Cape Times 16/5/84

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By DAVID SHRAND

THE essential point to grasp when dealing with an income tax problem is that the law of income tax is governed by an Act of Parliament, namely, the Income Tax Act, 1962, as amended.

In addition decisions as handed down by the Supreme Courts or Appellate Division have a bearing on the subject.

Then there are decisions by the Income Tax Special Courts which although not binding on other courts have considerable persuasive force.

Within these parameters, the solution to an income tax problem must be found.

As the circumstances surrounding one case rarely correspond with the circumstances surrounding another case, it is not always possibly to rely on a particular decision to support a course of action or to resolve an income tax problem.

It is therefore necessary to probe deeper to ascertain what was the motive or dominant motive (where there are mixed motives) that resulted in certain operations or business ventures or actions being undertaken.

In addition, various other circumstances have a bearing on tax liability such as the operation of business in the execution of a profit-making scheme; the manner in which the asset is held; the continuity of activities (this involves the question of mixed intentions and change of intention); the nature of the taxpayer's work or profession; and the manner of financing the transaction.

The basic principle that must be taken cognizance of is that the South African income tax system is not, like most other tax systems in the Western world, based on world income but on income derived or deemed to be derived from a South African source.

There are certain exceptions to this basic requirement, namely, where a person is ordinarily resident in South Africa, income from dividends from foreign companies are deemed to be derived from a South African source.

Before going into the question of whether income falls within the ambit of "gross income" or capital receipt, it is necessary to ascertain whether it is specifically exempt from tax.

Section 10 of the Income Tax Act provides for the partial or total exemption of certain categories of income.

One of the problems that creates most conflict and has given rise to a considerable amount of litigation is the distinction between capital and revenue in respect of both income and expenditure.

A capital receipt is not taxable nor is capital expenditure ordinarily allowed as a deduction (there are exceptions to this rule). Similarly income which is of a revenue nature i e: constitutes "gross income", is taxable whereas a capital receipt is not.

The Income Tax Act, 1962 does not define the term "capital receipt" although it defines the term "gross income". Often the distinction between a "capital receipt" and "gross income" is finely drawn by the courts.

There are similar difficulties about revenue and capital expenditure. As these terms are not defined in the Income Tax Act, the courts have resorted to the formulation of certain principles and guidelines to resolve these issues.

A mass of litigation on these issues has accumulated over the years and the courts have clarified the distinction between revenue and capital expenditure as well as defining what constitutes a capital receipt.

Another important doctrine vis-a-vis income tax law is that of change of intention. This applies particularly where an asset is realised and the question arises whether the resulting profit (or loss) emanates from a profit-making scheme or the realisation of an investment. The role of intention plays an important part i determining whether the proceeds fall into the cate gory of "gross income" or "capital receipt".

Finally, the question of international double ta ation must be examined and the relief applicabl ascertained either under the category of unilater relief or bilateral relief.

Under unilateral relief various concessions ar available such as exemption from tax, deduction o foreign tax, apportionment of income and differentia rates of tax.

General comment:

The Revenue Department has laid down certai rulings which are known as departmental practice thi should be examined.

Thus, in the case of excessive directors' remunera tion, the practice of the Revenue Department is tha where some or all of the remuneration paid to a director, or employee who is a shareholder, is disal lowed for the first time, the amount disallowed will be regarded as a dividend received by the director o employee.

However, if in any subsequent year it is again necessary to disallow some portion of the remuneration the amount disallowed will be taxed in full.

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No move on Margo report

6/Day

19/5/87

CHRIS CAIRNCROSS

GOVERNMENT has no intention of bowing to appeals by organised commerce and industry to release as soon as possible the Margo Commission report on a new tax structure.

Finance Minister Barend du Plessis said yesterday it would only be made public when government was in a position to publish proper guidelines in the form of a White Paper on its own thinking

Du Plessis said representative bodies like Assocom could rest assured that they would be given more than enough time to study the report and recommendations before steps were taken to implement any of the proposals.

Considerable concern has been expressed in many quarters that publication of the report would be left too late to enable the business community to react timeously to it.

"It appears that we are going to be presented with a *fait accompli*," a representative of organised commerce said yesterday.

LEGAL BDay 19/5/87

Tax ruling criticised

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JENNY BOBERG

TRACES of philanthropy in Pick 'n Pay's donation to the Urban Foundation mean the donation cannot be allowed as a deductible expense.

This was the thrust of a recent Appellate Division decision that confirms that only money spent "wholly and exclusively for the purposes of trade" may be deducted from taxable income.

Disillusioned Pick 'n Pay chairman Raymond Ackerman has mourned government's failure to encourage acts that benefit SA by allowing tax breaks. Tax benefits obviously play a part in any company's decision to make such a donation, he says.

A senior Johannesburg attorney says there has always been little scope for making tax-deductible donations, and the judgment has simply confirmed this.

ARGUS 19/5/87

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Taxation tricks: Avoid don't evade

By DAVID SHRAND

WHILE tax forms are being completed, it is as well to remember that there is a fundamental difference between tax avoidance and tax evasion.

Tax avoidance is the minimisation or avoidance of tax by methods within the law while tax evasion is defrauding the fiscus.

Tax evasion includes, among other things, the following acts:

- Making any false statement or entry in any return rendered in terms of the Income Tax Act;
- Signing any statement or return without reasonable grounds for believing it to be true;
- Giving any false answer, whether verbally or in writing to any request for information made by the Receiver of Revenue;
- Preparing or maintaining any false books of account or other records or the use of any fraud, art or contrivance whatsoever.

Penalties for evading tax

The penalty for these offences is a fine not exceeding R1 000 or imprisonment for a period not exceeding two years, or both. Any person who assists anyone in evading tax is similarly liable to the same punishment.

Referring to tax avoidance, a judge in a well-known English case remarked: "Taxpayers incur no legal penalties and strictly speaking no moral censure if, having considered the lines drawn by the legislature for the imposition of taxes, they make it their business to walk outside them."

It has also been laid down in a series of decided cases that a taxpayer is entitled to organise his affairs so as to pay the least amount of tax. On the authorities, the taxpayer is, therefore, entitled to take advantage of any loophole in the Income Tax Act which will reduce or avoid his income tax liability.

The question of tax avoidance is governed by Section 103 (which consists of four sub-sections) of the Income Tax Act which deals with transactions, operations or schemes entered into by a taxpayer for the purposes of avoiding or postponing liability for or reducing income tax.

In another Appellate Division case, the facts were as follows: a professional partnership was converted into an unlimited liability company (with the partners as shareholders) for R240 000 goodwill which was credited to the partners.

But they did not enter into any service contracts or take any steps to secure payment of their loans and their directors' remuneration plus interest on their loan accounts were less than their share of the partnership profits.

It was held that such an arrangement was not abnormal and did not constitute a transaction which was not at "arm's length". It was further held that the reduction or postponement of tax was not a consideration which had been taken into account by the partners in implementing the conversion scheme.

Amendents to overcome loopholes

The Income Tax Act of 1978 has effected amendments to Section 103 to overcome the loopholes in Section 103 (1) which provided that the Commissioner for Inland Revenue had to show that the avoidance of tax was in his opinion the sole or one of the main purposes of the transaction, operation or scheme before he could succeed.

It was often possible for the taxpayer to argue persuasively that, although some income tax had been avoided, that was incidental to the main purpose of the scheme, which was the avoidance of, for instance, estate duty.

How tax evasion is detected

The amendment now provides that if a scheme was entered into solely or mainly for the purpose of avoiding, say, estate duty, donations tax or stamp duty but it also has the effect of reducing liability for income tax, the provisions of the relevant section may now be invoked vis-a-vis the income tax aspect.

The normal measures adopted by the revenue authorities to detect tax evasion are:

- Banks and financial institutions have to submit the names and addresses of all persons in receipt of interest and other forms of income.
- Companies are required to complete a form (known as IT8) disclosing payments of debenture interest and dividends.
- The revenue authorities also call upon certain firms to complete a form (known as IT9) disclosing sales, purchases and shipments of produce and livestock.

Fringe benefits must be disclosed

Another form which has to be submitted to the revenue authorities must disclose fringe benefits which have accrued to employees.

In addition to the various measures outlined above to detect tax evasion, the Income Tax Return includes a wide range of questions designed to disclose important information.

So in many cases a person's Income Tax Return is already completed in the files of the Receiver of Revenue even before he (the taxpayer) has received his Income Tax form.

A taxpayer's drawings are also scrutinised by the revenue authorities. If the taxpayer's drawings are too low this may indicate that the taxpayer is in receipt of an undisclosed source of income to supplement the income disclosed in his return.

The same conclusion might be drawn where his drawings are in excess of his income, subject, of course, to his liabilities not substantiating the excess.

Similarly any increase in a taxpayer's capital account must reconcile with his income as disclosed in his Income Tax Return.

WEDNESDAY, MAY 20, 1987

Industrial companies highly taxed on 'fictitious profits'

CAPE TIMES 20/5/87 (320)

BLOEMFONTEIN. — The government's tax policy, and particularly the lack of a provision in the tax rules for inflation, meant industrial companies were taxed on fictitious profits at relatively high rates, F Kotzee, chairman of Iscor, said yesterday.

Opening the mining and industrial sectoral congress of the Afrikaanse Handelsinstituut in Bloemfontein, he said this policy could have no other result, particularly in present economic conditions, than that industries were gradually "bleeding to death".

Among the industrialist's important assets were plant, machinery and stocks, assets that had to be regularly replaced at rising prices. The tax authorities did not take this into account, to the detriment of industry as opposed to other sectors for which it was a lesser problem, said Kotzee.

The GST factor aggravated the problem, and effective tax rates were as high as 60% and more, compared to 25% in Taiwan, 20% to 33% in Korea and about 20% in the US.

Kotzee said one of the greatest challenges for industry, and the country as a whole, was the normalization of industrial relations.

Labour relations must be improved in all organizations by purposefully formulated training of the entire management, with the emphasis on the creation of good human relationships and the recognition of the human worth of all employees.

Other improvements suggested were the creation and maintenance of direct communication channels to all employees on a pro-active basis; improvement of negotiating skills; extended knowledge of the legal aspects of labour relations; nurturing of sound relations with trade union officials; and appreciation of the social and political problems and aspirations of blacks. — Sapa

FINANCE (330) SMN 23/5/87

Don't expect drastic tax reductions, says analyst

SVEN LUNSCHE

The tax system needs a major overhaul and drastic tax reductions should therefore not be expected until the results of the Margo Commission are released, writes Gill Raine, economist for stockbrokers Frankel Kruger.

The Budget is therefore not expected to give any shocks to the system or major stimulatory impulses — just continued sustained reinforcement for a fledging upswing.

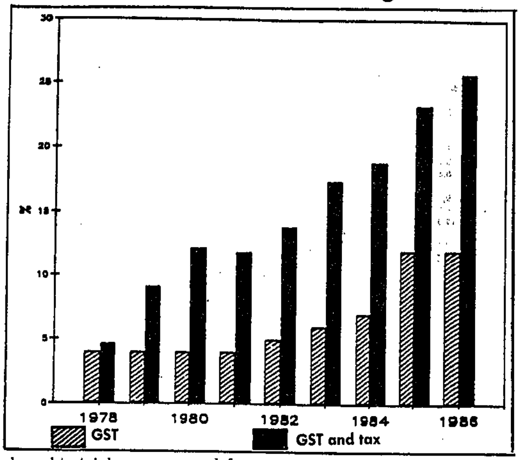
The recommendations of the Margo Commission will have a major impact on the revenue side, although they are not expected to be incorporated until the 1988/89 budget.

Currently, the tax system is heavily weighted to personal income tax, although the contribution of GST to total tax has grown rapidly since 1978.

Says Ms Rayne: "Fiscal drag has been the main culprit for the heavy taxation rates on individuals, as are the low rates of company tax due to tax allowances available."

"High income tax and taxation of savings are not the stuff that growing economies with a relative shortage of skills and savings are made of. Fiscal policy needs to be more flexible to allow more timeous adjustments, and it should also by incentive compatible," she adds.

"The expenditure side of the Budget is likely to be a continuation of the trends in place — increased allocation for housing and infrastructural, education and training, relief for povery and drought-stricken areas and for small business development," writes Ms Raine.



Overall, she forecasts expenditure to rise 20 percent to R48,5 billion, which includes a hefty increase in civil servant salaries of 12,5 percent, backdated to April, plus an additional sum to cover the increase in the number of employees in the public sector.

In the previous year actual expenditure figures for the full year show that expendue increased 23 percent on the 1985/86 financial year, which pushes the actual budget deficit to R5,8 billion.

"This deficit as a percentage of GDP is above the three percent agreed to in 1985 with the IMF, in the interest of sound fiscal finance."

However, South Africa's fairly stable public debt levels have, to a large extent, balanced out government's inability to stick to budgeted expenditures.

"Total government debt has been growing in real terms at a lower rate than real GDP except in 1982 and 1983," Ms Raine says, adding adds that debt could rise to R56,7 billion in nominal terms, before reaching critical levels.

This level would be reached if growth in government debt was in excess of real economic growth.

"Should this be the case, then the Exchequer cannot finance the ever-increasing debt without recourse to money creation with consequent inflationary expectations," Ms Raine concludes.

Cape Times 25/5/87 (320)

Private tax doubled in 7 years

By AUDREY D'ANGELO
Financial Editor

THE total tax burden of the average South African has more than doubled in the last seven years from 9,5% of personal income in 1980 to 18,8% this year, Sanlam chief economist Johan Louw says in his May economic survey.

"This has made an important contribution to the sluggish growth trend in the SA economy during the past five years."

He does not think that any relaxation given in the forthcoming Budget will fuel inflation.

Demand inflation

"There are encouraging signs of a retreat in the rate of price rises, particularly thanks to the firmer performance in the external value of the rand.

"And since the inflation process is at present principally of a cost-push nature and there is a degree of surplus capacity in the economy, we do not believe that demand inflation will be a real problem in the future.

"We estimate that the average increase in the consumer price index will be in the region of 16,5% in 1987 as opposed to 18,6% in 1986."

Assuming an average gold price of $430 an ounce and an average rand-dollar exchange rate of $0,47 in 1987, Louw and his economic research department estimate that the current account of the balance of payments will produce a surplus of about R5 000m this year.

"Taking into account the reasonable conditions of the foreign debt agreement that the Republic recently concluded, the balance of payments position leaves slightly more room for growth in the SA economy during the next year or so."

Pointing out that there will be a fairly slow rate of expansion in the economies of the major industrial countries, which means a slack demand for commodities, and sustained sanctions, Louw says SA "cannot rely on an export-led upswing".

Not much room

And the present weak position of the average consumer makes it doubtful if the upswing can be sustained unless the Budget is mildly stimulatory with further cuts in individual taxation.

But, in view of the concessions amounting to R1 000m in the mini-Budget in February, Louw and his department believe there is not much room for further tax reductions in the main Budget.

They therefore urge the government to keep the escalation rate in its expenditure as low as possible and budget for a deficit of about R7 500m.

Tax revision 'crucial'

Cape Times 27/5/87 (320) 6

JOHANNESBURG. — There is a crying need for a major revision of South Africa's tax structure, D M Pheifer of the mining-related company, Pyromet, told yesterday's Mining Finance 1987 conference in Johannesburg.

Addressing a full house at the Carlton Hotel, Pheiffer said: "Something must be done right now about the country's tax structure.

"Fingers are increasingly being pointed at the government for spending too much itself, and financing this spending by taxing the individual.

"High tax rates on individuals destroy their incentive to work harder and accumulate wealth.

"High company taxes remove the incentive of entrepreneurs to innovate and undertake risky projects because the after-tax returns on such projects are deemed not worth the risk involved."

Tax cuts would not only increase the productivity of individuals but increase effective return on business, stimulate investment, economic growth and employment.

"There can be little denial," said Mr Pheiffer, "That some sectors of our economy contribute very little in tax. Several large institutions and conglomerates, for example, pay a proportionately minuscule amount of tax in relation to private individuals and industrial concerns.

"In particular, the growth of institutions resulting from trading in cash flows of existing investments (that is, by circulating money) is not contributing to the creation of new risk capital — much needed to promote the venture capital area.

"After-tax returns on the work of individuals and fixed investment by industrial companies is very low in relation to returns in financial markets.

"As a result, funds have increasingly been diverted to paper assets, away from fixed investments and job creation in the real economy . . ."

There could be little doubt, said Pheiffer, that most Western countries as well as the successful developing countries, especially in East Asia, "can attribute their performance largely to the creation of a tax climate in which smaller businesses can thrive". — Sapa

Duty cut will hit TV makers

Big slash in customs levy could lead to cut-back in jobs

By Dan Side

The 40 percent drop in customs duty on imported TV sets announced by the Government yesterday could mean the beginning of the end of the local television manufacturing industry.

Mr Peter Dupen, chairman of the Radio and Television Manufacturers' Association, today said the reduction in customs duty on assembled sets from 100 percent to 60 percent could make it cheaper to import them than manufacture them locally.

"I doubt very much if local producers would stay in manufacturing for long," he predicted.

The new perk to encourage local content, announced by Deputy Minister of Economic Affairs and Technology Dr Theo Alant, did not appear to offer local manufacturers sufficient incentive to keep production lines rolling.

Mr Alant also introduced a 7 percent rebate on the 35 percent excise duty paid on all sets handed over to the retail trade by local manufacturers.

The reduction is in respect of the value added in the manufacture of electronic components and materials incorporated in television receiving sets and monitors with a duty purposes value not exceeding R800 each, and well as for those components and materials mentioned which are exportable.

Mr Dupen said such a rebate would reduce the price of locally assembled sets by about R30, while totally eliminating the 35 percent excise duty would shorten the price of a sophisticated, large-screen colour set by about R370.

High technology

"I'm not sure, at this stage, whether the industry can achieve any rebate on excise," he said. "But we are concerned that lowering the import duty will encourage the importation of TV sets and local manufacturers will have to take a hard look at whether they will import or manufacture.

"In the end, this could result in a loss of jobs in an industry that has built up a high state of technology. We're near the top of the technological tree here. Nowhere in the world do they produce sets that are much more sophisticated or reliable.

"An increase in importation could mean the stagnation of this technology."

Mr Dupen said he questioned the timing of Mr Alant's announcement. "We in the industry had merely put forward proposals. There were no discussions or recommendations on how to put the scheme into operation."

Price should drop, insists Dep Minister

Political Correspondent

CAPE TOWN — The Deputy Minister of Economic Affairs and Technology, Dr Theo Alant, insisted today there was no reason why the retail price of all television sets should not be reduced across the board once certain duties had been lowered.

He was reacting in an interview to reports that the Radio and Television Manufacturers' Association needed to clarify aspects of the new duty structure and that price levels could be maintained at their present levels in order to stimulate the local components industry.

Dr Alant said the price of television sets could drop by as much as 20 percent as a result of the changes.

He said there was no reason why this should not happen and he would be meeting the industry in the next week to discuss the remaining issues.

The Government was keen that the price reductions were passed on to the man in the street, which ought to have a positive influence on sales figures and benefit capacity utilisation in the electronics industry.

The Progressive Federal Party spokesman on finance, Mr Harry Schwarz, said today there was a high degree of confusuion in the electronics industry about the impact of the changes.

AVAT 320

Better than VAT?

Various members of the Margo Commission and Inland Revenue officials are rumoured to be in the US, fuelling speculation that an accounting-value-added-tax (AVAT) will be recommended. The party is said to be visiting the state of Michigan, the only tax juris-

FINANCIAL MAIL MAY 29 1987

investor; whether it grossed R1 or R100m a the box office was also irrelevant, from th tax-saving aspect.

Revenue's intention is to change this sc that the investor can claim a deduction only to the extent that he is at least at commercial risk in respect of his investment. If the investor is at personal risk for the full R1m, he would still be entitled to set it all off against income from any activity.

The other option, where an amount equal to the investment may only be deducted from income derived from the investment, known as "ring fencing," is still available, however.

Film makers' main fear over the at-risk rule applies to the exporters' marketing allowance.

This, the so-called "double deduction," is the most attractive feature of investing in a motion picture tax shelter.

For every (say) R100 000 invested in qualifying costs, the investor may deduct up to R200 000 from any type of income — making such an "investment" costless at the 50% company tax rate.

Some film makers, not surprisingly, have been grossing up marketing costs. They transfer production costs to marketing costs, because of the enhanced allowance.

Revenue's dilemma: should it make the marketing expenditure subject to the at-risk rule? So that, for example, if a motion picture flops at the box office, and the investor is not at risk, he would have to cover such costs out of his own pocket.

Revenue does not have a firm view. But, after it has circulated draft legislation to the industry, within a month or so, officials will consider comments from the industry.

Those who indulged in "rough cuts," whereby all the South African tax concessions are claimed on a production made almost entirely outside the country, will no longer enjoy any concessions.

Future productions will have to show, with minor exceptions, that at least 75% of remuneration has been paid to South African residents. Though the final law is yet to be seen, it can safely be said that Revenue's overriding intention is to remove artificiality from the financing of motion pictures.

Trinity Asset Management's Bruce Holsten looks forward to the matter being cleared up as soon as possible. "A whole sub-industry will dry up if the benefits of the old tax regime are substantially diluted. But with a favourable outcome, we'll be able to give support to projects that can attain, and deserve, international recognition." ■

How high can our tax burden go?

320

BDay

29/5/87

BARRY SERGEANT

TABLE 1 — NO SALARY INCREASE

1986-87 YEAR OF ASSESSMENT			1987-88 YEAR OF ASSESSMENT		
Gross Salary	1986/7 Tables	Average Tax Rate	Gross Salary	1987/8 Tables	Average Tax Rate
M2			M2		
R1 500	R164	11,0%	R1 500	R150	10,0%
R2 000	R304	15,2%	R2 000	R287	14,4%
R2 500	R473	18,9%	R2 500	R455	18,2%
R4 000	R1 100	27,5%	R4 000	R1 060	26,5%
SO			SO		
R1 500	R226	15,1%	R1 500	R214	14,3%
R2 000	R385	19,2%	R2 000	R371	18,6%
R2 500	R573	22,9%	R2 500	R560	22,4%
R4 000	R1 250	31,3%	R4 000	R1 213	30,3%

TABLE 2 — 15% INCREASE

1986-87 YEAR OF ASSESSMENT			1987-88 YEAR OF ASSESSMENT		
Gross Salary	1986/7 Tables	Average Tax Rate	Gross Salary	1987/8 Tables	Average Tax Rate
M2			M2		
R1 500	R164	11,0%	R1 725	R212	12,3%
R2 000	R304	15,2%	R2 300	R384	16,7%
R2 500	R473	18,9%	R2 875	R599	20,8%
R4 000	R1 100	27,5%	R4 600	R1 322	28,7%
SO			SO		
R1 500	R226	15,1%	R1 725	R285	16,5%
R2 000	R385	19,2%	R2 300	R481	20,9%
R2 500	R573	22,9%	R2 875	R719	25,0%
R4 000	R1 250	31,3%	R4 600	R1 483	32,2%

M2 = MARRIED PERSON WITH TWO CHILDREN WHOSE SPOUSE DOES NOT WORK
SO = SINGLE PERSON WITH NO DEPENDANTS
ALL FIGURES ARE MONTHLY

NOBODY who's lobbying in the lead up to next Wednesday's Budget has not made some call for tax rates to be cut. After all, the *overall* tax burden is at a record level and the first Regional Services Councils will start raising a new kind of tax, in various areas, on July 1.

On the other hand, it's worth remembering that personal tax rates have been cut for two years in a row, reducing the top personal marginal rate from 50% to 47,5% to 45%. That's official. In reality, the percentage of personal income paid as tax has increased over the past two years.

Economists use phrases like "fiscal drag" and "bracket creep" to describe the phenomenon of falling tax rates mirrored by a higher tax burden.

What's happening is that, while employers are forced to increase remuneration to compensate for swelling inflation, so the taxpayer's higher status is automatically recognised.

When the taxpayer's pay is increased he moves into a new tax bracket. His new-found status, based long ago on the ability-to-pay principle, calls for a higher percentage of his income to be paid to his senior partner — the Commissioner for Inland Revenue.

Now who's expected to understand all that?

The Department of Finance for one. Prior to each Budget, it runs programs on highly sophisticated computers installed at Inland Revenue. After tinkering with various rates, and compiling a comprehensive program using rates that will raise what is likely to be spent, it seeks to cut where it can.

Inevitably, because of their popular appeal, personal tax rates are cut (income tax and GST, incidentally, contributed 86% to total Inland Revenue receipts in 1986-1987).

In theory, the new rates do cut your personal income tax — if you receive absolutely no increase to compensate you for (endemic) inflation.

And, after the past two Budgets, the media gave the appropriate flash, falling into the trap designed by Treasury. "Personal tax rates cut," and similar headlines, are flashed nation-wide. SABC's various organs give echo to that silent, printed sentiment.

But then, is Finance Minister Barend du Plessis — or anyone else in high places — obliged to give the sticky details? The answer, by-and-large, would appear to be a resounding "no". For a start, not one of SA's 4 000-plus statutes recognises or refers to the word "inflation".

The courts have not found a way of reconciling this gross omission with reality. There are scores of cases brought under the law of delict, where the damages eventually awarded (often five years or more after the accident, the date when the damages are quantified) have not been adjusted, for a single cent, to compensate for inflation.

So then as far as the legislature and judiciary are concerned, the incidence of inflation is irrelevant.

What about the executive, which annually authorises (by nature of SA's special parliamentary process), personal and other tax rates for the year ahead?

Chartered accountant John McCartney, of Deloitte Haskins & Sells, has compiled a report showing how tax rates do, officially, decrease when Du Plessis says so (see Table 1).

His more believable study (Table 2), which assumes a 15% pay increase, shows how the tax burden increases when rates officially fall. Perks tax, omitted from the tables, has been phased-in over the period. Its inclusion would make the position shown look even less attractive.

Official supplementary papers to the main Budget are wont to follow the format of Table 1. This, despite last year's 10% public sector pay increase and this year's 12,5%. Is there not something fundamentally wrong when official examples are given that ignore the effect of pay increases?

The incidence of inflation is not going unnoticed. Some senior businessmen are calling attention to it.

Floors Kotzee, chairman of Iscor, went straight to it at the recent AHI congress in Bloemfontein: "Tax policy, and particularly the lack of a provision in the tax rules for inflation, means industrial companies were taxed on fictitious profits at relatively high rates."

Such a policy means that industries were gradually "bleeding to death".

The GST factor aggravated the problem: effective tax rates were as high as 60% and more; compared with 25% in Taiwan; 20% 33% in Korea; and about 20% in the US.

Johannesburg Stock Exchange executive president Tony Norton has drawn attention to the position of an asset-intensive company: the last thing it would want is an economic upturn.

The details add up to a Big Picture that is, in modern SA, nothing but a recurrence of what happened throughout the West after the Second World War. This, quaintly, is that the most striking feature over the period was the explosive rates of growth in taxes and government spending.

The question prompted — beholden by taxpayers and fair-minded analysts, and ignored by politicians — is: how high can taxes go? Is there a limit where the tax burden simply cannot any longer be sustained?

The US and UK have taken positive action since the start of the Eighties by administering a hard-line on maintaining, if not reducing, the tax burden.

In SA, Assocom, in a memorandum to the State President's Economic Advisory Council, noted that, as a percentage of total GDP, government expenditure had increased from 1980's 20% to 28% in 1986.

"This level is unacceptably high, and must be brought down to at least 22%. The scope and extent of tax reductions will largely depend upon a reduction in government expenditure.

"Seen in the light of deregulation and privatisation, a reduction in government expenditure, from the point of view of a reduction in the level of public sector employment, is quite possible."

Pretoria is not insensitive to the over-ripe tax burden. It appointed the largest commission in our history, chaired by Mr Justice Cecil Margo, to try to find a new system. The report should have been completed more than a year ago; it has still not been made public.

Various members of the commission, speaking in their private capacities, reminded the listener that they were seeking a more efficient, fairer system, rather than a system that would reduce rates.

And the Crafford Committee, appointed to find a way of making central government budgeting stricter, seems to have become a ghost in the machine.

It has been said that one of the reasons for SA's "new brain drain," political considerations aside, is the ever-swelling tax burden. No guarantees of any nature whatsoever have been issued that the tax burden will not continue its relentless ascent.

It may be remembered that the American constitution was born in a spirit of tax revolt. While the Founding Fathers knew they were creating a government of consent, they appreciated that restrictions on the powers of the three creatures of democracy — the legislature, judiciary and executive — were required.

One distinct line of action taken was that government would be explicitly constrained — by a constitution — from imposing too unhealthy a tax burden. Judging from recent tax reform in the US, the spirit of the Founding Fathers has proved to be of an immensely lasting nature.

In SA, leading up to the Budget, we should not be asking *how* tax rates may be changed, but what the *effect* of such changes might be. Remember: if tax rates are left static, the tax burden automatically increases — to the tune of about R2bn for personal income tax in a calendar year.

Then we can go on to the more sensitive questions: how high can taxes go? Are democratic controls of the tax burden possible? Is there a possibility of constitutional limitation? What kinds of constitutional limits might work?

Tax, after all, is nothing more than confiscation of income earned. A thief also confiscates things — but mostly he can be said to have worked for his spoils.

ARGUS 2/6/87 320

Govt can cut income tax by 20% — Kantor

By TOM HOOD
Business Editor

THE Government has room to make tax cuts equal to 20 percent of income taxes paid last year, says Professor Brian Kantor, director of the school of economics at the University of Cape Town.

This would amount to a real reduction of perhaps five percent, he says in a Budget forecast today.

"This is very much the opportunity available to the Government. If they fail to seize it, they will only have themselves to blame at the next election."

Criticising last year's Budget for being "absurdly conservative," he believes tomorrow's will be important if it has a favourable influence on confidence.

Growth in revenue could be forecast

"Visibly lower personal income tax payments could be very valuable in boosting confidence."

Economic recovery and inflation will add significantly to revenues and a built-in growth in total revenue of between 16 and 18 percent could be confidently forecast, said Professor Kantor. The authorities could also easily justify to themselves and to financial markets an extra borrowing requirement or fiscal deficit of up to 4,5 percent of potential gross domestic product (GDP).

A conservative estimate of GDP for the financial year would be about R170-billion, so that the planned deficit could be R7,65-billion.

This, if added to revenues excluding transfers from the Central Energy Fund of R39,6-billion, could produce a total expenditure Budget of R47,25-billion.

The estimate of revenue is for 18 percent growth on

Professor Brian Kantor

R33,6-billion — excluding transfers from the Central Energy Fund.

"Income tax concessions will therefore depend on the authorities reducing this growth in expenditure to something like 15 percent and the willingness to draw again on the Central Energy Fund.

Delay in civil service increases important

"Delaying the increase in Civil Service salaries by three months is an important factor in the calculation.

"Fifteen percent growth may well be feasible and an expenditure budget of about R42,6-billion will leave room for income tax cuts of about R1-billion.

"A further R1-billion from the Energy Fund would make for a politically meaningful reduction in income taxes equal to 20 percent of income taxes paid in 1986-87 and a real reduction of perhaps five percent."

The economy today is undoutedly in a much healthier state than it was a year ago, said Professor Kantor.

"In fact, the resilience of the economy in the face of disastrous political and economic shocks is quite remarkable and deserving of respect in financial markets.

"South Africans cut back on their standard of living in order to meet withdrawals of capital in a way other borrowing countries have been quite unable to do.

"The worst of such sacrifices would appear to be behind us. Domestic expenditure is recovering from very low levels and is as yet in no way prejudiced by the balance of payments restraints.

Balance of payments dependent on gold

"In fact, the sooner the ability to finance higher real imports through foreign credits is tested, the better.

"Fiscal policy should, if anything to the extent it can be, be encouraging of expenditure growth, especially private expenditure growth."

Concern for the balance of payments was a long way off and would also depend on the gold price which, so far this year, had been encouraging.

Revenue last year was augmented by a R1-billion transfer from the Central Energy Fund to cover the spending package.

This fund was a secret off-Budget item but as much a source of revenue as any other. It was being augmented by the repayment of loans by Sasol, which was a very successful example of privatisation.

"The authorities are also over-recovering on the petrol price now that the rand is more valuable. It would make every sense to turn to the Energy Fund again as a source of revenue."

Govt has room to announce tax cuts and improve SA's confidence, says Kantor

320 3/6/87

Own Correspondent

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Professor Brian Kantor ... Govt must restore confidence.

JCC and T to join for giant busin

By Teigue Payne

The Johannesburg Chamber of Commerce and the Transvaal Chamber of Industries have thrown the cat among the pigeons of organised commerce and industry by announcing that they will merge.

The move comes after the main national bodies representing commerce and industry — the Association of Chambers of Commerce (Assocom) and the Federated Chambers of Industry (FCI) — have said they are not negotiating to merge.

The new Witwatersrand Chamber of Commerce and Industry, as it will be called, will cover the entire Witwatersrand, spanning three Regional Service Councils. It will thus represent 65 percent of all business activity in South Africa, according to Mr Hennie Viljoen, president of the Transvaal Chamber of Industries.

This powerful voice will, once merged, be thrown behind a move to merge the two national bodies. This move can be expected only after the merged organisation comes into being, but Assocom and FCI may decide to preempt the move by initiating talks.

Last night representatives of the two Transvaal organisations confirmed that talks between Assocom and FCI were not

Higher consumer spending unlikely

More income tax from individuals — economists

Cape Times 4/6/87. 320

By AUDREY D'ANGELO
Financial Editor

ECONOMISTS and accountants pointed out last night that, in spite of its declared intent to stimulate the economy, the government will in fact take 24,1% more in income tax from individuals.

This, they suggested, was hardly likely to give the desired boost to consumer spending.

And, on the basis of past performance, few of them believed that the government would keep its own spending within the promised R40,321 billion.

Brian Kantor, professor of economics at the University of Cape Town, said: "This will not be a popular Budget.

"It fails to address the perception of the man in the street that he is paying too much tax."

Kantor said he thought the minister should have eliminated bracket creep.

"In fact he has budgeted for a large increase in income tax receipts."

He considered the increase in government spending quite moderate "and I am pleased that they have allowed the deficit to increase — the last thing they should have done was to increase taxes. It is disappointing that no reductions have come through."

Mike Daly, chief economist of Southern Life, said: "Individuals are going to be hit very heavily by the increase in takings from tax.

"It is not going to help the fledgling upturn."

Daly said that although there had been little likelihood of actual tax cuts, he had hoped that the minister would raise the tax allowances for such expenses as medical aid and retirement annuities.

Volkskas Bank economist Adam Jacobs said: "The financial position of the man in the street will remain under pressure for the rest of the year."

"I expect the deficit to be R10 billion rather than R8,4 billion."

Luke Barlow, a partner at Pim Goldby, said: "In the case of individuals, fiscal drag continues to play its part in raising the overall tax burden.

"This means that individuals will be paying considerably more tax this year. This is in spite of the concessions noted in the mini budget."

Roland Hudson-Bennett, managing partner in Cape Town of Peat Marwick Mitchell, pointed out that although increased government spending would provide some stimulation for the economy there would be no motivation for any increase in consumer spending.

Sanlam chief economist Johan Louw said that in view of the sluggish course of general economic recovery, steps announced in the Budget to stimulate the economy moderately were certainly justified.

It was a pity the minister did not see his way clear to grant further tax reductions to individuals, who were carrying such a heavy tax burden, he said.

"The continuing poor financial position of the man in the street will no doubt hamper the recovery of the economy."

Mike Kovensky, President of the Federated Hotels, Liquor and Catering Association of SA (Fedhasa), said: "This was an unimaginative Budget. The man in the street needs confidence to go out and spend and the only way to build that is to give him more money in his pocket."

CAPE Times 4/6/81 320

Govt moves on diesel racketeers

Political Staff

TAX inspectors have uncovered a massive diesel racket which has been costing the State hundreds of millions of rands a year.

But the Minister of Finance, Mr Barend du Plessis, yesterday closed the loophole by consolidating certain levies built into the fuel price which he estimates will bring an extra R300 million into State coffers.

It is understood that certain diesel consumers, such as commercial fishing boats and farmers, who pay significantly less for their fuel than ordinary consumers, have been selling their supplies on the sly.

By charging only slightly more per litre than they paid for the diesel, they were making a handsome profit while the buyer was showing a handsome saving on normal prices.

Long-distance hauliers with heavy fuel bills to face, are understood to have been buying cut-price fuel under-the-lap from farmers only slightly off their normal routes.

Some fishing vessels are also believed to have been transferring diesel into road tankers and selling it ashore.

Mr Du Plessis moved in on the operation yesterday and announced that: "As a result of increasing evasion of duty, levies and sales tax on fuels, it has been decided to consolidate the levies for the Road Fund, the Central Energy Fund, the Motor Vehicle Assurance Fund (third party) and sales tax in a single fuel levy.

"The consolidated levy, which will be collected by Customs and Excise direct from the oil companies, will however have no impact on pump prices," he said in his budget speech.

"Consumers who at present enjoy a rebate on fuel will in future have to pay the full duty at the time of purchase. Provision will however be made for a refund of a portion of the duty and fuel levy to consumers who qualify.

"Additional revenue of some R300 million is estimated for the remainder of the financial year as a result of this change and of improved collection procedures."

□ The contemplated adjustments to the fuel price composition announced by the Minister of Finance would not impose additional costs on consumers, Sapa reports the Minister of Economic Affairs and Technology, Mr Danie Steyn, as saying yesterday.

In a statement elaborating on Mr Du Plessis' announcement, Mr Steyn said the pooling would, with the amendments to the price zones, eliminate confusion and additional administration costs.

Certain amendments to various acts were however necessary and these would be implemented as soon as possible.

Details on how the pump price and other selling prices would be influenced would be announced as soon as the complete figures had been worked out and the cabinet had decided on the most practical method.

Mr Steyn said the existing crude-oil supply situation and a favourable exchange rate ratio enabled the cabinet to give consideration to an overall simplification of fuel prices as they were now, to coincide with an amended price zone structure and the already announced new transport tariffs.

STAR 4/6/87.

320

No concessions to encourage working married women

Working married women expecting additional tax concessions were disappointed with the 1987 Budget yesterday when the Minister of Finance, Mr Barend du Plessis, failed to address the issue.

However, women's interest groups said they had not expected any announcements yesterday in the light of the concessions announced in February and the fact that the Government was still considering the recommendations of the Margo Commission.

They said they would continue to appeal to the Government to consider seriously the plight of working married women and to make changes as soon as possible to the present system of joint taxation for married couples.

In February, Mr du Plessis announced that the portion of a wife's earnings that was tax deductible would be increased from 20 percent to 22,5 percent.

This was of "considerable" assistance to married woman, Mrs Margaret Lessing of the Women's Bureau of South Africa said, and additional concessions were not expected to be made at this early stage.

In his Budget speech in Parliament yesterday, Mr du Plessis said the entire South African tax system stood on the threshold of renewal and important choices on taxation would shortly have to be made on the basis of the recommendations of the Margo Commission.

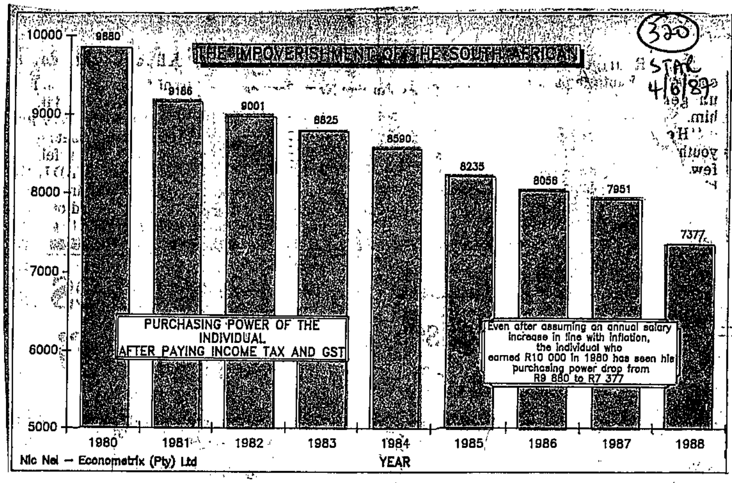
The Margo Commission has investigated the entire tax system in South Africa. Its report was handed to the State President in March.

The vice-president of the National Council for Women, Mrs Phillis Lloyd, said yesterday's Budget was a "bit of a non-event" as far as women and taxation was concerned. "We never expected any concessions to be announced in yesterday's Budget having received a concession in February, and with the Margo Commission report not yet public.

"Women in South Africa certainly do have a taxation problem. Let us hope the Margo Commission addresses this problem," Mrs Lloyd said.

Tax consultant, Mr Costa Divaris, said it would be "really unreasonable" for women to expect anything more at this stage.

"The entire tax system in this country must be addressed first and this we hope the Margo Commission report will do," he said.



This chart, compiled by tax consultant Nic Nel and the economic research unit Econometrix, shows how tax has eroded the purchasing power of the average South African since 1980 and how it was further eroded by yesterday's Budget. It assumes a married man with two children who earned R10 000 in that year has been compensated for inflation in every year since and that he has deducted from his tax the full allowance for insurance and medical costs. It also assumes an inflation rate this year of 18 percent — a figure some economists believe is conservative in the light of the Budget proposals. His disposable income today has dropped to the equivalent of R7 377 in "1980 rands".

Warning on levies, GST

CAPE TIMES 4/6/87 320

By JANE ARBOUS

TAX experts yesterday described the Budget as flat and neutral, but warned of possible further increases in taxes unmentioned in the Budget, such as general sales tax, Regional Service Council levies, and possible loan levies.

Arthur Andersen and Co commented that there had been a tendency in the last few years to introduce tax measures which have not been proposed in Budget and revenue bills, for example, frequently contain unannounced provisions.

"Given the government's record of underestimating expenditure a truer picture of how the deficit will be financed may emerge during the year and the minister may well rely on his powers to reintroduce the loan levy or to increase sales tax."

Arthur Andersen pointed out that the proposal to collect sales tax as part of a consolidated fuel levy may have relevance beyond the petroleum industry.

"This move appears to be in line with the earlier amendment affecting the collection of sales tax within the liquor industry where the tax collection point was moved away from consumers to parties who are larger, fewer in number and therefore easier to control.

"None of the recommendations contained in the Margo Commission report was proposed in the Budget and the minister took care that his proposals would not conflict with the recommendations."

UBS sees mortgage rate rise

Own Correspondent

JOHANNESBURG. — A rise in mortgage rates is on the cards for homeowners, says the United Building Society (UBS).

It says over the past two years mortgage repayments have declined by 58% (in real terms) to an average of R750 a month compared with R1 230 in the fourth quarter of 1984. This is mainly as a result of an average inflation rate of 17% coupled with a 9,5% fall in the mortgage rate.

It says an increase in deposit rates is bound to lead to higher mortgage rates.

The economy is entering an upswing phase, implying that the demand for money will start rising.

"This is likely to result in a hardening in interest rates across the board. Most probably retail deposit rates will be affected first, as competition between banks, building societies and insurers intensifies."

In its latest Housing Review, the UBS says the price of a medium-sized home increased by 5% in the first quarter of 1987, compared with the fourth quarter of 1986.

Golds mostly firmer

JOHANNESBURG. — Gold shares closed mostly firmer on a slightly stronger bullion price, but a higher financial rand kept a lid on gains in a quiet market, dealers said.

The Budget was much in line with expectations and had no immediate impact.

Closing JSE indices were unavailable due to computer problems at the JSE.

□ Capital market rates closed little changed from Tuesday's closing levels, having moved off their slightly higher opening levels in a positive, albeit marginal, response to Finance Minister Barend du Plessis' budget, dealers said.

The Escom 11% 2009 ended at 15,61% after rising to 15,64% from Tuesday's 15,57% close, and the SATS 7,5% 2008 at 15,43% after edging up to 15,45% from 15,41%, while the SATS 12,5% 1991 was steady at 12,46%.

Volume on Tuesday totalled about R692m. — Sapa-Reuter

US to end SA tax agreement

Cpt-Times 5/6/87

NEW YORK. — The Rev Leon Sullivan yesterday called for a global debate on ending apartheid through an economic embargo of South Africa.

"I feel it's time because the Lord is with me on this one," the Baptist minister said from Philadelphia. "I hope this idea spreads to other countries."

☐ In Johannesburg the American Chamber of Commerce, representing US firms in South Africa, expressed regret over Mr Sullivan's call.

☐ In Akron, Ohio, Goodyear and Standard Oil said Mr Sullivan's call would not lead them to abandon their investments in South Africa. — Sapa

Mr Sullivan

Political Staff

THE United States has told South Africa that it intends to cancel the double taxation agreement between the two countries.

The move seems likely to accelerate the flight of foreign investors from South Africa and it comes on the heels of Rev Leon Sullivan's call on US firms to withdraw from the Republic.

In a further development yesterday, the Archbishop of Cape Town, the Most Rev Desmond Tutu, supported Mr Sullivan's call and hinted that disengaging companies should not sell out to local management.

The US gave notice yesterday of its intention to cancel the double tax convention from July 1.

The termination of the agreement will mean that the 10% tax on interest accruing to any US resident or company will now be payable if the debtor is "ordinarily" resident or carries on business in SA; and a withholding tax of 15% on payments to such residents or companies for imparting commercial know-how will also be payable from July 1.

On Wednesday Mr Sullivan called for a total US economic boycott of SA and a cutting of diplomatic ties.

Archbishop Tutu supported the call, but said US companies should not indulge in "cosmetic disengagement". He said Mr Sullivan had run a long campaign on the hope that the interaction between companies with US-SA ties would help bring about change.

'I support his call'

"That campaign has failed to effect fundamental change," he said.

"I support his call and will continue to do so until anybody can convince me of a more effective non-violent way of bringing about justice and peace in our country."

He quoted Rev Edmond Browning, of the Episcopal Church of the US, as saying: "Any disinvestment which merely re-arranges ownership while leaving intact policies or operations which support oppressive governmental acts cannot be.. either ethically sound or economically pragmatic."

Bishop Tutu continued: "When will those who oppose this severing of ties between South Africa and other countries wake up to the fact that the real issue facing this country is not boycotts; it is whether we destroy apartheid — by violent or non-violent means. I desperately hope that non-violent pressures such as this will have the desired effect."

The PFP yesterday "completely rejected" the latest call by Mr Sullivan.

The finance spokesman, Mr Harry Schwarz, said that those outside South Africa who were genuinely concerned with the removal of apartheid should consider not only the method of change which the actions they proposed would bring about, but also the nature of society which would follow such a change.

☐ Comment — Page 8
☐ Potential blessing — Page 8

PERKS TAX (320) FM 5/6/87

Substitution myth

Employers wary of a section in the Income Tax Act that appears to hit at salary substitution schemes have little to fear. Ernst & Whinney's Darryl Sahli points out that the issue of salary substitution arises in almost all cases of remuneration restructuring. It concerns the replacement of salary by perks.

The penalty prescribed in the Seventh Schedule for substitution is that phasing-in benefits — if they apply to the perk — will be forgone.

Certain perks

However, the five-year phasing-in benefit affects only certain perks: travel allowances, low-rent or rent-free and holiday accommodation, and "soft" (employer-subsidised) loans. So-called "approved" housing schemes which qualify for a seven-year phasing-in benefit are excluded.

Sahli argues that some anomalies come from interpretation of the schedule:

☐ The commissioner has discretion to decide if salary substitution has taken place; while

☐ Typically no definition is advanced for the meaning of "salary substitution."

The apparent alarming consequences of the law are in fact limited, because the law does not apply to existing remuneration packages, to when an employee is promoted or transferred, to new employees joining a company, or to remuneration increases.

"The last aspect," says Sahli, "is especially important, as few employees have increases built into their conditions of employment. I'd argue that such an increase, because of its contingent nature, cannot form part of a remuneration package.

"A salary increase, therefore, can be substituted by some other benefit, including benefits affected by the five-year phasing-in period. Moreover, perks may be substituted for bonuses and incentives contingent upon performance."

Perks should be substituted for salary increases when remuneration packages are reviewed. A new employee should try to benefit from as many perks as possible. Caution should be exercised when a *large* cash sacrifice is made for a perk qualifying for five-year phasing-in. ■

LLOYD'S OF LONDON

PCW names rebel

Efforts by Lloyd's to find a fair solution to what chairman Peter Miller calls "one of the most shameful periods" in the insurance market's history have run into a fresh snag. Lloyd's has revealed that the net losses facing the 3 000 members and others involved in the Peter Cameron-Webb (PCW) scandal could be £180m, not £137m.

The discovery will further complicate the "final solution" offered by Lloyd's to avoid a host of threatened legal actions by members defrauded by their former syndicate managers, Cameron-Webb and Peter Dixon — neither of whom has been brought to book. Most of the 450 worst-hit members (some face a bill for £200 000) are refusing to accept Lloyd's plan.

Under it the net losses — gross £680m less assets of £443m — are to be shared three ways. Afflicted names account for £34m, Lloyd's central fund £48m and firms connected with PCW (Minet, Alexander & Alexander and the former auditors) £55m — in exchange for a litigation waiver. Lloyd's gave PCW members until May 30 to accept (90% is the required level), but they have held out.

Representing the members, Lord Goodman told Lloyd's that as 85% of the losses were incurred in dollars, they wanted the benefit of the swing in exchange rates. The fall of the dollar, they estimate, has reduced the sterling figure by between £14m-£18m.

Lloyd's has given the members an extra three working weeks (to June 19), but refuses to change the terms. Miller points out that shortfalls in sums recoverable under reinsurance arrangements (part of the £443m asset offset) "could significantly outweigh possible savings . . . from the dollar/sterling exchange rate."

This now appears to be the case. At the end of last week, Miller wrote to the underwriting names, revealing there were "questions . . . about the extent to which there will be full recovery under the regular reinsurance programmes of the PCW syndicates." No details were given, but it is estimated the shortfall could exceed £40m.

Some observers see Lloyd's disclosure as

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Budget 'will push taxpayer to CP court'

By AUDREY D'ANGELO
Financial Editor

Brian Kantor

THE Budget was "politically dangerous" because its failure to give income tax relief to individuals might cause more working class Afrikaaners to switch to the Conservative Party, University of Cape Town economics professor Brian Kantor warned yesterday.

He told the SA German Chamber of Commerce and Industry, at a lunch in a city hotel, that he did not think the Budget had "gone down well in Bethel or Brits".

He considered the Conservative Party had been helped in the last election by an economic protest vote from the working class Afrikaaner who had "suffered in economic strength" and believed he was paying too much tax.

But a colleague at UCT, Andrew Prior, professor of political studies, said he thought the Conservative Party had "probably reached the point of maximum growth".

Its supporters were farmers and blue collar workers "in marginal economic conditions". This sector was in decline with little prospect of growth.

Both professors were speaking to the chamber on prospects in SA following the election and the Budget.

Kantor said that the government could have afforded to cut income tax because, "just as the business cycle is recovering, so the government's revenue is beginning to recover".

Tax cuts would have boosted the recovery and stimulated revenue growth — "that is a supply-side opportunity missed".

But Kantor said the recovery was undoubtedly under way and was very impressive to foreign watchers.

He thought the Reserve Bank should put to the test soon whether SA could obtain more foreign loans to finance its recovery. "There is no sense in holding our economy back for the sake of maintaining the balance of payments."

Kantor also urged more privatization of "cash-rich" parastatals which, he said, would be even more profitable for the government in this country than it had been in Britain.

He urged the private sector to take advantage of any move by the government to make more room for it in the economy.

□ Prior said the country was definitely not in a pre-Revolutionary phase. Given the strength of the police and the army, there was no possibility that a revolution could succeed.

Discussing sanctions and the call to disinvest, he said these could not be justified on logical grounds and businessmen did not like being preached at.

Local clergy who had called for sanctions and advised whites to abstain from voting in the election had in fact aided and abetted the swing to the Right.

Prior said he expected the state of emergency to continue since its purpose was to create a vacuum in which a new political structure could be put in place, but without popular support there was no chance that it could succeed.

Offers would be made to buy black leaders to take part in it. Some would be found to do so, but it was unlikely that anyone of stature would come forward. If any did they would find themselves discredited.

Prior said there was now "a clash of nationalisms" between the National Party and the ANC.

But the time would come when they would have to speak to each other — he believed some NP supporters already realized this.

He hoped all political parties now excluded would be allowed to speak for themselves in SA so that voters could judge them.

Tax mix-up sorted out

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9/6/87

Dispatch Reporter

EAST LONDON — The woes of a Nahoon Valley Park tax payer whose loan levy cheque was sent to Port Shepstone instead of East London have finally been relieved.

The Receiver of Revenue here, Mr J. P. Tiran, said yesterday that he had contacted the Commissioner for Inland Revenue in Pretoria and a duplicate cheque would be sent to Mr Roux.

"Mr Roux will not have to sign an IT 154 form indemnifying the Government from any loss that may have occurred as a result of the encashment of the original cheque," Mr Tiran said.

Last month Mr Roux discovered that he had not received his tax forms or his 1983 loan levy cheque.

He found out that his tax number had been changed to a Durban number and his cheque had been sent to a man of the same name living in Port Shepstone.

The cheque had been cashed.

Mr Roux had contacted the Receiver of Revenue here, and he had been requested to fill in an IT 154 form in order to obtain a duplicate cheque.

However, Mr Roux refused to sign the form because of a clause in the document which indemnifies the government from liability for any losses suffered as a result of the encashment of the original cheque.

"Completing and signing the form would be tantamount to admitting that I was partly to blame for the cheque having gone to Durban," Mr Roux said.

Mr Tiran said that because it was not the fault of Mr Roux that the cheque had been cashed, he would not have to fill in an IT 154 form.

Paye not paid to receiver, claim staff

(520) Star 9/6/87

By June Bearzi, Star Line

About R100 000 in Pay-As-You-Earn taxes deducted from employees at an Alrode company over the last six months has not been paid to the Receiver, according to staff who fear they could be faced with double taxes and penalties.

To add to employees' problems it has been established that UIF, Workmen's Compensation, and pension fund contributions have not been paid either.

Two former senior employees of Cullinan Electric Motors in Flamink Street, Mr Ian Mittan and Mr Pierre Prinsloo, said they were shocked last week when they discovered the company had not been paying over deductions from their salaries to the relevant departments.

Mr Mittan, the company's former sales manager, and Mr Prinsloo, the former electrical design engineer, said about 68 staffers were affected.

The men said they were horrified when they approached the Receiver of Revenue's offices and were told that staff could be held liable for all unpaid tax.

"The tax officer said the onus was on staff to prove Paye was paid. About R16 000 deducted from Mr Prinsloo's and my salary has not been passed on to the Receiver. I haven't kept any payslips to prove the money was deducted so I could be in serious trouble if they don't credit me with these deductions," an angry Mr Mittan said.

When they confronted the owner of Cullinan Electric Motors, Mr Mario Battani, they said he became off-hand and rude and later ordered them off the property without paying their May salaries.

According to Mr Mittan: "Mr Prinsloo was told to collect his salary on Friday last week but the firm was closed when he went there. I told Mr Battani to pay my salary out to me in cash at my home. But they have not done that either."

Mr Mittan said Mr Battani has now sent him a threatening lawyer's letter indicating he was responsible for causing dissatisfaction at the factory.

Mr Mittan and Mr Prinsloo have sought legal advice.

When approached Mr Battani refused to comment and referred Star Line to his lawyer who later said his client had undertaken to resolve the matter.

Mr Mittan says, to date, only pension fund contributions have been paid by the company. Paye, UIF and WCA remain unpaid.

than Std 10; if so, how many in each case?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) Yes: Std 10, but a lower qualification in deserving cases is also acceptable.

(2) (a) (i) (aa) 20
(bb) 10
(cc) 80
(dd) 118
(ii) 0
(b) (i) (aa) 0
(bb) 63
(cc) 152
(dd) 33
(ii) 0

Detainees

80. Mr S S VAN DER MERWE asked the Minister of Water Affairs:

(1) Whether any persons employed by his Department have been detained; if so, how many since 1 September 1984 as at the latest specified date for which information is available;

(2) whether the posts of such detained employees are filled by temporary employees; if not, what arrangements are made regarding these posts; if so, (a) how many temporary employees had been engaged to fill such posts as at the above date and (b) what steps are taken in respect of such temporary employees when the detained employees are released by the Police?

The MINISTER OF WATER AFFAIRS:

(1) No.

(2) Falls away.

Taxable earnings

93. Mr J J WALSH asked the Minister of Finance:

(a) What were the total taxable earnings for Whites, Coloureds and Indians, respectively, in 1986 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:

(a) No statistics are available in respect of total taxable earnings.

		Whites	*Coloureds*	*Indians*
(b)	(i)	26 839 355 454	1 965 070 957	1 296 794 320
	(ii)	+4,8%	+4,4%	+8,6%

Hansard 10/6/87

Notes: (1) These statistics excludes taxpayers paying tax under the Final Deduction System, in respect of whom accurate statistics are not available.

(2) These statistics are incomplete because approximately 20 per cent of individual taxpayers have not yet been assessed for the 1986 year of assessment. The percentage growth has therefore been calculated on the average income per taxpayer.

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HoA

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State housing sale

111. Mr P C CRONJÉ asked the Minister of Constitutional Development and Planning:

How many houses had been sold to Blacks by his Department under the State housing sale announced by the then Minister of Community Development on 3 March 1983, as at the latest specified date for which figures are available?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

As at 30 April 1987:

Transvaal	41 036
Cape Province	6 352
Natal	562
Orange Free State	3 837
TOTAL..............	51 787

Mining sector: tax revenue

116. Mr C J DERBY-LEWIS asked the Minister of Finance:

(a) What amounts were budgeted in respect of tax revenue from the mining sector for the 1980-81, 1985-86 and 1986-87 tax years, respectively, and (b) what were the actual amounts collected from this source in each of these tax years?

Hansard

The MINISTER OF FINANCE:

(a) and (b)

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Financial Year	Estimate: Mining Leases	Estimate: Income Tax	Collections: Mining Leases	Collections: Income Tax
1980-81	R695 m	R2 090 m	R880,2 m	R3 006,4 m
Diamond Export Duty	R 31 m		R 24,8 m	
1985-86	R468 m	R2 275 m	R633,2 m	R2 938,1 m
Diamond Export Duty	R 37 m		R 56,7 m	
1986-87	R680 m	R2 730 m	R845,3 m	R3 450,2 m
Diamond Export Duty	R 35 m		R 48,4 m	

Nurses: salary scales

126. Dr M S BARNARD asked the Minister in the State President's office entrusted with Administration and Broadcasting Services:

(1) What are the salary scales payable to (a) male and (b) female persons of each race group employed in institutions falling under the control of Government Departments as (i) student nurses, (ii) staff nurses, (iii) professional nurses, (iv) chief professional nurses and (v) chief nursing service managers;

(2) whether salary parity has been achieved in respect of all nurses falling under the control of such Departments; if not, (a) why not, (b) when is it anticipated that salary parity will be achieved and (c) what is the estimated annual cost of bringing about parity by increasing the salaries of Black, Coloured and Asian nurses?

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HoA

ECONOMY

ARGUS 10/6/87 320/089

Taxes, taxes and more taxes

By MAGGIE ROWLEY

THE Government's "fiscal incontinence" will continue and Government spending, and consequently taxes, will carry on increasing, tax specialist Mr Costa Divaris predicts.

Addressing a post-Budget seminar in Cape Town yesterday, Mr Divaris said that far from being a "non-event", this year's Budget was one of the most significant and interesting budgets in many years.

The lack of the "usual, distracting fripperies" which were inevitably blown up out of proportion but were essentially unimportant, had this year allowed the Budget's many tax messages to be clearly read by taxpayers.

PRE-ELECTION PLOY

"One of its messages was that the February 'mini-Budget' was nothing more than a pre-election ploy since it included all of the tax concessions available this year, apart from the controversial 'granny bonds'.

"And, at last, taxpayers are coming to learn that 'tax concessions' do not necessarily mean tax reductions, because in spite of the mini-Budget's R759-million concessions for the individual, income tax collections from individuals are expected to go up by more than 24 perent this year, after rising by 17 percent last fiscal year," he said.

Dismissing, on the basis of Government's past peroformance, its "dismayingly familiar professions of future frugality", he predicted its "continued fiscal incontinence" and claimed that one of the Budget's main messages was that State spending would continue to rise and that taxes would therefore also continue to go up.

Mr Divaris questioned the significance of the growth in the number of taxpayers, which was given by Finance Minister Mr Barend du Plessis as one of the reasons for the huge increase in expected income tax collections from individuals.

"No sign of any such trend substantial enough to have such a result is apparent in figures available to the public."

The only significant reason, he said, was inflation and its attendant fiscal drag.

The Budget indicated that there was tremendous pressure on the Government effectively to increase taxes in the future unless another "trick, confiscation or art of the bookkeeper" can be found or an economic miracle occurs.

MARGO COMMISSION

Further messages from the Budget included:

- The impoverishment of the small group of white, individual taxpayers who had in recent years been made to bear an increasing disproportionate part of the tax burden would continue.
- The Margo Commission would fail if it was expected to change a system of spending and taxation that had taken place for powerful political reasons.

Tax nightmare

Regional services levy collection system 'hopelessly inefficient'

By JOHN YELD, Municipal Reporter

Argus 10/6/87

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THE collection of regional services council (RSC) levies would be "hopelessly inefficient" and cost more than the amount raised, according to the Cape Town Chamber of Commerce.

The chamber will make a "last-ditch stand" at the Associated Chamber of Commerce (Assocom) regional conference next week and call on the Government to abandon RSC levies and wait for the Margot commission to determine "satisfactory" tax structures.

Past-president Mr Peter Hugo said Assocom had calculated that every R1 raised by RSC levies would cost the business community 80c to collect.

Mr Peter Hugo

"And on top of this we will have an army of bureaucrats to administer and collect these levies, which means they will cost the country more to collect than the taxes themselves will yield."

The chamber would prefer a "piggy-back" general sales tax system which would make the tax collected to fund RSCs plainly visible to consumers instead of hidden in levies.

Commenting in the chamber's bulletin on Cape Town's municipal budget, Mr Hugo said the City Council was to be complimented for containing the rates increase to 15 percent, if the four percent RSC factor was disregarded.

With the abolition of Divisional Council rates the effective rate increase was only 7,5 percent and this was "good news" for those who would not pay the RSC levies, Mr Hugo said.

"For the business community, however, the position is not as rosy.

"Apart from paying the full municipal rate as opposed to private residents who enjoy a 26 percent discount, business will have to bear the brunt of the RSC levies."

Mr Hugo said the levies would not only have to make good lost divisional council rates income, but would also have to pay for upgrading social infrastructures in the city's disadvantaged communities.

"What really aggravates the business community, though, is that the money is to be raised by way of the hopelessly inefficient RSC levies, which will raise less than the cost of collection.

"Were funds from RSCs to be raised by way of a piggy-back GST, for instance, at least we would know that our money was not being wasted in the collection process," he said.

Reasons the chamber preferred a "piggy-back" GST were:

Unnecessary

- The tax collection mechanism was already in place and a new bureaucracy would be unnecessary;
- The tax base would be widened to encompass all consumers as well as business enterprises; and
- The amount of tax collected to fund RSCs would be plainly visible to taxpayers and would not be hidden like RSC levies.

Because the chamber was deeply concerned about the levies, it would make a "last-ditch stand" at the Assomac regional conference in Ceres on Friday next week, Mr Hugo said.

"We will propose a motion which bluntly asks the Government to abandon the levies, pending a decision on satisfactory tax mechanisms for RSCs in the light of the Margot commission."

Export/import levy opposed

DD 11/6/87

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Dispatch Correspondent

JOHANNESBURG — Cape Town's chamber of commerce has opposed a Board of Trade and Industry (BTI) proposal that importers and exporters should pay a levy to finance an export promotion organisation.

The chamber suggested that if the government was convinced that any advantage could be gained from an export promotion scheme or project, the funds should be drawn from the central revenue fund, where the burden was shared by the total community.

The effect of the levy would be to raise the costs of imports, adding to cost-push inflation, while eroding the competitive position of exports in international markets, the chamber said.

"Instead of thinking in terms of a new organisation to undertake export promotion, consideration should rather be given to privatising the export promotion function of the Department of Commerce," the chamber proposed in a memorandum.

"Those functions that are best undertaken by the privates sector should be contracted out.

"Thus the training of export staff; the organisation of visits by overseas buyers; participation in overseas trade fairs should be contracted out to various firms and organisations in the private sector."

Instead of establishing a single organisation to promote exports, government should rather apply its resources for the encouragement of private export trading houses, the chamber suggested.

Given access to a package of export incentives these various export trading houses in the private sector should be encouraged to extend their operations and grow into major trading houses capable of offering an extensive service to local producers with export potential.

The chamber said the country had little hope of developing consumer goods exports on any scale without the intervention of such major trading houses.

"The vast quantities required by overseas buyers which often necessitate a foreign warehousing arrangement too often deter local suppliers from persevering in export markets or even thinking about exporting.

"What is needed are concerns that are able to combine local financial resources with foreign marketing expertise; who can identify export opportunities and then furnish detailed specifications of products required for export to local manufacturers.

Import surcharge is 'worst form of taxation' - Safcor

11/6/89 320 STAR

By Stan Kennedy

Import surcharge is probably the worst example of taxation and the only reason there is little reaction against it is because the man-in-the-street is not aware how unjustly he is being taxed, says Safcor in its June issue of *Safcorapport*.

Finance Minister Barend du Plessis announced new concessions on import surcharges on June 3, to the value of about R100 million, but they will only exempt certain raw materials for use in manufacturing from the duty, not those goods which affect the consumer directly.

The 10-percent surcharge of the value of imported goods has been with us for 20 months, longer than the previous spell in 1982/83. Then the 10-percent rate lasted only 10 months, after which it was reduced progressively to 7,5 percent, then 5 percent and finally abolished.

Safcor says the surcharge is irrational because it is levied in arbitrary fashion on certain products while others are exempted. At the time of its imposition it was said to be only a temporary measure. Safcor believes that with the upturn in the economy, higher gold price and stronger rand, it is time to do away with the surcharge.

Liable to surcharge are such items as medicines, contraceptives, aircraft, spectacles, ambualances, hearses, heart-lung machines and works of art.

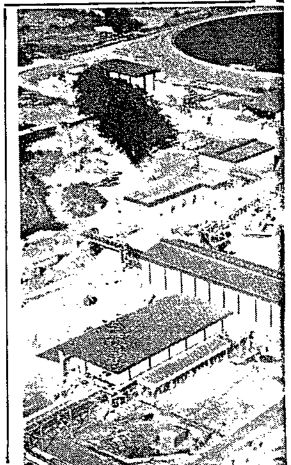
Exempt from surcharge are most alcoholic liquors, cigars, cameras, jewellery, luxury cars, diamonds and pearls, cosmetics and toilet preparations and fur coats.

The article says it is a deceptive form of taxation. Unlike GST, which is levied at the retail price level, it is levied on the overseas price and each time it changes hands between the importer, wholesaler and retailer, a percentage profit is added. By the time it reaches the consumer, the effective amount of tax has been more than doubled.

"To the man-in-the-street, a 10-percent surcharge seems acceptable. In fact, he pays much more than what the taxman gets. For this reason, it is highly inflationary," the article says.

Safcor argues that because legislation makes no provision for negotiation, it is impossible to make representations for relief, no matter how deserving the case may be.

It is also counterproductive in that it gives local manufacturers an undeserved bonus of an extra 10-percent protection over the imported product.



D Data's R7,5-m target no problem

Columbia

A taxing issue for white urban adults

11/6/87 (320) B/Day

MICK COLLINS

THREE out of five South African white urban adults worry about taxes. What the other two worry about is not stated in a report issued by a major market research company.

Among executives, managers and professional people, tax takes its toll on the nervous system.

As many as three in every four find the subject exacting (very concerned) and a similar proportion of craftsmen and production workers "share the anxiety".

Working women (68%) are more likely to find it a duty (worry a lot) than non-working women (55%).

In the group where the average monthly incomes are between R2 000-R3 499, most worry is generated (78%) compared with 75% for the A income group where household incomes are more than R3 500.

In the D income group earning less than R700 a month, taxation is "of relatively minor concern", with only half the people really worried.

Taxation is also more likely to be a problem for those aged 25-49 (68%) than with the 16-24 age group (66%) and the over-50 crowd (58%).

Free Staters are the biggest worriers (69%) while Natalians have the lowest figure of 58%.

Life assurance industry looks to Margo for tax relief

HELENA PATTEN

15/6/89 B/Day (320)

LIFE ASSURANCE industry sources expect the Margo Commission's report to favour changing the present method of determining assurers' taxable income to that used for other companies.

Currently, life offices are taxed at 50% of taxable income, which is defined as 40% of investment income. Other companies are taxed at 50% of income less expenses.

Old Mutual chief actuary Theo Hartwig said he knew the commission had discussed methods of determining taxable income and he believed the commission favoured treating life companies in the same way as other companies.

The effect of this would be to favour small, faster-growing life companies, which had higher expenses relative to income than slower-growing companies.

However, Hartwig did not expect the commission to have worked out the details and said it would probably be years before anything was done.

Liberty Life joint-MD Mark Winterton said life offices were taxed at a higher rate than other companies, because no deductions for expenses were allowed and the investment in prescribed assets at less than market rates was in itself a type of taxation. He said many people did not understand the basis on which the industry was taxed.

He said: "If the life industry was put on the same tax basis as other companies, we would pay less. I would very happy about such a move."

However, Winterton thought the status quo was the most likely post-Margo scenario, because of the amount of work government would have in other areas.

He hoped the tax rate would be reduced, as the economy needed long-term savings.

Peter du Toit, Lifegro's senior GM, investments, said the commission would probably restrict life offices in the type of business written, but the industry, being innovative, would develop new products.

He said if life offices were taxed in the ordinary way, it would probably be to their advantage, especially in growing companies.

Southern Life group legal adviser Tony Dave said a change in the definition of taxable income for life offices would not materially affect the amount of tax paid by life companies.

He said it was likely the commission would recommend a capital transfer tax (estate duty and donations tax), a tighter form of estate duty, which would offer an opportunity to life offices, because it would create a need for liquidity in the case where an asset was non-realisable or where there was no desire to realise the asset.

proposed route K161 and south of the Nigel hospital. In that manner the land which had been approved for Black township development can be fully utilised without detracting from the quality of life of the surrounding community.

Advertisements

*14. Mr F J LE ROUX asked the Deputy Minister of Information:†

What was the total cost of the advertisements published by the State President in this capacity in publications (a) in the Republic of South Africa and (b) abroad from 4 September 1984 to 1 June 1987?

†The DEPUTY MINISTER OF INFORMATION:

(a) Since the inception of the Bureau for Information on 17 September 1985 an amount of R577 698,67 has been spent on advertisements which contained messages from the State President.

(b) The Bureau for Information has only an internal function and is not involved in advertisement campaigns overseas.

†Mr J H VAN DER MERWE: Mr Speaker, arising out of the hon the Deputy Minister's reply, does he not think it is fair that all political parties represented in Parliament should also get the opportunity to convey messages to the public at State expense?

†The DEPUTY MINISTER: Mr Speaker, the standpoint on this has been put very often. As soon as a certain policy, whatever the origin might be, is accepted by the Government of the day as the policy of the State, the Bureau is enabled to convey it to the public as a service to the public because they should know what the Government of the day is doing. That of course excludes the policies of the other political parties who could not succeed in becoming the government of the day. [Interjections.]

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East Rand: guide-plan boundaries

*15. Mr C B SCHOEMAN asked the Minister of Constitutional Development and Planning:†

Whether it is envisaged further to extend the guide-plan boundaries of the East Rand/Far East Rand; if so, (a) what piece or pieces of land are being considered for this purpose and (b) what is the total extent of this land?

†The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

No. (a) and (b) Fall away.

Attorney struck off roll: prosecution

*16. Mr D J DALLING asked the Minister of Justice:

(1) Whether, with reference to his reply to Question No 9 on 23 February 1987, the Attorney-General of the Transvaal has as yet taken a decision on whether to institute a prosecution against a certain attorney struck off the roll for allegedly misappropriating trust funds; if so, what is this decision; if not,

(2) whether there has been a delay in taking a decision on the matter; if so, what is causing the delay?

The MINISTER OF HOME AFFAIRS (for the Minister of Justice):

(1) Yes, the Attorney-General concerned has decided to institute a prosecution.

(2) Falls away.

GST: pharmaceutical products

*17. Dr M S BARNARD asked the Minister of Finance:

(1) Whether he has received any representations for pharmaceutical products to be exempted from general sales tax; if so, (a) from whom, (b) when and (c) what was his response in each case;

(2) whether he will make a statement on the matter?

†The DEPUTY MINISTER OF FINANCE:

(1) (a) Representations for exemption from sales tax in respect of the sale of pharmaceutical products (prescribed medicines) have been received from various individuals and organisations (including the

3.20

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Pharmaceutical Society of South Africa). From available information such representations as have been received are in excess of 25 in number.

(b) Those representations were received over a period extending from June 1984 to date.

(c) It has unfortunately not been possible to provide for an exemption in respect of the sale of prescribed medicines. Mention should be made of the fact that medical expenses are, within certain limits, deductible for income tax purposes. These limits were substantially increased with effect from the 1986 tax year, namely:

(i) In the case of persons above the age of 60 years but under 65 years:

Married—from R3 000 to R4 000.

Unmarried—from R2 250 to R3 000.

(ii) In the case of persons under the age of 60 years:

Married—from R1 000 to R1 500.

Unmarried—from R750 to R1 000.

Persons above the age of 65 years are allowed to claim their total actual medical expenses as a deduction.

Any exemption relating to the sale of certain pharmaceutical products would inevitably give rise to serious administrative problems, the main problem being to identify clearly the products which would qualify for such an exemption.

It must be noted that any professional service provided by a registered medical practitioner in the ordinary course of his practice and any service rendered or facilities provided in any registered hospital or nursing home or any clinic conducted by a local authority is not deemed to be a taxable service and therefore not subject to sales tax. It should also be borne in mind that many persons in the lower income groups are entitled to free/cheap medical treatment.

The report of the Commission of Enquiry into the Tax Structure of the Republic of South Africa (the Margo Commission) is now being considered by the Government. For this reason it would be undesirable to recommend any change to the present sales tax structure or rate at this stage.

(2) In view of the comprehensive reasons given in the reply to the question under (1) (c), no further statement appears to be necessary.

Major-General P H Groenewald

*18. Mr J VAN ECK asked the Deputy Minister of Information:

(1) Whether, during May 1987, an official of the Bureau for Information addressed the congress of a certain organisation, the name of which has been furnished to the Bureau for the purpose of the Deputy Minister's reply; if so, (a) on what date and (b) what is the name of this (i) official and (ii) organisation;

(2) whether the official in question addressed this congress in his official capacity;

(3) whether this official made any comments regarding the South African press on that occasion; if so, what comments;

(4) whether he has received any complaints regarding this address; if so, (a) from whom and (b) what was the nature of the complaints in each case;

(5) whether he has taken any action in regard to this matter; if not, why not; if so, what action?

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Black spots

99. Mr P G SOAL asked the Minister of Education and Development Aid:

(a) How many Blacks were moved from Black spots to Black states in 1986 and (b) (i) from which Black spots, (ii) to which Black states and (iii) why were they moved in each case?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(a) and (b) No Blacks were moved from Black spots.

The Seakamela Squatter Community comprising 839 families was, after negotiations, moved from the farms Dalmeney and Preston and settled on the farms Avon and Innes which later are to be incorporated with Lebowa.

358 families from the community of Umgwali fled from the area and sought assistance from the Department of Development Aid which settled them at Frankfort in collaboration with the Ciskei Government.

119 families from the communities of Mooiplaas and Kwelera fled from those areas and were assisted by the Department of Development Aid to settle on the farm Good Hope.

(b)

Highveld Region	15
Cape Region	79
Natal Region	3
Northern Transvaal Region	14
Orange Vaal Region	5
Orange Free State Region	31
Johannesburg Region	0

Teachers detained

104. Mr S S VAN DER MERWE asked the Minister of Education and Development Aid:

Whether, during the latest specified 12-month period for which figures are available, any teachers in the employ of his Department were unable to perform their teaching duties because of their being detained by the South African Police; if so, (a) how many and (b) in what departmental areas were these teachers employed at the time of their detention?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(a) Yes, 147 according to figures available.

HoA

Unemployment Insurance Fund

112. Mr P H P GASTROW asked the Minister of Manpower:

(1) What was the balance of the Unemployment Insurance Fund at the end of 1986;

(2) (a) what was the total amount (i) paid into the Fund by State employers and employees and (ii) paid out in benefits in that year and (b) to how many applicants were benefits paid;

(3) (a) what is the present average rate of interest received by the Fund and (b) what amount was paid from the Fund in 1986 in respect of administration costs;

(4) (a) what total amount in unclaimed money is held in the Fund and (b) how many persons are involved in this amount;

(5) how many employers were registered with the Unemployment Insurance Fund as at 31 December 1986?

The MINISTER OF MANPOWER:

(1) R171 352 894.

(2) (a) (i) R5 729 690.

(ii) R386 467 103.

(b) 424 461 applicants.

(3) (a) 9,32 per cent in respect of 1986.

(b) R20 248 651.

(4) (a) This figure is not readily available.

(b) The total number of persons involved is not readily available.

(5) 130 036.

16/6/87 Hansard

Hansard 16/6/87

GST

114. Mr C J DERBY-LEWIS asked the Minister of Finance:

(a) What amounts were budgeted in respect of general sales tax revenue from (i) Whites, (ii) Coloureds, (iii) Indians and (iv) Blacks for the 1984-85, 1985-86 and 1986-87 financial years, respectively, and (b) what were the actual amounts collected in respect of each of the above categories?

The MINISTER OF FINANCE:

(a) It is impossible to apportion sales tax collections on a race basis with the result that no separate estimate for each race group is prepared for the Budget.

(b) Fall away.

Gold/silver/platinum Hansard 16/6/87

115. Mr C J DERBY-LEWIS asked the Minister of Economic Affairs and Technology:

What were the average prices realised in rands for (a) gold, (b) silver and (c) platinum in 1980, 1982, 1984 and 1986, respectively?

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

Rand/troy ounce

	1980	1982	1984	1986
(a)*	480	412	528	837
(b)	13	7	9	10
(c)†	531	355	521	1 065

*Prices quoted by Chamber of Mines.

†World prices.

Prohibition of Mixed Marriages Act

118. Mr M J MENTZ asked the Minister of Home Affairs:†

How many marriages between Whites and members of other specified race groups were solemnized since the repeal of the Prohibition of Mixed Marriages Act, No 55 of 1949, (a) up to 31 December 1985, (b) in 1986 and (c) from 1 January to 6 May 1987?

The MINISTER OF HOME AFFAIRS:

Marriages Solemnized:

Hansard 16/6/87

	(a) 1985-06-19 1985-12-31	(b) 1986-01-01 1986-12-31	(c) 1987-01-01 1987-05-06
Whites to Cape Coloureds	214	266	80
Whites to Chinese	30	28	7
Whites to Malays	9	19	6
Whites to Indians	51	77	23
Whites to Blacks	5	13	6

National states: officials seconded

119. Mr P G SOAL asked the Minister of Education and Development Aid:

(1) (a) How many officials in the Public Service had been seconded to each specified national state, (b) what post was held by each such official, and (c) what was the cost of the secondment of such officials, as at the latest specified date for which figures are available;

(2) whether all posts in the national states in respect of which secondment is required are filled at present; if not, how many remained vacant as at the latest specified date for which figures are available;

(3) whether any further secondments are envisaged, if so, how many?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1) (a) and (b) The information as requested is contained in the attached schedule.

HoA

16/6/87 Hansard

Cape Times 17/6/87 (320)

Sales tax on medicine

HOUSE OF ASSEMBLY. — Prescribed medicines would not be exempted from sales tax, the Minister of Finance, Mr Barend du Plessis, told the PFP's spokesman on health, Dr Marius Barnard. He said the Margo Commission report on the tax structure was at present being considered by the government, and "for this reason it would be undesirable to recommend any change to the present sales tax structure or rate at this stage". — Political Correspondent, Political Staff and Sapa

RSC levy exemptions may add to problems

BDay 17/6/87

GRETA STEYN

SMALL businesses with low turnovers are to be exempt from paying RSC levies — but tax experts warn this is likely to cause further administrative problems.

Legislation, now being prepared, will stipulate that each RSC will set its own minimum amount for the monthly levies. Small businesses whose payments come to less than this minimum will be exempt.

Pim Golby's Graham Richardson said that small businesses whose activities extended beyond one RSC could find themselves paying levies in some areas but not in others.

And a business with a centralised payroll for staff employed in different areas would face difficulties working out the RSC payroll levy for each region.

Such businesses would have to complete different forms for the different rates in the different regions.

Richardson was highly critical of the fact that specific rates for the different RSCs had not yet been laid down. Only maximum rates were known, with only two weeks until the first RSCs came into effect.

The Free Market Foundation's Eustace Davy said while the exemptions would create administrative difficulties, they would at least provide some relief for small business.

Most small businesses operated only in one region. Uniformity was not necessarily desirable as an end in itself.

Daryll Jackson, of Arthur Andersen, said once exceptions were made, other businesses were bound to lobby for exemption.

Retail chains with a high turnover but a low profit margin would find the levies proportionately more expensive than businesses with a low turnover and a high profit margin, as levies would be based on turnover.

Jackson said in terms of existing legislation, businesses that had to pay small amounts only had to make one payment a year, instead of monthly.

He could not see why those businesses should be exempted altogether.

Department of Inland Revenue spokesman Ian Meiklejohn said it was unlikely the new legislation would go through Parliament before the first RSCs came into existence on July 1.

Once the legislation had been passed and each RSC could set its minimum level of monthly payment, the department would suggest as a guideline a minimum payment of R5 a month.

B/Day (320)

Extension of tax relief gets experts' nod

18/6/87

DAVID COHEN

THE extension of tax relief on manufacturing plant and buildings for yet another year to December 1988 was welcomed yesterday by tax experts and private commerce and industry — although not without reservations.

Reacting to Deputy Finance Minister Kent Durr's announcement on Tuesday, tax experts said the extension of the qualifying period on initial allowances was clearly an interim measure ahead of the Margo Commission report, and uncertainty had been lifted only temporarily.

Most experts doubted whether private capital expenditure would be stimulated by the extension and some claimed it would benefit companies at the expense of the individual.

Commissioner of Inland Revenue Clive Kingon said: "The effect will be to remove uncertainty so that people can make business decisions. It will have no material short-term effect on Revenue's coffers."

Although Kingon maintained the decision had been taken only "a couple of days ago", most tax experts were mystified the announcement had not been included in the June 3 Budget.

"It's an indication of indecisiveness ahead of Margo," said Kessel Feinstein's Ernest Mazansky.

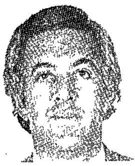
Previously, both new and used manufacturing plant and machinery had to be brought into use before December 31, 1987, in order to qualify for the respective 50% and 25% initial allowances.

The announcement extended this time limit to December 31, 1988.

EDDIE BROOMBERG

IN MY OPINION

In search of a tax structure



Professor Eddie Broomberg is an acknowledged tax authority. Here he discusses taxation as it affects the property industry, in excerpts from an address at the recent SA Property Owners' Association (Sapoa) executive strategy planning seminar.

It is difficult to speculate on the Margo recommendations. But it is even more disturbing to undertake a major property or industrial project ahead of impending but unknown legislative change.

From the public statements made *ex-cathedra*, it seems likely that one effect of the Margo report will be a wholesale decimation of existing incentives to industry, the hotel trade and so forth. The move will be towards cash grants.

This approach represents, in my respectful view, quite a serious error of judgment and it will probably reverse itself in a relatively short time. There will then be a scramble by the various lobbies for tax incentives.

In these circumstances the property industry must look to its own interests with regard to the formulation of a tax structure for the future. In the face of competition for restricted tax incentives, success can only be achieved by the presentation of a well-prepared and reasoned case.

There appear to be two distinct strategies which ought to be adopted by the property industry. The one is formal and the other individual.

The first is a compilation of a programme to secure a positive and supportive fiscal environment. A realistic and responsible menu of tax incentives must be constructed which, while ensuring an appropriate yield of revenue to the government, would suitably nourish the property industry.

While all this is underway, each individual participant in property development will have to counter the immediate shortcomings in the tax system with imaginative *ad hoc* structuring.

The underlying idea behind eliminating from the Act the various incentive deductions and allowances that have been a feature of recent fiscal history in this country was orginally stolen from the US.

However, it may not be altogether safe, especially in fiscal matters, to apply the techniques and approaches adopted in other economies.

More specifically, the issue is really one of timing. It may well be that in an over-developed economic system, a point can be reached at which it is appropriate to switch off the economic turbo-chargers.

By the same token, though, it is arguable that it was the presence of those very tax incentives that, in the first instance, boosted the US economy and infrastructure to its powerful status of world dominance.

SA — it is reasonable to conclude — is not there yet, despite, apparently, some contrary views on the platteland. There is, therefore, a case to be made for the retention and even expansion of the incentive allowances in the Tax Act.

Of course, the advocates of tax simplification agree that certain activities and areas of the economy require stimulation from time to time. The appropriate steroid, they suggest, is a cash grant, rather than a tax exemption or deduction.

This approach seems to appear periodically, and has an emotional appeal — especially to tax collectors jealous of their tax base — that appears to override the almost self-evident disadvantages of cash handouts. This makes it necessary to mention at least two or three of the main weaknesses of money grants.

For a start, when large sums of cash are to be handed out on a selective basis, too much tends to stick to fingers.

In any case, imagine a contest between a Gencor and an Anglo American for a one-only cash grant of R1,5 billion for a new paper mill. Who is going to choose between them?

Next, the monitoring and control of the use of cash handouts is simply too difficult for the public sector. How can some clerk in a government office adequately control the application of the cash grant in a billion rand project, such as the one I have already mentioned?

Where the incentive takes the form of tax allowances, it has been the banks administering the funds that have maintained a stern watch on every cent spent.

Finally, the lure of pure hard cash, rather than a mere tax allowance, seems to bring out the worst in the schemers and the plotters. The manipulation of the cash grants in the self-governing states and economic development areas is notorious.

Against all this, the main problem concerning the existing tax incentives has not been inherent. Rather, it seems, the abuses which became manifest resulted from poor and especially slow administrative responses; and if the public service cannot adequately monitor tax incentives, how are they going to cope with cash grants? ■

320

3220

Rationalisation and tax

Group rationalisations generally carry complex tax implications — discussed by tax consultant Professor Eddie Broomberg recently at the SA Fiscal Association.

Broomberg says that rationalisation, or "divisionalisation" is seen by the commissioner "as a superior alternative" to controversial "prolix group relief legislation." So, within limits, the commissioner "adopts a supportive approach" to reconstruction proposals.

The "normal, basic format" of divisionalisation is "a simple sale," *not* by order of court, of the businesses of operating companies — "as going concerns" — to one or more "basket" companies.

This procedure results "in a pooling of all income and expenditure." The commissioner has certain "basic requirements" if he is not to impute the motive of tax avoidance — and thence the invocation of the anti-avoidance section 103.

"Especially if the basket company has an assessed loss," there must be acceptable commercial (that is, non-fiscal) reasons justifying the rationalisation — like "the streamlining of administration, the counteracting of trade cycles, or enhanced creditworthiness," or, currently "the RSC levies."

A valid commercial reason "is essential" to overcome the implications of section 103 (2).

If the rationalisation were to benefit from the tax loss in the basket company, Inland Revenue could apply section 103(2) to nullify any tax advantage.

But, once commercial justification for rationalisation is established, the commissioner will permit the group to select the company with the largest assessed loss as the basket, without further explanation.

The group rationalising will have "desired fiscal effects" in mind. All expenses, allowances and losses within the group "should be available for set-off against all income." Then, the aim should be "to reduce the risk of the disallowance of interest on monies borrowed" — the Act imposes certain requirements for the deductibility of income, which the Receiver tends to interpret strictly.

The merger of companies carrying an assessed loss with profit-making companies will enable "the rapid accessing of existing assessed losses."

Techniques of rationalisation

☐ One method is a "simple universal sale" — all transferor companies sell all their assets to the basket company.

Tax neutrality is maximised, says Broomberg, if the assets are sold at their "tax" values.

More often than not, the "tax value" of depreciable assets will be below book value. So, while the sale is effected at "tax values" — thereby eliminating any taxable recoupment by the transferor company — the basket company may, later, decide to write up the value of the new assets (which does not create any tax implications).

If the market value of assets exceeds the tax values, it is not safe to use the immediate holding company as the basket company. The commissioner does not yet — but could — regard the sale of assets below market value as a dividend in the hands of the holding company;

☐ The sale of the assets of the business "will usually exclude immovable properties." The free grant of use of property to the basket company is unsatisfactory if the property is rent-producing — because of the effects of section 7(7) (the rental income will still be deemed to be the income of the transferor). Groups should consider a share block company procedure to facilitate basketing. If the share-block company is then made a subsidiary of the basket company, the rental income will flow into the latter;

☐ Exclusion of other assets: the existence of sensitive foreign licence agreements, favourable leases, delicate labour relations and union arrangements "might inhibit cession of contracts or rights to the basket company."

If specific assets are retained in the transferor, the group should secure a specific ruling under section 6(1)(j) of the Sales Tax Act, to confirm that no sales tax will be imposed on assets transferred to the basket; and

☐ The business operations might be undertaken by a joint venture. Profits and losses are then apportioned to various companies on a formula basis.

The choice of basket is crucial. Where only one company has an assessed loss, it is not normally necessary to justify its selection.

Where several companies have "significant" assessed losses, issues like the phasing-in of the rationalisation become relevant. The commissioner may allow the existing assessed loss companies to continue "under their own steam," until they have made up their losses; the business may then be transferred to the basket company. The commissioner may even concede two or more basket companies if there is commercial justification.

And the commissioner "greatly appreciates" the forfeiting of assessed losses by transferor companies — as long as this does not cost too much, the gesture may secure a quick ruling.

Timing of a rationalisation is important. In theory, it is not possible to back-date a transaction. So the basketing effect can commence only when a sale is concluded between the transferor and the basket. The commissioner may be satisfied if a ruling is sought "reasonably soon" after the conclusion of a sale.

If the rationalisation is to take place "after a recent acquisition," the resale of assets at a profit could generate a tax liability on any gain.

The commissioner will not lightly accept that the purpose of the acquisition was "innocent of a tax motive" if the company acquired has the assessed loss and is used as the basket.

There are three possible bases of the sale to the basket company — tax value, book value, or market value. The commissioner's requirement here is consistency.

Then there are procedures related to the treatment of specific assets — ordinary or HP debtors; trading stock; plant and machinery; and foreign exchange transactions. Generally, provisions (for example, doubtful debts) are not transferable — "care must be taken" not to create taxable income for the transferors.

Documentation and implementation are, as always, important. Some groups "have purported to rationalise," but have done "little more than put through book entries" on the last day of each year of assessment. These are reversed the next day. Such "bed and breakfast" arrangements "will not work."

There are some pitfalls — like reducing the exporter's allowances (since the basket may have no increased export turnover). The capital status of assets may be affected adversely — they may be considered trading stock in the hands of the transferee company. Then there is the bugbear of costs — like stamp duty or the expenses of re-registering vehicles.

All the assets of the group now in the basket company may also be exposed to liabilities — of whatever sort — for which only one group company was previously accountable.

And there may be "commercial disadvantages" — for example, the lack of independence of two companies, previously concealed by their existence as such, may now be revealed.

And there may be "management disincentives" — like loss of directorships of defunct companies.

If assets are to be sold below market value, a tax ruling is essential. Specific rulings may also be required as to whether the proceeds of a given intra-group sale will comprise income or capital.

Rulings may be required on potential liability for GST, on the basis on which various tax allowances are to be granted to the basket company, or as to the valuation of trading stock — "which could be a sensitive issue on which a ruling may be advisable." Rulings are generally available on this issue — so the opportunity should not be lost. ■

No surprises in report on tax worries

(320) SMt 20/6/87

MAGNUS HEYSTEK, FINANCE EDITOR

Tax consultants were this week not overly surprised by the findings of Market Research Africa that three out of every four executives worry a lot about taxation.

"I'm surprised that there are still executives around that don't worry about taxation", was the rather cynical retort from Michael Stein, co-editor of several publications dealing with taxation.

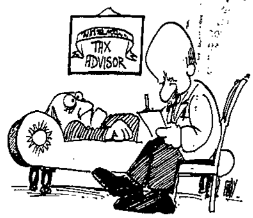
Market Research Africa this week released the findings of its latest sociomonitor study which has been measuring trends in South African society since 1976. The survey is based on a representative sample of 2 000 white urban adults. Fieldwork was done between March and May last year.

The sociomonitor study covers virtually every aspect of South African society and it was the first time that the question relating to taxation was included. This in itself is an indication of the overwhelming role that taxation now plays in the life of virtually every income-earning South-African.

MRA found that three out of every five South African white adults worry a lot about the levels of taxation. Among executives, managers and executives the level of worry increases to three out of every four.

Surprisingly, this level of worry is also found among craftsmen and production workers, while working women (68 percent) have a higher level of concern about taxation than non-working women (58 percent).

Interestingly, it is the group where average monthly incomes are between R2 000 and R3 500 where taxation generates the most worry (78 percent) compared to the A income group (monthly income more than R3 500) where only 75 percent reflected an overwhelming concern with taxation.



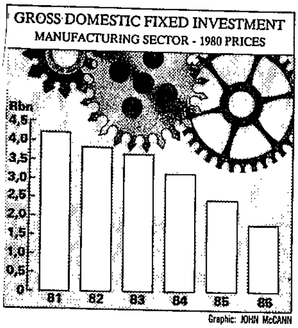
Taxation is also more likely to be a problem for those aged 25 to 49 (68 percent) than with the younger age group (16 to 24) or those over the age of 50.

According to Mr Stein the sharp rise in personal taxes over the last couple of years is the primary reason for the high level of concern about taxation. There is no doubt in his mind that with this rise there has been an inverse decline in morality concerning taxation, or rather the evasion of taxation.

One of the spin-offs of this increase in taxation has been a significant increase in business for tax experts and the accounting profession. Most accounting firms now have tax partners, although ethical codes prevent them from calling themselves as much, with more and more wealthy individuals making use of their services.

In the "good old days" tax experts were mainly concerned with solving intricate tax-related cases for companies. This is now longer the case and even mildly affluent individuals nowadays often have to resort the tax experts to solve their problems.

22/6/87 (320) B/Day



Tax extension is welcomed

HELENA PATTEN

THE extension of the manufacturing initial allowances to December 1988 would ultimately stimulate capital investment, Anglo American group tax consultant Marius van Blerck said at the weekend.

He said capital budgeting decisions were essentially long-term decisions and the extension of the allowances, with their positive effect of reducing capital costs, would assist planning.

"The strong tax lobby attacking companies would do well to remember that without a strong private corporate sector, stimulated by selected tax incentives, individuals might have more to worry about than high tax rates — namely increasing unemployment. Perhaps this lobby should look at the root cause of high taxation on the growth in public expenditure."

Van Blerck said the stimulatory extension came at a time when domestic fixed investment in manufacturing had shrunk alarmingly.

The drop in the value of the rand since 1984 and the restrictions on capital-related tax allowances had dramatically increased the effective cost of investment and had contributed to the decline in investment.

He said rumours abounded regarding recommendations of the Margo Commission in this area. It was probable the initial allowance, a truncated survivor of the previously more stimulatory incentives, would be subject to attack.

Monday June 22 1987

BUSINESS ARGUS 22/6/87 320

ECONOMY

Wages up, but it's the taxman who benefits

By SVEN LUNSCHE

JOHANNESBURG. — The upturn in the economy is finally having a positive impact on the financial position of individuals.

Statistics provided by the Reserve Bank in the June edition of its Quarterly Bulletin show that aggregate nominal renumeration of employees contined to rise at a rate that exceeded the inflation rate in the first quarter of 1987.

"The resultant improvement in aggregate household incomes could be attributed mainly to the higher average level of nominal wage settlements in 1986 than in 1985 and to somewhat higher levels of employment during the course of the year," the bank comments.

STILL ON DECLINE

The bank notes, however, that the average real wage per worker is still on the decline, a fact which economists have ascribed to the continued high inflation rate, but also to the heavier burden placed on individuals by the Receiver of Revenue.

The average salary per worker rose by 11,2 percent in 1985 and by 14,4 percent in 1986. Taking fiscal drag into account real renumeration declined by 3,6 percent from 1985 to 1986, and by two percent between the fourth quarters of these years.

This is in direct contrast to a rise in productivity during the second half of 1986.

Labour productivity, as measured by GDP per worker, showed increases of 2,9 percent and 3,4 percent in the third and fourth quarter respectively, although it declined by 0,6 percent over the year as a result of the rising number of industrial disputes and work stoppages — man-days lost rose from 678 000 in 1985 to 1,31-million in 1986.

As a result of the decrease in real earnings, the savings level of individuals remained largely unchanged. Accordingly the ratio of personal savings to disposable income showed little change from its very low level of 1,5 percent in the second half of 1986.

The domestic savings ratio, however, decreased to 22 percent, following on substantial "dissaving" by the public sector.

RETAILING

A positive image

More people are 'living ~~in~~ sin'

Star June 1987 (320)

Political Staff

THE number of people "living in sin" has increased by 336% in the past 10 years, according to evidence presented to the committee.

This is disclosed in the report on "Youth in South Africa" tabled in the President's Council yesterday.

Under the heading "social deviations" — this chapter in the report also deals with subjects such as homosexuality, promiscuity and prostitution — the report states that the advantages of living together are:

- Those concerned have the benefits of marriage without being legally bound to each other.
- If problems arise between them they can separate without the bother and expense of divorce.
- Household expenses are lower for two than when they live apart.
- Income tax for working couples is too high.

Against this, the report states, the disadvantages are related to the immorality inherent in such a lifestyle and illegitimate children that might be born of such a relationship.

WPt 7in PS 24/6/87 320

GST evaders face heavier penalties

By CHRIS CAIRNCROSS

GST evaders face heavy new penalties in the form of fines and prison sentences in terms of draft legislation tabled in Parliament yesterday by Deputy Finance Minister Kent Durr.

The Sales Tax Amendment Bill also tightens up substantially the terms by which the Commissioner for Inland Revenue can grant or cause to have withdrawn a vendor's registration and his GST number or certificate.

Persons issued with a GST certificate who now fail to furnish the Commissioner with information necessary for the revision of such a certificate will in future be guilty of an offence and liable to a fine which has been increased from R200 to R2 000.

The alternative is a prison sentence of 12 months.

The new legislation also provides that vendors who fail to register a return in terms of the Act, or any person liable for payment of the tax but who fails to do so will also be liable of a fine of R2 000 (previously R100), or to imprisonment for 12 months (previously three months), or to both.

Deadline for tax returns 3 days away

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EP 25/6/87

By MICHEL DESMIDT

BY the time you read this you will have just three working days to submit your 1986/87 tax return, if you are one of the thousands of people who have yet to complete this annual chore.

And if you are an habitual tax laggard, be advised that should you miss the June 30 deadline, you may be risking a tough penalty.

According to Port Elizabeth's Receiver of Revenue, Mr Joe Kapp, about 40% of salaried taxpayers, or 29 000 out of 74 000 registered taxpayers, had still to submit their returns by this morning.

Provisional taxpayers and farmers were doing somewhat worse, with 67% or 23 500, of the 35 000 tax forms still outstanding and a whacking 86%, or 6 000 out of 7 000 company returns were still awaited.

Mr Kapp said provisional taxpayers and companies usually employed professionals to complete their tax forms and it was normal for extensions to be granted.

Mr Kapp urged people to get their returns in on time as they could face heavy penalties for not doing so.

In extreme cases, taxpayers who were habitually late in submitting their returns, faced paying three times the assessed tax, as well as a court summons and a fine if convicted.

The penalty incurred depended on individual circumstances and whether a person was a first offender or not, but final notices would be posted before action was taken, said Mr Kapp.

"But human nature being what it is, people will be sending piles and piles of returns on Monday and Tuesday."

In Cape Town, the inflow of tax forms has been slower than usual, thought to be caused by public confusion over the fringe benefit taxes and delays in the issuing of IRP5 forms.

TV retailers hard hit by tax rebates

(320) CR 25/6/87.

DEALERS in television sets "are taking a big knock" in losses incurred since the Government's introduction of the ad valorem tax rebate last month.

This was said today by Mr Frank Whiteman, financial director of a Port Elizabeth retailing firm.

"We're losing up to 20% in profits on TV sets, both colour and black-and-white. But there's no point in complaining. The rebate has been announced and that's that."

This state of affairs would continue until existing stocks were exhausted, Mr Whiteman said.

Dealers in Durban want the major manufacturers in South Africa — Tek, Barlows, Telefunken and Tedelex — to compensate them for financial losses incurred since the introduction of the tax rebate.

Most retailers had sets in stock when the rebate was announced and were forced to sell old stock at the new prices, losing about R150 on each set.

The managing director of Govan Mani in Durban, Mr Hudson Bhika, said he had approached manufacturers about the matter but had been refused compensation.

"They said they had paid the tax when they sold the old stock to us and they could not compensate us."

OK Bazaars' marketing director for furniture and appliances, Mr Arthur Solomon, said it was the Government which should be offering compensation.

"It is unfair of the Government to ask the retailer to take this tremendous knock without any form of compensation."

Although it was understood that larger retailers could probably absorb it, the smaller retailer would find it crippling to his business.

The joint managing director of Price Furnishers and senior vice-president of the Furniture Traders Association of South Africa, Mr Dave Reece, said that the furniture retailing industry had worked out a total estimated loss of R3 million on existing stocks of televisions.

GST 320

Higher fines

The Sales Tax Amendment Bill tabled in parliament this week marks yet another milestone in a clampdown on taxpayers.

FINANCIAL MAIL JUNE 26 1987

While the inexorable growth in the overall tax burden continues, it is proposed, among other measures, that:

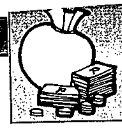
☐ An individual who unlawfully avoids payment of GST be liable to a fine and jail sentence *in addition* to the current tax penalty of up to 100%;

☐ The fine for a person who falsely represents that he is a registered vendor, to avoid paying GST on goods bought, be increased to up to R2 000 (or 12 months);

☐ The fine for vendors failing to furnish GST returns be increased from R100 (or three months) to R2 000 (or 12 months);

☐ The fine for failing to furnish information that the Commissioner for Inland Revenue may require for the purposes of the administration of the Act is to be increased to R2 000 (or 12 months);

☐ The fines for adding GST to an article knowing it is not applicable be altered from R1 000 (or two years) to R2 000 (or 12 months). ■



No-news good-news

Pierre du Toit, a chartered accountant and advocate, is a partner with Arthur Andersen.

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On the face of it, that is the story of the 1987 main Budget as far as tax matters are concerned. But are we sure that it is good news, or even no news?

In an economy where inflation runs in the upper tens a no-news Budget is bad news; fiscal drag increases the real tax burden even while rates stand still. True, the earlier mini-Budget countered this to some extent for individuals, but what about companies, and what about allowances, deductions, ceilings and other tax relief items which are the subject of rand amounts with an ever-shrinking rand?

As to the "no-news" part, our budgets are simply no longer the source of tax news. The real action is in legislation, in Government Gazettes, press statements, so-called practice notes, court decisions, even in the legislatures of other nations.

Anyone who thinks this is a quiet year for tax developments should start by studying the annual round of tax legislation in the 1987 income tax and other tax Bills, once these become available. It has become tradition that the legislation contains many tax measures, some of great importance, which receive no mention in the Budget speech.

Other examples of tax news outside the Budget include the pre-Budget announcement concerning:

- ☐ Anti-avoidance measures affecting film schemes;
- ☐ Changes in sales tax affecting packages;
- ☐ Customs reductions on TV equipment;
- ☐ Several practice notes issued by Revenue, including one of doubtful legal validity on consumables following the important Appellate Division decision in the De Beers case; and
- ☐ The recent announcement of a further extension of initial allowances pending the still-pending Margo report.

Add to this the renewed promise of publication of the Margo report in August (did the ministe· say of what year?) and the failure even to refer in passing to the entirely new and, to say tne least, contentious regional council levies, and it is clear that the Budget as a vehicle for tax information is steadily being downgraded.

Another development not mentioned in the Budget is the apparent intention to introduce unilateral tax relief (a welcome step) to compensate for the cancellation by congress of the US-SA Double Tax Agreement — effective July 1.

Good news or bad, it certainly is not a case of no news.

A last sobering thought.

Many an economist has pondered the source for additional funding if government turns out over-optimistic about income or its ability to limit expenditure (why would anyone think that a possibility?). Many feel that further demands on the money market could force interest rates up again. But there is another source — the good old taxpayer sitting back enjoying his "no-news good-news" Budget.

Between parliamentary sessions the minister may increase the sales tax rate by up to 2%.

He may change Sales Tax Schedules, which may considerably increase the sales tax burden. He may impose a loan levy of up to 10% of basic tax. He may alter several aspects of fringe benefit legislation which could increase the burden, and, of course, that new little fiscal brother, the regional levies, may be increased into Big Brother with no apparent statutory limit.

No news? Good news? We'll see.

Hands off mines tax

With the findings of the Margo Commission soon to be released, Price Waterhouse partner CHRIS FRAME warns of the consequences of changing the present mines tax system

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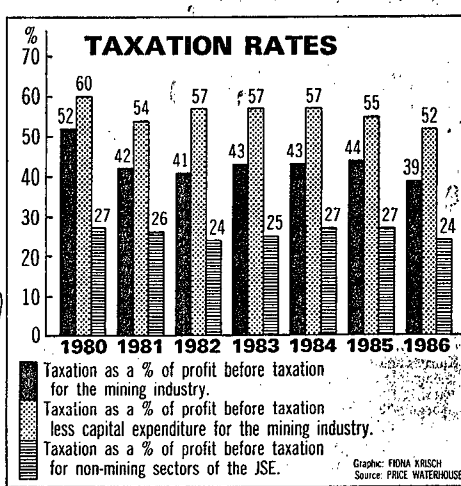
26/6/87



ANY CHANGE in the way in which gold mines are taxed would be a disaster. As the release of the findings of the Margo Commission on tax draws near, we should note that other mining countries — such as Canada and Australia — changed their mining tax systems with disastrous results.

The method of taxing South African gold mines is perfectly suited to the industry's high risk profile. The system alleviates the high risk involved and ensures that government gets an adequate return.

The high start-up capital costs of a new gold mine in SA (approximately R1bn) can be written off as incurred under the present system. It normally takes eight years for a gold mine to produce any income, at which the stage the tax rate — inclusive of lease tax — can be as high as 76%.

If the capital expenditure were written off over a number of years, rather than as it is incurred — as has been suggested by some academics — the effect on government revenue would be once-off.

But the mining industry's risk profile would be permanently altered, and with it the will and the ability of the mining industry to continue the present pace of investment. Investment in the mining industry is central to the dynamics of private investment in the South African economy as a whole.

As a direct result of changes made by the Canadians to their mining system, investment in exploration in that country came to a virtual halt — requiring a somewhat rapid reversal by the authorities.

Australia and the UK have made similar errors in a period when the South African system contributed to a competitive growing industry.

It appears as if the Margo Commission may be trying to compare a diverse, developed economy — like that of the UK — to the South African economy, which is still based on one specific industry — the mining industry.

SA cannot afford to experiment at this stage. It has found in the system of taxing gold mines a means to encourage capital formation, which is particularly important now that overseas sources of capital are severely curtailed.

Although the absolute percentage contribution of the mining industry to government revenue has gone down over time, the industry continues to pay a much higher effective tax rate than that paid by the manufacturing industry, as shown in the accompanying table.

In a soundly developing economy in which secondary industry is increasing its contribution to the national product, the absolute contribution made by the mining industry to the fiscus will naturally decrease.

The point to be made is that the present system has allowed government to maintain an effective tax rate in the mining industry which it has consistently failed to maintain in respect of the manufacturing industry.

The tax regime applied to the gold mining industry is suited to its high-risk nature, but it is not a system which allows the industry to pay less tax in the final analysis.

The classification of government revenue into different sources can be misleading. The wealth any industry produces is either reinvested or it is divided among shareholders and employees in dividends and wages.

Wages are deducted from the company's tax base and added to the individual's tax base and taxed in his hands. The important point is that the source of the wealth — of wages, dividends and profits — is the same. That is, the mine.

Government levies a large portion of the wealth represented by wages by way of fiscal drag, and of course the company's tax base will be reduced as its wage bill rises.

As shareholders' dividends rise, so will government income as it taxes dividends; but the company's taxable income will not be reduced. The moral is that only government's share of wealth created by the efforts of industry has increased over the period 1980 to 1987.

Industry's contribution to the fiscus should be measured by the tax paid on the *total* wealth it has produced, whether in the hands of the company or the individual.

The gold mining industry is paying that effective tax rate which government, presumably, hopes will also apply in the sector. Why change the system?

FM 26/6/87

TAXATION

Post-Budget lobbies

Tinkering with tax changes ahead of the Margo Report continued last week with the announcement by Deputy Finance Minister Kent Durr of renewed concessions for industrialists and farmers. Observers believe this is in response to lobbying by these groups.

The changes will be received with great relief by those sectors concerned. Time limits on certain machinery and building initial allowances are to be extended from December 31 1987 to December 31 1988. These include:

☐ The enhanced machinery initial allowance of 50% for new and unused machinery or plant;
☐ The 25% initial allowance for used machinery;
☐ The 17,5% building initial allowance; and
☐ The special initial allowance of 50% for storage and packaging machinery of co-operatives.

The announcement, especially its timing so soon after the Budget, has met some scepticism.

Price Waterhouse's Chris Frame argues that extension of the allowances does not give the required degree of certainty to "major greenfields projects — which may have a five-year gestation period." The mining industry — victim of many threats to its ability to write off capital expenditure as incurred — has never enjoyed even this kind of certainty. The gold mining industry needs to invest (say) R1 billion upfront to create a new mine producing income in eight years' time.

But above all, Durr's announcement seems to be a last ditch attempt by Pretoria to use the initial allowance to spur private investment at a critical stage. It is an open secret that Margo will criticise the extent, if not the existence, of such allowances. Frame also argues that extending the allowances "contradicts 'accepted wisdom' that such allowances have no effect on investment patterns."

Durr also announced two more benefits for farmers:

☐ Where co-operatives repay on loans, used for sheds, a deduction is allowable against income for tax purposes. This concession will be extended for a year; and
☐ If drought forces a farmer to sell stock, and he deposits the funds in the Land Bank, he is not taxed until he withdraws the amount, or until four years from the end of the year of the sale, whichever occurs first. This period will be extended to six years. ■

Emergency detention rules eased

Dispatch Correspondent

CAPE TOWN — A number of the tough rules affecting emergency detainees have been repealed and replaced by less stringent regulations similar to those applying to awaiting trial prisoners.

President P. W. Botha promulgated relaxed or improved regulations in the Government Gazette yesterday which provide for compulsory medical examinations after arrest, segregation from "ordinary" prisoners, study by correspondence and a maximum police lockup period of 14 days.

The powers of the Minister of Justice, Mr Kobie Coetsee, to make the rules for detainees were repealed, and with them the rules themselves.

The rules prevented detainees from receiving reading matter, letters or study material and provided for a number of other measures such as stiff penalties for petty offences.

However, in terms of the new regulations detainees will still be disqualified from buying for themselves from outside prisons any newspaper or foodstuffs or procuring a radio, record player, tape recorder, musical instrument or television set.

However, the writing and receiving of censored letters will apparently be permitted. Visits will still be subject to approval by the minister.

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3/6/87

Tax cuts vital, says De Kock

29/6/87 (320) B/Day

HAROLD FRIDJHON

CUTS in taxes in coming years were a top priority if real growth in the economy was to be achieved and business confidence positively reinforced, Reserve Bank Governor Gerhard de Kock said in a wide-ranging interview with Business Day.

If the GDP could be firmly placed on a sustained growth path, the Treasury would receive more revenue from reduced rates of tax because demand would be stimulated, leading to a revival in fixed investment. This, in turn, would give the private sector the confidence which was currently wavering.

Fiscal drag, De Kock emphasised, was a debilitating factor that weakened initiative.

Government expenditure, too, had to be reduced in terms of the public sector's share of GDP. This year's high levels of state spending were tolerable because the private sector was not making demands on resources. But if growth — 3% this year and hopefully 3% next year — was to be maintained, the public sector should not crowd out entrepreneurial requirements.

Financially, SA had emerged stronger from a difficult period of readjustment than De Kock had thought possible three years ago.

The balance of payments was in surplus and gold and foreign exchange reserves of the Reserve Bank and the other banks were in excess of R7bn. And this was after paying $4bn (about R8bn) to foreign creditors since 1985 and losing $7bn (R15bn) in short- and long-term capital outflows.

"Because the world was critical of SA's political situation, we have become a capital-exporting country, instead of being a net importer of capital, so essential to a developing economy.

"At the time, I asked myself: 'Can we survive?' But we adopted stringent policies, which have led to a lowering of standards of living. We imposed foreign exchange controls and a standstill on foreign debts. And we have survived. We are poised for growth."

De Kock said in world banking circles SA's reputation stood high. At the recent meeting of the Bank of International Settlements in Basle, central bankers reviewing the growing mountain of what appeared to be irrecoverable debt, said the international banking system was suffering from "debt fatigue" as debtors reneged in one form or another.

"But SA is a notable exception. We have maintained interest and dividend payments to the world, which knows

● To Page 2

De Kock: Tax cuts vital for growth

(320) B/Day 29/6/87

● From Page 1

that these will continue because they absorb only about 10% to 12% of export earnings.

"We are repaying capital."

The Reserve Bank had repaid $1bn (R2bn) of $1,3bn (R2,6bn) owing to bankers.

In the next two weeks, $300m (R600m) would be paid on the debt caught in the net, with a further $200m (R400m) payment in December. Only two more instalments were due on the International Monetary Fund (IMF) loan.

Representatives of the IMF who hadvisited SA routinely last week said SA was one of the few debtors to repay and not try to roll over obligations.

Bankers, who believed sanctions and disinvestment were not the right levers to effect rapid change, were now eager to re-open credit lines to SA for trade purposes. Politics prevented their lending capital to state and quasi-state organisations.

SA did not currently need these credit lines, said De Kock. It was cheaper for importers to finance their trade through SA banks.

De Kock, however, asked whether the facilities would be available next year, or the year after, when hoped-for growth would strain domestic resources. They replied: "Yes, provided there are no new shocks."

Asked what was needed to get the economy moving, De Kock said: "We must be positive, economically and politically. We must know where we are going. We can't turn our back on the world. SA is too dependent on world trade to retreat into a laager. We need international markets."

De Kock on reinforcing business confidence

'Tax cuts priority for real growth'

Cape Times 29/6/87 320

From HAROLD FRIDJHON

JOHANNESBURG. — Cuts in taxes in coming years are a top priority if real growth in the economy is to be achieved and business confidence is to be positively reinforced, Reserve Bank governor Gerhard de Kock said in a wide-ranging interview.

If the GDP could be firmly placed on a sustained growth path the Treasury would receive more revenue from reduced rates of taxation, because demand would be stimulated, leading to a revival in fixed investment. This in turn would give the private sector the confidence which was now wavering.

De Kock emphasized that fiscal drag was a debilitating factor which weakened initiative.

Government expenditure, too, must be reduced in terms of the public sector's share of GDP. This year's high levels of state spending were tolerable because the private sector was not making demands on resources, but if growth — 3% this year and hopefully 3% next year — was to be maintained, the public sector must not crowd out entrepreneurial requirements.

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"At the time I asked myself: 'Can we survive?' But we adopted stringent policies which have led to a lowering of standards of living. We imposed foreign exchange controls and a standstill on foreign debts. And we have survived. We are poised for growth."

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"But SA is a notable exception," said De Kock. "We have maintained interest and dividend payments to the world which knows that these will continue, as they absorb only about 10% to 12% of export earnings.

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At present SA did not need these credit lines, said De Kock. It was cheaper for importers to finance their trade through SA banks. However, De Kock asked whether the facilities would be available next year or the year after, when hoped-for growth would strain domestic resources. They replied: "Yes, provided there are no new shocks."

Asked what was needed to get the economy moving, De Kock said: "We must be positive, economically and politically. We must know where we are going. We can't turn our back on the world."

Television set prices: Who is watching?

Claims that television manufacturers and retailers are not dropping their prices to match cuts in customs and excise duties were rejected yesterday by the chairman of the Radio and Television Manufacturers' Association, Mr Peter Dupen.

"All the latest changes in duties have been accepted by the manufacturers," he said. "I can't speak for the retailers, but it looks as though there has been a drop of 20 percent in retail prices."

Mr Dupen was reacting to allegations that all the reductions in duties were not being passed on to the consumer.

An industry insider, who did not want to be identified, said that according to the reduction in duties there should be a 24 to 25 percent reduction in the retail price.

"A television set which the retailer would have bought from the manufacturer at R1 500 would have been sold to the consumer for R2 000, giving him R500 profit. The old duty on this set would have been R273," he said.

PROFIT MARGIN

"The new duty on this set would now only be R68 so the retailers should be able to buy the set for R1 295 from the manufacturers. To make the same profit margin as before, the TV sets should be sold to consumers at R1 720, but the retailers aren't doing that. They have dropped the prices by only R200."

Mr Dupen said that he did not agree with a 24 percent reduction in prices as "the Minister said that we should only expect a 20 percent reduction in prices".

"It might be in some cases that the retail outlets have not reduced the prices of old stock because they were bought from the manufacturers at the old higher prices," he said.

Funds 'must pay levies'

30/6/87 (320)

6 Day

CHRIS CAIRNCROSS

INSURERS and certain funds, including group insurance and pension schemes, will not be exempted from having to pay the two Regional Services Council (RSC) levies from August 1, the delayed date on which they are to be applied, according to a Sanlam study.

The study by Sanlam's pension division finds that the remuneration on which funds and assurers must pay the regional establishment levy — 0,1% for the first year — will be the gross amounts receivable as interest, dividend and rental income.

A fund and an assurer, however, will not both have to pay this levy on either interest, dividend and rental income if it originates from a policy into wnich the fund has entered with the assurer.

The assurer must pay the levy as the income is his property, but is not payable on the policy benefits received by the fund.

The legislation stipulates that a financial enterprise must also pay the levy on the gross profit "derivable from the purchase, sale or discounting of, or otherwise dealing in, financial assets".

In general, assurers do not deal in financial assets and, therefore, the gross profits derived from the sale of financial assets is not subject to the levy. The same applies to most funds.

The regional services levy is not payable on pensions and other benefits paid to fund members, as they are not regarded as employees for this purpose.

POST, TUESDAY, JUNE 30, 1987

Tax return scramble

(320)

EP 30/6/87

Post Reporter

MORE than 20 000 taxpayers had still not submitted their 1987 returns when the Port Elizabeth Receiver of Revenue's office opened this morning.

Staff were geared for a last-minute rush to meet the deadline today.

By yesterday afternoon, 50 000 of the 73 000 forms sent out to salary earners had been returned, and a spokesman for the Receiver of Revenue said "at least" another 2 000 were expected today.

The assistant director, Mr J M Strydom, said that although the extended deadline expired today returns posted today and received tomorrow would still be accepted as having been submitted in time.

Final demands would be issued to defaulters, who would then have one month in which to submit their returns before facing heavy penalties.

First offenders will be required to pay either 5% of the tax payable or a R100 maximum. Second offenders are required to pay 10% of the tax payable or a maximum of R200.

Of the returns issued to businesses, 22 500 are outstanding. A total of 35 000 were issued in Port Elizabeth.

And only 800 of the 7 300 returns issued to companies have been received, Mr Strydom said.

The large number of returns from businesses and companies outstanding was not unusual, since most were granted a postponement, some until as late as February next year.

There had been a steady stream of taxpayers with problems at the department's inquiry office during the last few days, Mr Strydom said.