TAXATION – 1987

JULY — DECEMBER.

'THE VITAL VIEWPOINT'

1/7/87 B/Day

Move on fuel GST (320)

Business Day Reporter

COMMISSIONER for Inland Revenue Clive Kingon yesterday moved to prevent the double imposition of GST on fuel sales.

This was necessary because the operation of the fuel levy from today, had potentially created a situation where fuel purchases could be subject to GST twice on the same purchases.

Kingon said the Sales Tax Amendment Bill of 1987 had been amended to take account of the sales tax implications of the introduction of the new fuel levy.

The amendment will ensure that the sale of fuel already subjected to the levy will be exempt from sales tax from today.

ARGUS 2/7/87 BUSINESS

FINANCE

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Taxman cracks down on transfer duty evaders

By MAGGIE ROWLEY

THE taxman is clamping down on homebuyers evading transfer duties on plot and plan developments, the Receiver of Revenue, Cape Town, Mr Ernst Conradie, confirmed today.

Meanwhile the National Association of Home Builders (NAHB) has called on the Government to lift the duties payable by buyers of new homes, including package deals where the buyer purchases the house and plot from the same seller as in plot and plan schemes.

And city property developers said this week that if the Government insisted on collecting full transfer duties on package deal sales there would be no hope of correcting the drastic backlog in housing.

According to the Transfer Act of 1949 full transfer duties are payable on plot and plan schemes. If the plot is sold separately and the seller can prove that he is in no way connected to the developer of the plot then transfer duties are payable by the homebuyer only on the plot.

In 1980, an amendment was passed exempting plots from transfer duties which were sold for less than R12 000. Only a 1 percent duty, as opposed to 3 percent, is now also payable on package deal sales less than R30 000.

Mr Conradie said that the Department of Inland Revenue recently became aware that developers were "using all sorts of manoeuvres" to help their clients avoid paying full duties.

"We are now looking more closely at these projects when they come in. We are not out to kill these people, just to follow the law and to make sure duties are paid where they should be," he said.

Mr C J S Barnard, chairman of NAHB said they had made representations to the Government as early as March this year calling for the lifting of transfer duties for buyers of new homes.

New wharfage rate comes into effect

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DD 3/7/87

Dispatch Reporter

EAST LONDON. — A new wharfage rate, which replaces the soon-to-be-abolished coastal wharfage rate on an ad valorem basis rate, and which was announced in Parliament by the Minister of Transport Affairs, came into effect this week.

The new rate is R4,50 per harbour ton per harbour, or R90 per IC container per harbour.

According to a statement issued on behalf of the South African Transport Services, the new coastal rate only applies to cargo that is transported between the commercial ports under the jurisdiction of the South African harbour organisation.

The statement says the new rate is being introduced as the latest in a series of decisions to revitalise the flagging coastal sea route.

It is an attempt at winning back some of the high-value cargo that has been excluded as a result of the ad valorem wharfage rates.

According to the Director SA Harbours, Mr Marius Joubert, the new cost-related wharfage tariff for coastal cargo, will bring an end to cross-subsidisation on this route which has been such a bone of contention in the past.

All present coastal contracts will be examined and should the old rates be higher than the new rates, the client may cancel his contract and take advantage of the new rates as from the begining of this month.

For clients whose coastal wharfage rates are currently lower than the newly announced rates, the new rates will apply with effect from July 1987.

The executive general manager for Unicorn's South African Liner Services division, Mr Ray Wicks, said that the company and South African Transport Services believe that this dramatic change to a long established rating policy will greatly assist many ships presently supporting the sea route and encourage others to use the free highway between all South African ports.

In the past emphasis was on containerised cargo. This new initiative is aimed at attracting conventional Ro-Ro and containerised cargo back to the coastal route.

SACC accepts civil disobedience

Cape Times 4/7/87

Own Correspondent

JOHANNESBURG. — The SA Council of Churches (SACC) has declared its support for all those actively using civil disobedience as a strategy "to force change in SA".

The SACC recommended that member churches "question their moral obligation to obey such laws as the Population Registration Act, the Group Areas Act, the Land Acts, the Education Acts and the Separate Amenities Acts".

The conference noted that "the voteless people have only one power — the power to withdraw co-operation". It said it saw civil disobedience strategies "as a last resort before violence".

The resolutions were formulated from recommendations made in reports presented to the national conference this week.

The conference resolved not to deduct rent arrears from workers' wages and encouraged member churches to declare this intention publicly. Other groups were commended for opposing this legislation.

A resolution made from a recommendation by Dr Beyers Naude denounced apartheid as a heresy and called upon member churches to support structures "recognized by the people as the authentic legitimate authority".

A further resolution called upon member churches to support the work of the "Free the Children Alliance" to "terminate the evil practice of holding children in detention".

SACC against PAYE by black workers

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Cape Times 4/7/87

Own Correspondent

JOHANNESBURG. — The SA Council of Churches (SACC) yesterday encouraged employers to stop deducting PAYE tax from workers' wages in a resolution passed at their national conference.

Saying it supported such a call from workers, the SACC added that it "upholds the principle that there should be no taxation without representation". It called for member churches to insititute steps towards implementing this principle.

The private sector was encouraged to "respond constructively to this demand of organized workers".

'Reject conscription'

Commenting on this call, Assocom manpower secretary Mr Vincent Brett said the organization was "totally unable to accept breaking the law as it would start a state of anarchy". Whether it agreed with the law or not was irrelevant — it was unrealistic for the SACC to make such a call, he said.

A further SACC resolution passed called on blacks to "reject conscription until there is universal franchise".

This was made in the light of the President's Council report on youth and the suggestion that blacks should be conscripted into the SADF.

A resolution calling for member churches to develop an ongoing dialogue and negotiations with liberation movements in exile was referred to the executive.

Chikane is general secretary

Others referred to the executive included looking at ways of ending vigilante violence, a call for the release of all children in detention and a call on countries in the First World to receive refugees of all races and creeds.

At the conference, former UDF executive member the Rev Frank Chikane was formally installed as the new SACC general secretary. Black Sash member Mrs Sheena Duncan is the new vice-president and Mrs Virginia Gcabashe is the senior vice-president. Dr Beyers Naude, previous general secretary, was made honorary life vice-president.

Change in mine tax would be 'disastrous'

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STAR
6/7/87.

Any change in the way in which gold mines are taxed would be a disaster, says **Chris Frame**, tax partner of **Price Wwaterhouse**.

As the release of the findings of the Margo Commission on tax draws near, Mr Frame sounds a warning that other mining countries, such as Canada and Australia, changed their mining tax systems with disasterous results.

The method of taxing South African gold mines is perfectly suited to the industry's high risk profile, says Mr Frame.

The present system, he says, alleviates the high risk involved and ensures that the government gets an adequate return.

The high start-up capital costs of a new gold mine in SA (approximately R1 billion) 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 stage the tax rate inclusive of lease tax can be as high as 76 percent.

Profile altered

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 the 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 SA economy as a whole.

Mr Frame points out that, as a direct result of changes made by the Canadians to their mining system, investment in exploration in that country came to a vertual halt, requiring a somewhat rapid reversal by the authorities.

Australia and the UK have made similar errors in a period when the SA system contributed to a competitive growing industry.

Mr Frame also warned that the Margo Commission may be trying to compare a diverse, developed economy, like that of the United Kingdom, to the South African economy which is still based on one specific industry — the mining industry.

South Africa 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.

Higher tax rate

Although the absolute percentage contribution of the mining industry to goverment revenue has gone down over time, the industry continues to pay a much higher effective tax rate than that paid by the manufacturing industry.

In a soundly developing economy in which secondary industry is increasing its contribution to the national product, the absolute cntribution made by the mining industry to the fiscus will naturally decrease.

The point to be made is that the present system has allowed the government to maintain en effective tax rate in the mining industry which it has consistently failed to maintain in respect of 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 re-invested or it is divided among the 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.

Source of wealth

The important point is that the source of the wealth — of wages, dividends and profits — is the same, ie: the mine.

The government levies a larger 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 the 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 the government hopes the manufacturing industry will achieve in future.

It is investing at a rate which the government presumably hope will also apply in the sector. Why change the system?

The economy and you

The unfair tax bite

Star 8/7/87

(320)

By Sven Lünsche

It was most encouraging to hear the Governor of the Reserve Bank, Dr Gerhard de Kock, state openly that cuts in taxation rates and reductions in government expenditure are the most important steps in achieving real growth in the economy.

He was quoted as saying that fiscal drag — the erosion of the individual disposable incomes by high tax levels and the soaring inflation rate — was a debilitating factor weakening private initiative.

Dr de Kock added that the Treasury would receive more revenue from reduced rates of tax because demand would be stimulated, leading to a revival in fixed investment and consequently more employment.

Most economists have been stressing this for years and we can only hope that the government will heed the advise of one of the country's most respected economic leaders.

In this year's Budget, Finance Minister Barend du Plessis did not raise tax rates, but individuals will effectively contribute almost 50 percent of revenue flowing into the State's coffer in the 1987/88 financial year.

This year's revenue estimates suggest that R12,1 billion will be generated by tax on individuals, 24,1 percent above the 1986/87 collections, with a further R10,7 billion expected to be collected from GST payments, half of which is paid by individuals.

An historic view provides even more gloomy figures. If there are any further rises in government expenditure — an inevitability according to most economists — the contribution by individuals will inevitably rise further, as it has done over the past years.

Total taxes as percentage of the national income increased from about 18 percent in 1960 to 32 percent in this year's Budget. As a percentage of personal income, the individual's total tax burden rose from 9,5 percent in 1980 to 18,8 percent last year, in other words on average 18,8 percent of one's monthly earnings go to the taxman.

The authorities said this rise stems largely from the growth in the number of taxpayers and the higher average salary levels. Economists are highly critical of these explanations, saying that the increase in taxation levels are solely the result of the government's inability to control public sector expenditure.

In any case why take it all out on the individual? The Budget once again saw big industry get off very lightly. Revenue from mines in the current fiscal year will drop to R3,15 billion, despite expected higher precious metal prices, while non-mining companies, which for the most part have come up with record profits this year, will only boost revenue intake by R0,8 billion to R5,8 billion.

Obviously the aim of reducing the pressure on the companies is to stimulate fixed investment which usually generates jobs. However, a look at the statistics shows that this has not been the case this decade.

While the percentage contribution of companies to the state's coffer fell from almost 30 percent in 1980 to 23,4 percent this year, employment levels have virtually remained stagnant — and this against the background of population growth of more than two percent annually over the period.

So while we are all awaiting the findings of the Margo Commission on tax — which is rumoured to feature some radical changes — the monetary and fiscal authorities should try and stimulate consumer spending in whatever way possible.

BUSINESS

ARGUS 8/7/87 320

MINING

Johnnies plans two megamines in Transvaal and Orange Free State

From GARETH COSTA

JOHANNESBURG. — Mining activity is hotting up at JCI, with the much talked about South Deep project indirectly being given the go-ahead, and it could form a major part of another megamine along with Western Areas and Randfontein Estates.

Outgoing JCI chairman Mr Gordon Waddell hinted at his farewell dinner recently that there are two new gold mines in the planning stages within JCI.

One would be South Deep, and the other a major new Orange Free State gold mine in a joint venture with Free State Development (Freddev), from which there have already come encouraging borehole results.

The official JCI response since then is that these sort of developments take a long time and an announcement may be made if and when the time is appropriate.

Although the South Deep has been speculated about for a sometime, sources report that there are at least 75 million tons of reserves, but possibly 105 million tons, capable of sustaining a mine with a life of at least 30 years.

Planned tonnage of a staggering one million tons a month is being discussed, with an initial start up of 250 000 tons a month and recovery grades in the region of 5g to 8g/ton.

South Deep is a joint venture, with Western Areas owning 29 percent and a consortium, including Anglo American, Gencor, Anglovaal and Freddev, owning the rest.

Local analysts say that South Deep is only feasible if merged with Randfontein and Western Areas, since the start up estimates of R1,5-billion would be difficult to finance without a tax shield.

Nevertheless, the consortium groups should finance their portion of the development, with Western Areas and Freddev likely to pass on their rights to shareholders.

Gold analayst Mick Oliver of London stockbroker James Capel said yesterday that he had heard the news, but he could only see the go-ahead being given if Randfontein and Western Areas were involved.

He said that it all hinged on the Government Mining Engineer's decision on the tax implications. "The government has the decision of taxing mines now with short term benefits, or promoting mine development with five or six coming on stream for long term returns.

"However, they cannot have it both ways."

Local analysts agree but report that most mining houses are nervously awaiting the outcome of the Margo Commission on tax.

However, one analyst says the JCI told him six months ago that they had inquired whether the South Deep megamine would be given the go-ahead and the GME had answered that if they could prove it on technical grounds then it would be allowed. JCI are believed to be confident that they can do this.

For mining exploration company Freddev, Mr Waddell's statements ring of exciting prospects. Since then the Freddev share price has risen from R15 to R19.

In addition to the effective 16 percent of South Deep, it also owns mineral rights to the farm separating South Deep and Randfontein.

In separate ventures Freddev will get 50 percent of development profits from a Freegold expansion on Jonkersrift and Du Preezlaagte farms.

The Kleinfontein farm could be used in Vaal Reefs expansions while Sterkfontein, where Anglo American is believed to be drilling, have potential grades in the region of 10g/ton.

320 Sowetan 9/7/87

R233 000 in tax rebates gone astray

R233 000 or more in tax rebates went astray in the past two months as unknown people continue to intercept and cash cheques intended for black taxpayers.

By SY MAKARINGE

This was confirmed yesterday by Mr Schalk Albertyn, chief director of operations at the Department of Inland Revenue in Pretoria.

Mr Albertyn said the number of people who were affected by the racket in May and June alone was about 670.

Most of the affected taxpayers were black, Mr Albertyn said.

However, observers believe that the racketeers could have earned themselves several millions of rands as the racket dates back several months.

The racket apparently started in October last year.

Mr Albertyn said he hoped it was not "an inside job" as many taxpayers believed.

Control

Although he did not rule this out, he said the way the racketeers operated did not show signs of a fixed pattern.

"We have strict control in the section where cheques are issued, but I'd not say it can't happen there," ne said.

He said the affected taxpayers would not lose their rebates. He urged them to apply for duplicate cheques.

"The department will also not lose the money. We'll recover it from the banks which accepted the cheques," Mr Albertyn said.

Calls from angry black taxpayers flooded the *Sowetan* soon after the racket was exposed yesterday.

Mr Vicky Mkhonza from the East Rand said he received his assessment in March this year, but did not get his cheque for R900.

"I phoned the Receiver of Revenue in Brakpan where I was told that my cheque had been cashed by someone," Mr Mkhonza said.

Another caller said when he discovered that his rebate cheque had been cashed, he went to the offices of the Receiver where he applied for a duplicate.

"After waiting for several weeks, I phoned them only to be told the duplicate cheque had been cashed," the caller said.

Mr Albertyn, who said the racket was not as big as it was made out to be, said his department was negotiating with commercial banks to have rebates paid directly into the taxpayers' accounts.

Thousands lose out on rebates

TAX SCAM

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8/7/87

Sowetan

THE Department of Inland Revenue has been rocked by a big racket in which unknown people intercept and cash tax rebate cheques without the knowledge of the intended recipients.

By SY MAKARINGE

The racket, which dates back several months and is believed to be involving money running into several thousands of rands, has shocked tax experts and angered scores of black tax-payers.

Senior officials at the department's Johannesburg offices are aware of the racket but cannot figure out how the racketeers manage to cash crossed cheques that are written out in tax-payers' names.

An investigation by the *Sowetan* this week revealed that in Soweto taxpayers waited for several months to get their rebates, after receiving statements to the effect that they were entitled to refunds.

When they went to the office of the Receiver in Johannesburg, they were shown copies of cashed cheques bearing forged signatures at the back.

The racket is so widespread that more than 75 percent of the black staff at Baragwanath Hospital are believed to have lost their rebates in this manner.

A *Sowetan* investigation also found that hundreds of black taxpayers flock to the offices of the Receiver daily to inquire about their cheques.

A Soweto nursing sister, who asked not to be named, said she received an assessment in October last year informing her that R292 was due to her.

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Tax scandal

● From Page 1

Normally a taxpayer waits for a week or two before he or she gets the cheque.

The nurse said she waited for more than five months for the cheque to arrive. When it did not, she wrote to the Receiver and inquired what was happening.

"I asked someone there whether I was entitled to the money or not. He told me that my cheque had already been cashed. I could not believe it because I never saw that cheque," she said.

She then went to the Receiver's offices where she was shown a copy of her cheque.

"There was a signature at the back of the cheque. The signature was definitely not mine," she added.

The Receiver of Revenue in Johannesburg, Mr Hannes Hattingh, and his assistant, Mr Norman Paterson, told the *Sowetan* yesterday that they were aware of the racket. They said the matter was being investigated.

They both could not pinpoint where the fault lay. They urged taxpayers who lost their rebates in this way to apply for duplicate cheques.

"We are also looking into the possibility of paying the cheques directly into the taxpayers' accounts. We will be doing this partly because of what's happening and partly because we want to simplify things," Mr Paterson added.

CAPE TIMES 10/9/87 (320)

670 tax cheques went 'astray'

Own Correspondent

JOHANNESBURG. — Building societies and businesses which accepted stolen tax rebate cheques amounting to R233 000 will foot the bill at the Department of Inland Revenue.

Banks are protected by law from refunding "not negotiable" cheques deposited into accounts, as long as they do not make the cash available immediately.

The department's chief director of operations, Mr Schalk Albertyn, said some of the money had already been received.

"Theft of tax rebate cheques is not a new thing. The issue is being blown up. Only 670 out of 252 000 cheques issued in May and June this year have gone astray," Mr Albertyn said.

Building societies said they notified the police immediately once they had become aware of fraud. Inland Revenue did not normally contact the police.

Most of the cheques were in favour of black taxpayers.

Mr Albertyn said cheated taxpayers had to report to the department and if it was found that the signature on the back of their cheques had been forged, they were entitled to new cheques.

Some cheques went astray because they were posted to employers' addresses and clerks pocketed them. Others were taken from mailboxes, he said.

He advised taxpayers to make sure their cheques went to a safe address.

To avoid future problems, the department is arranging to pay tax rebates directly into taxpayers' bank accounts.

Argus 10/7/87

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Experts warn that SA's tax timebomb is ticking

From MICHAEL CHESTER of the Financial Staff

THE Government has been warned by tax experts that it may be running into potential new zones of dangerous socio-economic conflict unless it accelerates action on sweeping reforms of its income tax system.

Tax consultants are unanimous in verdicts that Finance Minister Mr Barend du Plessis must stop dilly-dallying with tax reform measures.

There is growing anxiety about the delays in revealing the basic contents of the proposals out-lined by the Margo Commission that was appointed to find a new tax formula. Recommendations were submitted to the Government more than six months ago — but they still remain under wraps and away from public debate.

"Time is running out," says Miss Naomi Brehm, salaries surveys manager at P-E Corporate Services. "If the present tax ladder stays in place, more and more black workers will feel the bite of sharp increases in marginal tax with every pay rise — and wage negotiations will be in chaos.

"Many black workers will automatically feel cheated and assume that employers must provide compensation in new wage settlements. There will be confusion and frustration — and pay negotiations will be a nightmare.

"There will be dreadful new strains on industrial relations and new conflicts look inevitable unless the Government begins to understand the urgency of solutions.

"It is no use the Government merely tinkering with the tax system. It must tackle a dramatic overhaul from top to bottom."

Fears about the risk of new labour tensions are shared by Dr Azar Jammine, director of the Econometrix research unit, which has completed fresh studies into international comparisons of tax structures.

"Reductions in personal income-tax burdens have been given top priority by virtually all the leading Western industrial nations in recent years," he notes.

The first priority

"Significantly, the nations that have ordered the deepest cuts are proving to be the best performers in economic progress. It is an unfortunate tragi-comedy that South Africa has fallen out of step with international trends.

"The first aim must be to flatten out the sharpness of the climb in the marginal tax rate in South Africa, which pushes taxpayers up the tax ladder at violent speed once their salaries and wages enter the middle-income bracket.

"There have been repeated protests from the white middle-classes that have had to shoulder the main burden as inflation has hurried them into the problems of fiscal drag — the syndrome of higher and higher tax bills the harder anyone tries to keep abreast of double-digit inflation.

"But the protests will become an uproar as more and more black workers feel the pinch of marginal tax scales on their pay packets as wages levels battle to keep pace with inflation and new socio-economic aspirations."

South Africans start their mountaineering climb up the tax ladder as soon as they pass a threshold of R7 000 a year in taxable income. In contrast, taxpayers in the United States and Japan do not even start digging into their pockets at all until their taxable incomes pass the annual R10 000 level, and West Germans pay no income tax until their pay is above R12 500 a year.

And then the contrasts become even more stark. By the time pay packets are little fatter than R2 000 a month, South Africans are forking out to the tax man no less than 33 percent of every extra R1 they manage to add to their incomes. At that stage, West Germans are paying 20 percent and Japanese and American workers hand over only 15 percent.

Already trapped

The tax drama increases the harder South Africans strive for higher incomes.

At R60 000 a year South Africans are already trapped in the top marginal tax bracket, which seizes 45 cents out of every extra R1 earned — while taxpayers in the US, Japan and West Germany are dawdling way behind.

In Britain, a basic flat tax rate of a modest 27 percent does not even begin to budge upward until taxable incomes have reached around R60 000 — and that is a long time coming because of the generous packages that start with allowing married couples the first R11 400 or more of their annual incomes totally tax-free, plus tax relief on their home bond payments and other concessions.

True, in time the marginal tax rates in Japan and Germany nudge above the 45 percent ceiling set in South Africa — but not until taxable incomes climb over an astronomical R200 000 a year or higher. In the US, the tax rate never reaches the South African level.

"But the real problem is not the ultimate level of taxation as it hits the millionaire classes," says Dr Jammine. "The issue in South Africa is the speed at which ordinary lower-income and middle-class families are pushed up the tax ladder.

Most urgent need

"Inflation piles on more agonies as pay packets battle to keep pace with spiralling prices. In 1980, there were only about 90 000 South Africans in the income bracket between R10 000 and R15 000 a year, the start of the danger zone. By 1985/86 the total had mushroomed to 275 000 as more and more workers tumbled into the tax net.

"Seven years ago, there were only about 20 000 earning between R15 000 and R20 000 a year. Now there are more than 233 000.

"Those are the sort of income brackets in the most urgent need of tax relief from a really bold new formula that will dramatically flatten out the startling steepness of the marginal tax ladder.

"There are potential socio-economic problems galore in the pipeline unless the government stops its dilly-dallying on tax reform."

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SMM 28/7/87

Anticipating Margo is a favourite pastime

By Sven Lünsche

Anticipating the findings of the Margo Commission on taxation is becoming the favourite pastime of tax analysts and consultants. But it is also becoming increasingly more difficult.

With the release of the report having been delayed for some months, it is obvious that Justice Cecil Margo and his team have given the financial authorities some serious food for thought.

"I believe that the Margo Commission will go to the limits of its terms of reference — a proposal for a total economic strategy — and that has been one of the reasons for the delay in its reporting," said independent tax consultant Mr Nic Nel.

Mr Nel addressed The Star's second Executive Forum at the Carlton Hotel yesterday on the topic of what the Margo Commission might have in store for South African taxpayers.

He was emphatic that serious tax reform was required to boost the economic recovery of the country, as "it is because of the government's fiscal and monetary policies that growth targets of three percent will not be met this year".

"Against the backdrop of economic stress caused by the reduction of the gross domestic product per capita in real terms, our individual positions have been further weakened by inflation and an increased burden of taxation," he said.

If some of his proposals to the Commission were accepted, he believed taxation could be used as a policy instrument towards stabilisation in the short and long term.

In what he termed a "Tandem Tax System", Mr Nel's proposals are based on a nine percent flat taxation rate for businesses, an 18 percent tax rate for individuals and half a percent transaction tax, which he illustrated was sufficient in providing for the needs of the State as well as boosting economic prospects in years to come.

Mr Nel highlighted some of the advantages of the system:

- Stock market transactions on the JSE, at a turnover of R160 billion a year, present the Receiver with a base of R640 billion, or R3,2 billion in tax revenue, at a half percent transaction rate.
- Under the flat rate tax, every expense, capital or on revenue account is a potential deduction for the tax calculation.
- The rate will eliminate some of the inequity of the present tax system, which has favoured financial institutions at the expense of manufacturing, commerce and small business.
- Individuals do not "pay" tax — they have it deducted from their renumeration by businesses who have to pay the Receiver.
- A government elected in this way risks an election every time it buys votes from one sector of the community with revenues extracted from another.
- All other taxes, including income tax, GST, customs and estate duties, will become unnecessary.

Mr Nel said there are some indications that his proposals could have had an impact on the findings.

Tax reforms 'will take long time to be law'

Mr Pierre du Toit . . . "Government does not have political will it requires to bring about such radical reform"

By Finance Staff

Even if some of the more radical recommendations of the Margo Commission are accepted, it will a long time before they are actually set out to become legislation, said Mr Pierre du Toit, international partner with a firm of tax consultants, Arthur Anderson and Company.

Addressing delegates at The Star's Executive Forum on "Anticipating Margo", Mr du Toit said it would be difficult to introduce any drastic tax reforms in isolation of compensating proposals in the report.

"The likely 'incubation time' of any major Margo-motivated legislation must be expected to be as much as two to three years," he said.

Mr du Toit added that the implementation could be further delayed by the Government, "which at the moment does not have the political will it requires to bring about such radical reform".

In contrast to the proposals of a "Tandem Tax System" by independent tax consultant Mr Nic Nel, Mr du Toit believed that a complex taxation system, which he expected after the introduction of the findings of the commission, would at least provide certainty to businesses and individuals.

But in the meantime, businesses should not be inactive in the tax area as the gap between the efficacy of tax enforcements and the "hit-and-miss" approach to tax management had widened dramatically, Mr du Toit said.

This process is likely to be accelerated by the Margo report.

Mr du Toit predicted that a major tenet of the report would be to require better disclosure from taxpayers, and to strengthen the enforcement mechanisms of the system.

"There is a strong possibility of stiffer penalties and the institution of a Special Income Tax Court to handle criminal prosecutions for tax offences."

With the "tax-war" hotting up, he suggested a five point plan for businesses:

- They must become more pro-active in their tax planning.
- Planning must be done scrupulously within the law.
- Attention must be given to all taxes, not just income tax.
- The tax area must be managed consciously and systematically.
- Business should vociferously defend its inherent right to minimise its tax burden within the law.

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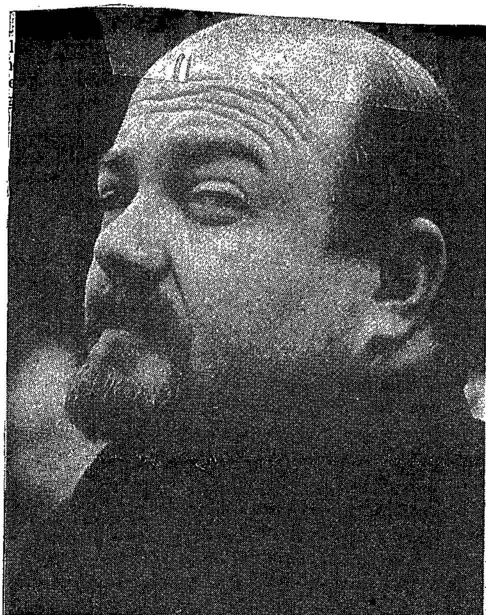
28/7/87



Mr Nic Nel . . . anticipating the Margo Commission will go to the limits of its terms of reference with a proposal for a total economic strategy.

Concern over tax refund rip-offs

320 ST 12/7/87

BY SAMKELO KUMALO

MORE than 1 600 cheques posted to taxpayers have been lost during the first six months of this year, according to the Johannesburg Receiver of Revenue, Mr J W Hattingh.

He said the number was increasing by a monthly average of 50.

"For the first six months we have had more than 1 600 applications for duplicate cheques.

"The theft of cheques has been an ongoing thing for years, but this year there has been a noticeable increase in claims for duplicate tax rebates," he said.

Mr A C C Viljoen, the Pretoria Receiver of Revenue, said monthly claims from his office were similar to those in Johannesburg.

Losses

During May and June this year 670 cheques totalling R233 000 have been stolen and cashed out of 252 000 cheques sent nationally during the same period.

Mr Hattingh said, that while the Department of Inland Revenue was worried about the theft of cheques, it was not losing any money in re-issuing them.

"The people who cashed these crossed cheques will be traced by the department and made to pay to the Receiver.

"They are not allowed to cash them. Such cheques must be deposited into accounts of financial institutions after the owner has been identified," he said.

Complaints

In Soweto the practice of stealing cheques from the a Government department was first reported by the Sunday Times last year.

A number of women complained to the Departmnet of Manpower that their cheques had not reached them and had been cashed in stores and at post offices.

Mrs Matsebe Nhlapo, of Soweto was one of victims.

"First it was a lost cheque from the Unemployment Insurance Fund when I took maternity leave, and this year it is the tax return cheque.

"Last year my R706 cheque from the Department of Manpower did not reach me. I discovered that the cheque had been deposited into an account at Moroka Post Office.

The Department of Inland Revenue is toying with the idea of depositing assesment cheques directly into the accounts of taxpayers.

Standard Bank states case for growth

Economy needs tax reform and deregulation

14/7/87

B/Day

320

URGENT tax reform and deregulation were needed for the economy to grow, the Standard Bank said in its latest Review.

It said this route should be chosen above further domestic demand stimulation.

The bank said stimulation of demand in order to boost real economic growth became a prime objective of fiscal and monetary policy during the past year or so.

Its worst future scenario involved real growth of below 3% while demand was maintained at a growth rate in excess of 20% at the same time. That would lead to a substantial jump in the inflation rate.

The bank said: "Serious problems could arise if official attitudes concerning the stance of short-term economic policy do not change.

"Real growth is less a function of demand management than of improving the efficiency of an economy. This efficiency, in turn, requires incentives in the form of rewards for work, innovation and risk."

GRETA STEYN

Efficiency needed markets that were effective in allocating resources to their most productive uses. An education system that emphasised originality and creativity was also needed.

The bank said: "On the other hand, economic efficiency is usually handicapped by a tax system perceived as onerous, complicated and unfair and by an excess of bureaucratic regulation."

If demand was further stimulated, that was likely to result in some increase in output and some increase in inflation. SA's inflation had been kept under control precisely because nominal demand growth had, in the past, not been artificially stimulated to grow at ever increasing rates.

The bank said: "It would probably be best to allow growth in nominal demand to sink towards the level of 15% that has prevailed throughout the decade."

Call for tax cut

320 15/7/87

B/Day

Own Correspondent

PICK 'N PAY chairman Raymond Ackerman yesterday appealed to government to ease the way for employee shareholding schemes by reducing the perks tax on soft loans.

This should be aimed at low-income earners who could only buy shares if they obtained loans, he said.

His company's new share scheme was intended to give 50% of employees a direct stake over the next two years.

About 11% of the 19 774 full-time employees hold shares.

A final decision on a share split will be taken at a board meeting on October 1 and details will be announced afterwards.

Less tax on the cars

JENNY BOBERG

EMPLOYEES should opt for a company car rather than a car allowance, says Pim Goldby partner Luke Barlow.

6/Day 16/7/87

People receiving car allowances invariably have higher taxable incomes than those who have company cars, he says. In addition, the tax burden on people with company cars has eased following pressure put on government by the motor industry.

By 1990, a full-running-costs allowance for a Mercedes Benz 230E travelling 16 000km a year would add R13 800 to an employee's taxable income. Someone with a company car, on the other hand, would have a taxable fringe benefit of only R4 200.

However, while a company car reverts to the company, a person with an allowance owns the vehicle and could sell it, with proceeds being tax-free.

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Sowetan 16/7/87

Soon after exposure of tax rebates thefts

BLUE CARD RACKET

COSATU president, Elijah Barayi, addressing the annual congress of the organisation yesterday.

Unemployed go hungry as crooks cash cheques

ANOTHER Government body — the Department of Manpower and Public Works — has been hit by the unauthorised cheque cashing racket which is causing a great deal of concern in the country.

By SY MAKARINGE

The racket, which is also believed to date back several months, is resulting in scores of unemployed people throughout the country going hungry as unemployment relief cheques are being intercepted and cashed by unauthorised people.

Benefits of less than R600 are paid out in cash at various labour bureaux while those of R600 or more are sent to the beneficiaries' addresses through the post.

A spokesman for the Department of Manpower and Public Works in Pretoria confirmed several cheques had been stolen and cashed by unknown people. He said this has been going on for a long time.

The spokesman was not, at the time of going to press, in a position to give further details.

The racket came to light after the *Sowetan* last week reported that more than R233 000 in tax rebates sent to 670 black taxpayers disappeared in May and June this year.

Benefits

A Soweto woman, Mrs Nosabata Lavisa, applied for her benefits when she went on maternity leave early last year. She was later told that a cheque of R1 600 would be due to her in November last year.

After several months

● To Page 2

P.T.O.

3200

BUSINESS DAY, Tuesday, July 21 1987

Tax appeal court alters law on credit evaluation

JENNY BOBERG

TRADERS who give credit will now pay income tax only on the market value of their book debts, rather than on the higher face value, according to a ruling by the Transvaal special income tax appeal court.

The market value of a trader's book debts will be determined by what banks or similar institutions offer for them, says Henry Vorster, partner in law firm Hofmeyer Van der Merwe.

The calibre of the debtors, and the credit period given, would affect the price.

Previously, taxpayers had to return as gross income the total of all debts outstanding on the last day of the year of assessment, regardless of the credit period given to debtors.

As book debts are payable only after the year of assessment, the court has ruled that tax need be paid only on the maket value of the book debts as at the last day of the year of assessment.

However, Vorster warns that people whose returns have already been assessed will not be entitled to a refund, on the basis that they have disclosed as income the face value, and not the market value, of their book debts.

Once an assessment is accepted by a taxpayer, only the Commissioner for Inland Revenue has the power to reopen it, he says.

The judgment will not affect the taxpayer's right to claim an allowance for bad and doubtful debts, Voster adds.

(320) SMM 23/7/87

Tax defaulters face heavy fines

Heavy penalties loom for lax taxpayers, many of whom have not applied to the Receiver of Revenue for extensions, since the deadline for lodging their 1986/87 returns expired three weeks ago.

In the Johannesburg and Randburg areas half of the tax returns issued to companies, individual provisional taxpayers and salaried taxpayers have not yet been returned.

Almost 402 000 tax forms were issued in the region by the Department of Inland Revenue — but 208 880 have not yet been submitted to the Receiver of Revenue.

"Only 57 569 requests for extensions have been made by taxpayers," said Receiver of Revenue for the Johannesburg assessing area Mr Hannes Hattingh.

Although a mere eight percent of 84 450 tax forms issued to companies for the last financial year had been submitted so far, "this is not unusual".

"Having consulted accountants, it takes a bit of time for the financial statements of these companies to be completed," explained Mr Hattingh.

He warned that first-time tax offenders faced a R100 fine.

The maximum penalty of double taxation for a second offence and a maximum fine equal to double the amount of tax owing may be imposed for second offenders.

"Final demands will be issued to all taxpayers who have not yet rendered their returns. We will start prosecuting soon. Penalties will be imposed in those instances where people have not applied for an extension," added Mr Hattingh.

Many more to be prosecuted for tax defaulting

DD 22/7/83

320

Dispatch Correspondent

JOHANNESBURG — Many more than the 60 000 defaulting taxpayers being summoned countrywide annually could be prosecuted if the courts were able to cope, the chief director of Inland Revenue, Mr Schalk Albertyn, said.

Efforts to reduce the large number of reluctant taxpayers, who delay or fail to submit returns, were being intensified, he said.

Currently, about 1 200 summonses a week were being served, but if the courts and magistrates were available, the numbers could rise sharply.

Mr Albertyn said the availability of courts was the pace setter. "We regulate the volume of summonses issued according to the ability of the courts to handle the cases."

Pretoria heads the defaulters list, with more than 300 people being summonsed every week. In Johannesburg, the number is 200, and in Cape Town and Durban 100 each.

In addition to being fined by the courts, defaulters exposed themselves to a maximum Inland Revenue penalty of triple taxation.

Mr Albertyn said Johannesburg's chief magistrate had decided the current fine for a year's delay in submitting a return should be doubled.

FM 24/7/87

TAX REFORM

Ahead, regardless?

New doubts surround the still unreleased report of the Margo Commission this week as three major tax developments went ahead. The areas affected — regional services councils (RSCs), liquor industry GST, and the film industry — were firmly handled by Inland Revenue.

Two notices appeared in the *Gazette*, while the deadline for comment on draft legislation of Section 24F of the Income Tax Act (for the film industry) expired on Monday. Inland Revenue's actions — circulation of draft legislation is unprecedented and signals a major change in policy — are hostile to Margo.

It's said that the Department of Finance — which has drawn "300 provisional conclusions" — also opposes much of the report. And Finance Minister Barend du Plessis has said that the earliest Pretoria can formulate a reaction to Margo is August.

Du Plessis regards Margo as "voluminous" and thinks its recommendations "could have a drastic impact in several spheres of economic life." Inland Revenue's actions this week seem to signify an attitude of so much for the platitudes, and ahead with the action.

Wine farmers — for that matter, all farmers — in the western Cape have been given a 25% concession on RSC rates. All others will pay 0,25% on payroll and 0,1% on turnover, the maximum initial rates promised by Du Plessis.

This is the only group granted a concession in the eight areas proclaimed so far, the others being Bloemarea, Algoa, Walvis Bay, Witwatersrand, Pretoria, and East and West Rand.

No RSCs have been proclaimed in Natal, where serious doubts have been expressed over integrating the third-tier government bodies with the ideas of the Indaba.

While no official reason for the western Cape farm exemption has been given, the 6 000 wine farmers have always been a powerful lobby group. And much as the legislation provides for differential rates, it's a pity to see a hole in the structure so early.

The change regarding GST signifies how quickly Inland Revenue can react to developments in the market. Less than two months after new regulations governing collection of sales tax on liquor transactions came into force, amending rules have been gazetted.

The reason was a discovery that certain liquor retailers had managed to increase turnovers by up to 50% — by simple tax evasion.

Under the new system all "liquor traders" are required to pay GST when they buy liquor ("input tax"). This may be credited against tax payable by them on sales to consumers ("output tax"). Liquor traders then only pay over the difference in GST.

The problem was that under the new system, liquor "exported" — as defined in the Sales Tax Act — remained exempt from GST. Now the definition of "taxable liquor transaction" will be amended from August 1 so that liquor sold to, say, a foreign trader in SA for conveyance to his place of business outside SA, will be subject to GST.

Other changes mean that, in effect, liquor will only be regarded as having been "exported":

- ☐ If sold and consigned or sold and delivered to an address outside SA;
- ☐ If sold and delivered to the owner or charterer of any foreign-going ship or aircraft for use in that ship or aircraft; or
- ☐ If sold from a duty-free shop.

In its bid to end abuses in the film industry, Inland Revenue has been bothered by the low response to its draft legislation. In some cases, the deadline for comment has been extended.

The attitude to the complex issue of how tax affects the industry has been seen as indicating actions taken by a "new school" at Inland Revenue.

It's not surprising that the taxmen wish to be seen as autonomous and quick-reacting, especially with the Margo report looming. But there may also be a feeling that Margo will prove so contentious politically that implementation of major reforms will be long delayed — so they may as well press ahead without too much concern for its recommendations. ■

INDEX NUMBERS

We regret that errors have crept into the headings of this year's *FM* indices. The index for January, published on March 13, should have read Volume 103 Nos 1-5; the index published on May 1, for Volume 103 Nos 6-9, was for February; the March index, published on June 5, should have read Volume 103 Nos 10-13; and the April index, published on July 3, should have read Volume 104 Nos 1-4.

LETTERS

The pain of PAYE can just be slipped away

Star 25/7/87

(320)

The national conference of the South African Council of Churches decided to support the call of workers that "employers should stop deducting tax from their wages" — and plans to implement steps to this effect.

— The Saturday Star (July 4)

The average businessman reading the paragraph above will shake his head sadly at such naivety and pass on to the next story. But in doing so, he will miss two great opportunities.

The first is an opportunity to materially increase productivity. The second is opportunity to defuse the potential problems that will arise if the SACC or unions attempt to implement the resolution.

How can this be done without breaking the income tax laws?

The PAYE deduction is based on the fiction of the "gross wage". This is the sum of money which the employer agrees to pay the employee for his service, but which the employee never actually sees.

He thinks that that is what he earns, and the employer compounds the fiction by charging the full amount to "cost of labour".

In truth, only the net amount paid to employees is the labour cost and the amount paid over to the taxman each month is part of the business's tax liability.

Why not recognise this fact and contract with the employee to pay him a "tax-free" wage? This, of course, is illegal. But a way around this problem would be to continue to calculate the PAYE tax, pay the amount over to the Receiver each month, but not show it on the payslip.

Is this just sleight of hand? Maybe. But the psychological effect on workers can be electrifying.

British firms which have adopted this system have all reported dramatic and sustained improvements in productivity. And this increase in productivity has gained increased wages for workers, bigger bottom-line profits and bigger tax payments.

The pioneer of this system, a clothing factory near Liverpool, was always a front-runner in employee benefits and incentive schemes. But, in the owner's own words, "nothing matched the gains caused by the abolition of the PAYE deduction on the payslip".

The advantages of not showing the tax deduction on the payslip are:

- The employee takes home what he believes he has earned.
- Seemingly attractive increases in pay are not offset by debilitating increases in the PAYE deduction.
- Similarly, bonuses and overtime pay are shown net and do not, to the employee at least, push him into higher tax brackets.
- There can be genuine equal pay for equal work; ie two people working side-by-side doing the same job can be paid the same wage, even though one is single and the other married with children.
- The controversy over the taxation of married women is suspended (until her husband receives his income tax assessment.)

This latter point contains the only real disadvantage; the employee still has to complete a tax return which will show his "earnings" as his take-home pay plus the tax paid over in respect of those earnings.

This may result of course in him getting a "refund" from the Receiver, or it may mean, if he has a working wife, that he has to pay in a considerable sum.

For the employer the main disadvantage is that the initial setting-up of the system can be fairly complex, especially the "grossing up" for tax purposes of the take-home pay. But once it has been installed, it should run as smoothly as any other payroll system.

This system may not, of course, satisfy the overt political demands contained in this call by workers, but it is probably the only way in which the problems which this demand will cause, can be defused.

Michael Jacques
(chartered accountant and company director)

Johannesburg

Hansard 27/7/87 320

The "other" in the table refers to people that are divided into more than 500 occupational classes—amongst them engineers, scientists, administrative personnel, legal personnel, clerks, artisans, technicians and caretakers.

From this it can be deduced that the increases which did occur (educators, nursing and Services personnel) had nothing to do with the implementation of the constitutional dispensation.

(d) 1 October 1985 to 30 September 1986.

State Security Council

194. Mr C W EGLIN asked the State President:

(1) How many meetings of the (a) State Security Council and (b) working committee of this council were held in 1986;

(2) whether any officials of the State have been seconded to work for the secretariat of the State Security Council; if so, (a) for what period in each case, (b) from what Departments, (c) how many officials from each such Department, (d) what percentage of the staff of the secretariat is seconded and (d) in respect of what date is this information furnished?

Hansard 27/7/87

The STATE PRESIDENT:

(1) The State Security Council and the work committee of this council meet as required. The time, place, attendance and frequency vary.

(2) Officials from various departments are seconded to the Secretariat of the State Security Council according to varying requirements for undetermined periods since the establishment thereof. If the honourable member requires more information about the Security Management System, he is welcome to discuss it with the State President.

GST

199. Mr R R HULLEY asked the Minister of Finance:

What total revenue did the State receive from general sales tax on petrol sales during each of the latest specified five years for which figures are available?

The MINISTER OF FINANCE:

Statistics which distinguish between collections of sales tax in respect of the sale of petrol and the sale of other petroleum products are not maintained. At all events the disclosure of any information relating to petrol sales without the written permission of the Minister of Economic Affairs and Technology would be contrary to the regulations made under the provisions of section 4A of the Petroleum Products Act, 1977 (Act No 120 of 1977).

Teacher/pupil ratio

214. Prof N J J OLIVIER asked the Minister of Education and Development Aid:

What teacher/pupil ratio was applicable in (a) primary and (b) secondary schools in each departmental region of the Department of Education and Training as at the latest specified date for which information is available?

Hansard 27/7/87

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

Region	(a)	(b)
Northern Transvaal	1:39.51	1:32.14
Highveld	1:39.99	1:30.50
Johannesburg	1:34.40	1:27.75
Orange-Vaal	1:42.20	1:38.55
OFS	1:40.95	1:35.11
Natal	1:37.98	1:28.90
Cape	1:39.71	1:28.36

Information as on 4 March 1986.

Sandton

225. Mr D J DALLING asked the Minister of Constitutional Development and Planning:

(1) How many applications were received during the period 1 June 1986 to 31 May 1987 from (a) Coloured, (b) Indian and (c) Black persons to (i) occupy and (ii) own residential property in areas proclaimed for occupation by White persons in Sandton;

(2) how many such applications (a) had been (i) granted and (ii) refused and (b) were pending as at 31 May 1987

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) Yes.

(a) Falls away.

(b) The Department of Education and Training.

(2) Yes.

(a) Further sports facilities will be provided according to the need, the development program and the availability of funds.

(b) The estimated cost of providing the required sports facilities for the whole of Khayelitsha is ± R50 million.

(c) (i), (ii), (iii) and (iv) The variety and quantity will depend on the need of the community.

Blacks of school-going age

226. Mr R M BURROWS asked the Minister of Education and Development Aid:

(1) Whether, with reference to his reply to Question No 72 on 20 February 1987, his Department has now made a calculation of the number of Black persons of school-going age in the Republic who are not attending school at present; if not, why not; if so, (a) what is the total number involved, (b) on what basis was the calculation made and (c) in respect of what date is this information furnished;

Hansard 27/7/87

(2) whether he will furnish information on the number of Black persons of school-going age in the national states who are not attending school at present; if not, why not; if so, (a) what is the total number involved in respect of each of the national states, (b) on what basis was this number calculated in each case and (c) in respect of what date or dates is this information furnished?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1) No. The information required will only be available by the end of October 1987.

(a) Falls away.

(b) Falls away.

(c) Falls away.

(2) No. The Departments of education of the various self-governing states are autonomous, and all information with the exception of that published with the permission of these departments in the annual reports of the Department of Education and Training, is the responsibility of the government of each state.

(a) Falls away.

(b) Falls away.

(c) Falls away.

Detainees: doctors

236. Dr M S BARNARD asked the Minister of National Health and Population Development:

(1) Whether a panel of private doctors has been appointed by the Medical Association of South Africa to attend to detainees; if so, (a) when was it appointed and (b) what are the names of the doctors on this panel;

(2) whether the names of these doctors are made available to detainees and their parents; if not, (a) why not and (b) what procedure are they to follow to find out the names of these doctors; if so, how are the names made available to detainees and their parents;

(3) (a) under what circumstances may detainees request that they be attended to by private doctors and (b) how many detainees (i) requested

Hansard 27/7/8

'Consult business' on Margo

320

27/7/87

KAY TURVEY

EXPECTATIONS from the Margo Commission on Tax should not be Utopian, while government should leave adequate time for consultation with the private sector before final decisions were taken, Assocom CE Raymond Parsons said last week.

He told the Association of Personnel Service Organisationshe hoped the Margo report would be published soon after Parliament reassembled.

Parsons said government should at the outset give a clear indication which recommendations were acceptable.

But, he added, a measure of uncertainty might be neccessary to arrive at the right decisions.

The Margo report would be one of the most important policy documents published in SA this decade and the way it was handled was as important as the contents.

Parsons said the elements for successful tax reform were: lower government spending, better economic performance, maintaining support for the tax system, adherence to the canons of taxation, correct timing, and thorough preparation for tax changes while promoting consensus on tax policy.

If the present tax structure remained, black workers would feel the bite of sharp increases in marginal tax with every pay rise.

'Govt pays tax cheat informers'

3/8/87

Star

3.20

By Michael Chester

Two senior tax consultants disclosed today that the government pays out rich rewards to bounty hunters who inform on taxpayers who cheat on their tax returns.

The consultants attacked the system, saying it could provide snoopers and enemies of taxpayers with an alternative to blackmail.

Mr Shalk Albertyn, chief director of operations at the Department of Inland Revenue, confirmed that payments can equal as much as 10 percent of the extra cash reaped from tip-offs in the collection of missing tax dues.

He disclosed that among the narks were embittered ex-wives, spiteful former business associates — and bounty hunters.

Rewards on occasions topped R100 000 for a single tax swoop "but payments are usually much smaller amounts, and we insist that information is airtight".

"Almost invariably, the informers are spiteful towards the culprits — but time and again the information leads to investigations that uncover even wider tax dodges.

NOT ADVERTISED

"We do not advertise the payment system, but it has been invaluable in view of the dramatic increase in tax dodging in recent years. Sometimes, dodges could have been worth millions of rands."

Tax consultant partners Mr Costa Divaris and Mr Michael Stein said they had been shocked by exposure of the bounty system for "informers who rat on tax evaders".

And in an angry assault on the system, carried in the current issue of *Taxgram*, a monthly bulletin published by the Juta Tax Library, they add: "While we believe that today's world makes it possible for each of us to earn a living from what he or she may like doing best, we do not see it as Revenue's function to supply revenge-seekers and snoopers with an alternative to blackmail.

"This distasteful and morally repugnant practice will not stop because we find it so, but it could lead to some very bizarre outcomes."

Mr Albertyn snaps back: "If there is any moral repugnance, it points to tax cheats who fail to fulfil their basic obligations to society."

6 (320) Post 4/8/87

Tax 'narks' gain lucrative rewards from informing

Post Correspondent

JOHANNESBURG — Tax dodgers, beware of "bounty hunters".

The current issue of "Taxgram", a monthly bulletin published by the Juta Tax Library, disclosed that "narks" have been informing lucratively on taxpayers who cheat on their tax returns — and among the informers are embittered ex-wives and former spiteful business associates.

Two tax consultant partners, Mr Costa Divaris and Mr Michael Stein, writing in the bulletin, said the Government paid out rich rewards to the bounty hunters.

Mr Schalk Albertyn, chief director of operations at the Department of Inland Revenue, confirmed that payments could equal as much as 10% of the extra cash reaped from tip-offs in the collection of missing tax dues.

Rewards on occasions topped R100 000 for a single tax swoop, "but payments are usually much smaller amounts and we insist that information is airtight".

He added: "Almost invariably, the informers are spiteful towards the culprits — but time and again the information leads to investigations that uncover even wide tax dodges.

"We don't advertise the payment system but it has been invaluable in view of the dramatic increase in tax dodging in recent years. Sometimes, dodges could have been worth millions of rands."

Mr Divaris and Mr Stein said they had been shocked by exposure of the bounty system for "informers who ratted on tax evaders".

"While we believe that today's world makes it possible for each of us to earn a living from what he or she may like doing best, we do not see it as Revenue's function to supply revenge-seekers and snoopers with an alternative to blackmail.

"This distasteful and morally repugnant practice will not stop because we find it so, but it could lead to some very bizarre outcomes."

NATIONAL/INTERNATIONAL

Argus 3/8/87

Rewards had

topped R100 000 for a single tax swoop 320

Ratting

g on tax evaders pays

ctricity cost to rise 10pc

Cont. from Page 1)

..d its electricity tariff by rcent in January and a .. increase was expected year.

... coal prices are also offing because coal was ..er price-controlled.

addition, South African ..port Services had in..d by 14 percent the rai.. coal delivered to Ath..wer station.

"contentious" surcharge ..tricity supplies to out..reas was being phased .. this would also affect ... At present users of ..ity outside the munici..laries paid a nine-per..charge.

.. in City Council housing ..s have just been in..d by between R2 and month.

..t food prices have a staggering increase ..ed to last year, according the Central Statistical ...

.. prices in Cape Town in ..re 32,7 percent higher May last year. The na.. average increase for the ... 28,5.

Peninsula's cost of living items excluding housing .. 19,5 percent in the year .. The national average ..3.

.. fares increased last and are expected to rise on October 1.

BOND GIRL: Maryam d'Abo poses for the cover of Playboy magazine. She co-stars with new 007 Timothy Dalton in *The Living Daylights.*

The Argus Correspondent

JOHANNESBURG. — Two senior tax consultants said today that the Government paid out rich rewards to bounty hunters who informed on taxpayers who cheated on their tax returns.

The consultants attacked the system, saying it could provide snoopers and enemies of taxpayers with an alternative to blackmail.

Mr S Albertyn, chief director of operations at the Department of Inland Revenue, confirmed that payments could equal as much as 10 percent of the extra cash reaped as a result of tip-offs.

He disclosed that among the narks were embittered former wives, former business associates, neighbours with a grudge and bounty hunters.

Rewards on occasions had topped R100 000 for a single tax swoop, "but payments are usually much smaller amounts, and we insist that information is airtight and the sort of stuff that would normally remain hidden from our tax collectors".

The system operated to trap offenders not only on payment of personal income tax but also company tax and general sales tax.

"Almost invariably, the informers are being spiteful towards the culprits, but time and again the information leads to investigations that uncover even wider tax dodges.

"We do not advertise the payment system, but it has been invaluable in view of the dramatic increase in tax dodging in recent years."

"Morally repugnant"

Tax consultants Mr Costa Divaris and Mr Michael Stein said they were shocked when they heard of the bounty system for "informers who rat on tax evaders".

In an angry assault on the system reported in the current issue of Taxgram, a monthly bulletin published by the Juta Tax Library, they called it "a distastful and morally repugnant practice". "We do not see it as Revenue's function to supply revenge-seekers and snoopers with an alternative to blackmail...

"In the meanwhile, South Africa's tax evaders had better remember, even more clearly than ever before, the adage about those who cheat and tell."

Mr Albertyn replied: "If there is any moral repugnance, it points to tax cheats who fail to fulfil their basic obligations to society."

ollows 'Spycatcher' ban

.. accusa.. increas.. ..ment

paper published this warning with its article on the book ban: "This report is published under government restrictions."

Lords' decision last week ignored the question of the public's right.

Lord Scarman says: "The majority of their Lordships have, with great

Business Day
0c (45c + 5c tax)
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Natal, Western Province, Eastern Province 80c (71c + 9c tax)

THE VITAL VIEWPOINT

(320) B/Day 5/8/87

Margo tax report to be tabled in Parliament in next two weeks

● SCHWARZ

CHRIS CAIRNCROSS

CAPE TOWN — The Margo Commission's report on a new tax structure is scheduled to be tabled in Parliament within the next two weeks.

The actual date, together with the logistics of releasing the report, was still being discussed by a special Cabinet committee late yesterday.

It is also understood a white paper spelling out government's response to the commission's recommendations is unlikely to be tabled with the report — as originally promised by Finance Minister Barend du Plessis during his presentation of the Budget.

This proposal has been criticised by almost every sector of the economy, with several appeals going to government to rethink this approach and allow the widest possible debate to take place.

These appeals were renewed this week by PFP finance spokesman Harry Schwarz and by organised commerce.

In an address to Cape Town businessmen, Schwarz called for the tabling of the Margo report as soon as possible and for government to review its decision on a white paper.

Schwarz said no preconditions should be set and debate should be open to enable the entire private sector to air its views on the commission's findings and recommendations.

An Assocom delegation is also lobbying government to open up the deliberations of the parliamentary standing committee on finance to the public.

Government sources said business would be most unwise to take any firm business decisions based on speculation on what the official line may be on the Margo report's recommendations.

They also said the report should not be read in isolation, but read together with the white paper on privatisation and deregulation.

Referring to the privatisation report, Schwarz said it indicated government's acknowledgement that an ever-decreasing percentage of net fixed investment was being channelled into the productive areas of the economy, namely manufacturing, mining and agriculture.

He said the report expressed government's commitment to a continuous process of privatisation and deregulation as part of a programme to address the serious economic crises facing the country. The white paper had extremely important political implications.

Schwarz also warned that it was going to require a lot more than privatisation and deregulation to solve SA's problems.

Govt plans new 'own affairs' tax

Cape Times 6/8/87

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Political Staff

THE government is planning to burden the country with a new "own affairs" tax, in addition to the two regional services council levies introduced in July.

This latest tax is in the form of a user charge services levy.

Plans appear to spread the net as wide as possible across the service spectrum falling under the own affairs umbrella of the white House of Assembly.

Users could include municipalities, businesses, employees, the professions: any individual for that matter making use of a facility falling under white own affairs.

If the plan is implemented, presumably it will be copied by the own affairs administrations in the Houses of Delegates and Representatives.

Investigations have confirmed that the levy proposal has been formulated within the Ministry of the Budget in the House of Assembly, and a position paper is being discussed at the highest level.

Officials have been demonstrating some embarrassment that this levy proposal has been uncovered, and refuse to officially confirm its existence.

But, in contradictory fashion, they have quickly confirmed that provision for the imposition of such an own affairs levy is contained in the SA Constitution Act.

The Cape Times was referred to S82(2) of the act, which states in part that "where any law dealing with own affairs of a population group provides that revenue mentioned therein shall be paid into the State Revenue Fund or that expenditure so mentioned shall be defrayed from that fund..."

It is significant that spokesmen for the Department of Finance, which were responsible for authoring the financial regulations governing the RSC levies, have not been consulted over this tax proposal.

Initial response to news that plans of this nature are being contemplated has, predictably, to condemn them without reservation.

New taxes are again being proposed before the Margo Commission has seen the light of day, declared the critics.

PFP spokesman on finance Mr Harry Schwarz expressed deep-seated concern, declaring the plans — even if they were mere ideas — completely undermined any attmepts being made at introducing reasoned tax reform to South Africa.

The proposals reflected an extension of the discriminatory levels of taxation already in place within the economy — and could be dynamite if implemented.

He challenged the Minister of the Budget in the House of Assembly, Dr Dawie de Villiers, to release details of the preliminary plans — and to think again on the consequences of this additional tax he was contemplating.

New tax system planned

(320) 6/8/87

CAPE TOWN — The government is planning to introduce a new "Own Affairs" tax, in addition to the two regional services council (RSCs) levies introduced in July.

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The PFP's spokesman on finance, Mr Harry Schwarz, says the plans undermine attempts at reasonable tax reform.

Full report page 5

De Klerk's tough approach comes ... violence and the university authorities is

Proposals are well advanced

Own Affairs tax plan is on the cards

B/Day 320 6/8/87

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CHRIS CAIRNCROSS

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Margo report release: P W assumes authority

By CHRIS CAIRNCROSS

IN a surprise development, the State President, Mr P W Botha, has summarily assumed authority for handling the release of the Margo Commission's report on a new tax structure for South Africa.

This was confirmed by a Department of Finance spokesman yesterday.

The move is viewed with some consternation in political circles, who see it as reflecting the fundamental problems the government has with the report.

It comprizes some 1 000 pages, and contains almost 300 recommendations.

The report has been available for some months. The Minister of Finance, Mr Barend du Plessis, earlier declared its publication was to be delayed until a White Paper could be produced which would outline the government's general reaction to its recommendations.

It is now understood that the government has acceded to wide appeals not to publish the White Paper — and will allow further public debate on the commission's findings and recommendations.

The State President's vote has been set down for debate in the House of Assembly next Thursday and Friday — and it is presumed that Mr Botha intends to address the Margo report at that time.

Questions directed to his office in Tuynhuys yesterday failed to determine whether he intends to release the report at the same time.

Politicians and representatives of the private sector are demanding that they be given sufficient time to study the report before it is debated in Parliament.

They also viewed the new circumstances concerning its handling as somewhat strange and alarming.

The country does have a Minister of Finance and a commission's report on taxation does more logically fit into his portfolio.

Commentators are also seriously questioning the capabilities of the State President's Office to understand — or even handle — such a financially-orientated and complex subject.

There also is concern that the transfer of this important issue to Mr Botha's office further demonstrates the centralization of executive power.

New crackdown on tax predicted

By Michael Chester

Taxpayers have been warned that the Department of Inland Revenue may begin a new crackdown on tax dodgers as a preliminary to any Government moves on tax reform.

The warning was delivered when tax experts attended a special seminar held in Sandton yesterday by the Association of Chambers of Commerce to analyse the Margo Commission recommendations on changes to the tax system.

It came from Mr Pierre du Toit, international partner in chartered accountants Arthur Young and Company, who forecast the collapse of a number of companies under the tax hammer — with the possibility of casualties among companies quoted on the Johannesburg Stock Exchange.

Mr du Toit voiced particular concern over the risks of fuzziness in the exercise about the difference between tax avoidance, which was allowed under the law, and tax evasion, which was illegal and indefensible.

He said there were already signs of a crackdown in evidence of vigorous probes into suspicions of missing disclosures in tax returns, stricter enforcement of tax-return deadlines, and sharp increases in tax penalties to offenders.

But a host of new measures had been proposed by the Margo commission to enforce tighter tax controls — and were likely to be introduced by the Government even while the debate on tax reform was still in progress.

Mr du Toit predicted that tax inspectors will be making more surprise audits of company accounts and pay-as-you-earn and GST returns.

Criminal procedures against tax offenders were likely to increase as a result of the launch of the planned special regional courts.

Many companies were likely to be caught in the new tax dragnet because they had failed to keep pace with the advances in tax enforcement.

The new crackdown was likely to occur sooner than expected — "legislated while the more philosophical issues are still under debate".

But Mr du Toit alerted taxpayers to stand ready to defend their strategies in tax avoidance — as distinct from tax evasion.

● See Page 13.

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Star 18/8/87

ARGUS 7/8/86

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Government 'cynical' on taxes

Parliamentary Staff

OBSCURE sections of the Constitutional Act were being used to levy extra financial burdens on the public to deflect the "political fuss" these extra burdens would create if they were applied more directly through the main budget processes.

Mr Tian van der Merwe, Progressive Federal Party MP for Green Point, said that this was profoundly cynical of the Government and he called for openness about "service levies" payable to "own affairs" departments.

Mr Dawie de Villiers, Minister of the Budget and Welfare in the Assembly, released a statement yesterday which denied that "own affairs" departments were considering levying taxes.

The Constitution Act, however, made provision for the amounts allocated to these departments from the State Revenue Fund to be "supplemented by means of grants and levies on services rendered".

"Levies on the users of a specific service may be levied in terms of the Act," Dr de Villiers said.

The Ministers' Council had not yet considered recommendations on the possibility of levying compulsory tuition fees and no other levies were under consideration at this stage.

"Whatever you call them, these levies being planned by the Government are taxes," Mr van der Merwe said in the Assembly yesterday during the budget debate on local government and housing.

"Obscure sections of the Constitution Act are being used to levy extra financial burdens on the public to deflect the political fuss that doing this through the open channels of the budgets would create."

Replying to the debate, the Minister, Mr Ami Venter, said that Mr van der Merwe should make sure of his facts before raising the matter. Dr de Villiers had said that no local government levies were currently under consideration.

During the same debate, Mr David Pienaar, the Conservative Party MP for Potgietersrus, asked whether the "own affairs" concept was not an "interim plan to ripen the voters for integration at all levels".

Regional Services Councils with their mixed composition, were undermining the full authority of white local government "as we know it", he said.

"RSCs have forced integration on to white local government," he said.

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Business sceptical about tax changes

By Stephen Rogers

THE Margo Commission's findings on a new tax structure for will be presented to Parliament within two weeks.

However, publication of the White Paper, giving the Government's response to the findings which was due to be put before Parliament simultaneously with the report, will be delayed.

The Department of Finance will consider public reaction to the findings before putting forward the Government's response. Businessmen may not know what effective changes, if any, will be made to the tax structure before next year's Budget speech.

Although many commentators are optimistic that the Margo Commission will suggest signficant changes to the tax structure, most are pessimistic on the chances of the Government's implementing them.

Perhaps one of the more far-reaching of the 912 recommendations put forward to the commission is that of Azar Jammine, of Econometrix. He advocates a tandem tax system with a flat rate of 18% for income tax, 9% for companies and a transaction tax of 0,75%.

Dr Jammine estimates that the flat rate tax would raise about R30-billion compared to the R36,5-billion the State expects in the current year. However, the transaction tax would more than compensate for the shortfall.

He says: "Between R3,5-trillion and 4-trillion transactions take place every year. A tax of 0,75% would raise about R20-billion."

Many manufacturers build tax costs into their cost strucutres and lower corporate tax would automatically reduce inflation. The transaction tax could also be administered through the banking system, reducing the need for a large Department of Inland Revenue.

The lowering of corporate and income tax would also boost economic growth.

But there is a danger. The changes could not be introduced in isolation. They would have to be accompanied by a comprehensive policy to control monetary expansion that would accompany these changes.

Martin van den Berg, chairman of the Afrikaanse Handelsinstituut tax committee, would also like a lower rate of income and corporate tax with present exemptions and concessions removed. He believes the Government should give more recognition to fiscal drag.

The black community wants Margo to recommend greater participation for it in the tax structure.

Mr van den Berg says: "Control of growth in public expenditure was not part of Margo's references and it will be difficult to make any meaningful changes as long as State spending is out of control."

Sam Motsuenyane, president of the National African Federated Chamber of Commerce, says: "The present system enforces taxation without representation for the black community. We would like to see that changed."

But Dr Motsuenyane is not optimistic that these changes will be accepted by the Government.

SAH Times 10/8/87

Warning on Ciskei tax dodges

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Own Correspondent

JOHANNESBURG. — Businessmen seeking to divert a portion of their group's income into Ciskei for tax saving purposes had to ensure their business had a real and substantial presence there, said Kessel Feinstein partner Ernest Mazansky.

Writing in the latest issue of Tax Planning, Mazansky said many businessmen believed it was enough to incorporate a company in Ciskei and to divert income into its books by way of a journal entry.

Such a nominal presence was dangerous, Mazansky warned.

Firstly, because income tax was levied on a "source" basis in SA, care had to be taken to ensure that real income-producing activities were undertaken by the Ciskeien company.

Secondly, the double tax agreement between Ciskei and SA had to be considered. It said profits of an SA company would not be taxed in SA if it carried on business through a "permanent establishment" in Ciskei. But, Mazansky warned, those profits had also to be attributable to that "permanent establishment".

To avoid provisions in the Income Tax Act designed to counter tax avoidance, it would have to be shown that the purpose of setting up the Ciskeian company was not purely a tax-saving one.

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10/8/87

Warning to tax dodgers

JENNY BOBERG

BUSINESSMEN seeking to divert a portion of their group's income into Ciskei for tax saving purposes had to ensure their business had a real and substantial presence there, said Kessel Feinstein partner Ernest Mazansky.

Writing in the latest issue of Tax Planning, Mazansky said many businessmen believed it was enough to incorporate a company in Ciskei and to divert income into its books by way of a journal entry.

Such a nominal presence was dangerous, he warned.

Because income tax was levied on a "source" basis in SA, care had to be taken to ensure that real income-producing activities were undertaken by the Ciskeian company.

B/Day

Also, the double tax agreement between Ciskei and SA had to be considered. It said profits of an SA company would not be taxed in SA if it carried on business through a "permanent establishment" in Ciskei.

BUSINESS DAY, Tuesday, August 11 1987

3/20

Tax changes could hit movie making

JENNY BOBERG

THERE is concern in film circles and confusion among tax experts after the latest draft legislation containing proposed amendments to the Income Tax Act.

A second draft of the amending legislation, containing changes to the first, appeared on Friday.

Bruce Holsten, MD of Trinity Asset Management, said: "If this draft goes through as is, the movie industry is dead. The inroads made to the tax allowances for investors will bring the industry to its knees."

Ian Mckenzie, partner in Arthur Young, said the draft raised many questions, but the major change appeared to be the application of the "at risk" rule to the marketing allowance for exporters.

He said previously movie investors could write off against income at least 175% of the amount of loan capital raised for marketing the film — whether they were liable to repay it or not.

According to the draft, however, investors must assume the risk of repaying that loan out of their own pockets to qualify for that allowance. "While this will put a stop to sham schemes, many genuine investors will be reluctant to assume that risk."

11/8/87 B/Day

Lawyers discuss recent judgment

New methods to preserve tax loss

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JENNY BOBERG

LAWYERS are discussing new methods of preserving the tax loss of an insolvent company since a recent judgment put paid to a scheme used for the past 20 years.

Hofmeyer van der Merwe partner Cornelius Myburgh said any new scheme now had to ensure the company emerged solvent. But, in order to keep the tax loss, the scheme also had to preserve creditors' claims against the company. Such a scheme had now been devised.

The affected company would offer to pay creditors a portion of their claims with money lent by the would-be acquirer of the company. In return, creditors would agree to the conversion of their claims into redeemable preferent shares, the rights to which they would renounce.

Those shares would then be issued to the buyer of the company.

Past schemes simply involved the cession of creditors' claims to the bidder for the company, who would then end up as its sole creditor.

But, because one creditor, the new controller, was simply substituted for previous creditors, the company was technically still insolvent. This was a situation the Supreme Court wanted to avoid, according to a recent judgment.

Myburgh said this new scheme overcame that problem, while preserving the tax loss. And, because the shares issued to the buyer of the company could be redeemed only out of future profits, it would be in his interest to maintain the solvency of the company.

Black taxpayers also waiting for Margo

By Abel Mabelane,
East Rand Bureau

SMM 14/8/87 (320)

Taxpayers in South Africa were looking for relief from the Margo Commission in the area of joint taxation, estate duty and general sales tax, according to a tax consultant, Mr M sheru Matsheru.

He was speaking at a taxation seminar in Kempton Park yesterday.

He said the Government had a bad habit of dumping recommendations from commissions if these were contrary to its views.

Mr Matsheru said if personal tax were cut, the individual would have incentive to work, get promotion and enter business or a profession.

The inclusion of blacks in a common taxation system was seen by some politicians and economists as reform which would eventually lead to a new political dispensation for all.

The reaction to this move was however, a political, economical and social outcry based on the fact that blacks were denied the franchise.

"This was demonstrated by their exclusion from the tricameral Parliamentary system," Mr Matsheru said.

Mrs Eunice Sibiya, a public affairs consultant, addressed the seminar on "Business challenges for women of the Eighties".

She said women must be knowledgeable about business. They must not be servants in their husbands' businesses, but equal partners demanding negotiation and authority.

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14-20/8/87
W/Mail

THE ECONOMY

Margo's 'single package' looks bound for a shredding

The Margo tax commissioners would like their report implemented as a package. Judging by past experience, Pretoria is more likely to prefer the little-bit-here, little-bit-there method. By HILARY JOFFE

THERE is, it seems, no Afrikaans word for ringfencing. Or there wasn't before translators began work on the Commission of Enquiry into the Tax Structure of the RSA, otherwise known as the Margo Commission.

Technicalities like these are among the many things which have held up publication of the commission's report, completed six months ago.

The commission's report will be tabled in parliament on Thursday.

And it's now clear that it will be tabled without an indication of the government's response in the form of an accompanying White Paper. This is despite the fact that Finance Minister Barend du Plessis emphasised in his June budget speech that the government could not publish the report with simultaneously setting out its response, because, he said, of several commission recommendations which "could have a drastic impact in several spheres of economic life."

The report is not only drastic in its recommendations, over 300, but in its length of 1 200 pages.

It's length may be one reason for the delay in the drafting of the White Paper. The controversial nature of the report is another — and it's probably also the reason why the State President has taken over from Du Plessis the task of presenting the commission's report to parliament.

There are many in business circles who will welcome the tabling of the report without the White Paper. Assocom and other business representatives have called for public debate on the Margo recommendations before government takes policy decisions.

The report has apparently been circulated outside government circles.

One thing which is known is that the Margo recommendations come as a "package" and the commission has emphasised that its proposals should not be implemented piecemeal.

But most commentators predict that the government will not accept the commission's recommendations — or will only pick up bits and pieces. The last tax commission, the Franzsen commission in the Sixties, contained far-reaching proposals, most of which were never implemented.

In setting up the commission in 1984 the government was responding to public criticism of the tax system, seen as being too onerous, inefficient, unfair, illogical and generally not conducive to economic growth.

The government was also, to some extent, following the vogue for tax reform. The United States led the way when it reduced its top marginal tax rate from 50 to 33 percent and abolished many special allowances.

One reason for tax reform in these countries has been that it's politically popular — cutting income taxes has been a successful campaign slogan in Reaganite US.

But behind many of the approaches is a theory that cutting taxes and reforming the system can increase efficiency and promote economic growth without losing government revenue.

High taxes are seen as a disincentive to savings, investment and as discouraging hard work and ambition. Lower taxes, in stimulating all these things, will, the theory goes, promote economic growth, increasing the size of the total taxable economic cake and so generating the same total tax revenue.

This "supply side" approach to tax is based on different politics — and different economics — to an approach which sees tax as a way of redistributing wealth. To work in practice and politically it has to enlarge the size of the economic cake.

South African tax rates are perceived by many as being too high.

Disturbing trends in consumer saving and spending and in investment are also pointed to by some economists as indicating the need for lower taxes. Private consumption expenditure increased only 0,3 percent last year. And fixed investment fell in real terms in 1986 and has not shown signs of consistent recovery.

But it would seem unlikely that a radical cut in tax rates is on the cards in South Africa. A government adopting a "supply side" approach would be taking a gamble, for example, that if company tax to be cut from its present 50 percent level, companies really would channel their extra income into job and wealth creating investment. But since even most economists agree that the problem is related to political instability and lack of business confidence, cutting company tax would be a risky business.

Justice Cecil Margo

The level of government spending is outside the Margo commission's frame of reference. It's recommendations are supposed to be "tax neutral", in other words they should not affect the total amount of tax the government collects.

Perhaps the most significant and disturbing trend in South African tax has been the shift in the impact of the tax burden from companies to individual taxpayers. (See graph).

The Margo commission will have debated the structure and incidence of taxes and looked at different ways of distributing the tax burden. One area is the relative merits of direct taxes, such as income tax, and indirect taxes, which are levied on goods and services, such as sales tax.

Sales tax will probably have been a particular focus. It has risen from four percent when introduced in 1979 to its current 12 percent. Exempting basic foodstuffs from GST, as the government has done, may not work to make it any fairer or to relieve the burden on the poor. Inland Revenue estimates imply of the over R1-billion lost revenue from the exemption, only about R300-million benefitted the people who really needed it.

The commission may have questioned whether GST is the appropriate system for South Africa. Hopefully it will have raised questions which set the tax system against broader economic and political objectives.

And one aspect which is sure to have taken up lots of the commissioners' time is the issue of special tax allowances for businesses.

Taxes, like other aspects of government fiscal policy, are about politics. And what has tended to happen in South Africa is the tax system has grown in a disorganised way, often in response to lobbying by special interest groups.

In the process it has also become more and more complex, providing for a thriving tax consultancy and tax planning industry.

"The tax system has been used as a means of promoting special interests or special parts of the economy. People see that and lose respect for the whole system," said a tax consultant.

Commentators quote as the most notorious example of this the large allowance companies get for sponsoring tours by overseas sports teams.

There are also allowances for shipping companies, for exporters, for industrial buildings, for investment in plant and machinery.

With all the allowances, company tax isn't really 50 percent, in many industrial sectors. One estimate puts the average tax rate for manufacturing companies at around 22 percent.

Again, questions about political priorities need to be made explicit: Why an industrial buildings allowance but not one for building employee housing? The buildings allowance can apparently be exploited such that corporations can build city high rise office blocks at relatively little cost by taking advantage of this tax allowance.

Tax abuses of the investment allowance for plant and machinery abolished in 1985 are said to have cost the government millions in lost revenue.

This, incidentally, may be where ringfencing comes into the picture. It involves compulsory separation, for tax purposes, of one set of business interests from another. It may be one option which has been discussed as a way of limiting the adverse impact of tax allowances.

Investment allowances of this sort raise further questions in terms of their economic consequences. A machinery allowance may, for example, result in capital intensive investment — where labour intensive investment might be more appropriate. It might have the effect of making an uneconomic enterprise competitive.

On the other hand, it is, arguably, appropriate for the government to try and use tax legislation to promote investment and economic growth.

The problem with the special allowances is not just that they are abused. They also make for a highly complex system. Simplicity in the tax system is one of Margo's terms of reference.

At present there are different tax structures for individuals, companies and closed corporations. Tax works diffferently for insurance companies and building societies, for example, and this can have significant economic consequences.

And one of the issues the commission may well address will be the relationship between South Africa's tax system and that of the "independent" homelands. Ciskei's no tax policy and Bophuthatswana's lack of sales tax "provide a great opportunity for tax planning" as one consultant puts it. Some of the major tax scams of the moment involve exploiting the homeland route.

Administrative efficiency (or the lack thereof) in the collection of tax is another issue which the commission is likely to have discussed.

Whatever proposals Margo makes for tax reform, and however far-reaching, the enterprise is limited in crucial ways. It won't address the question of government spending. That limits its room for manoeuvre. And for many South Africans it is the the government's spending priorites which need the critical scrutiny.

It can't address the "taxation without representation" problem which is beginning to be identified by trade unions and even by black business people as perhaps the core problem with South Africa's tax system.

Margo taxation report to be tabled next week

Cape Times 14/8/87

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Political Staff

THE long-awaited report ~~of the~~ Margo Commission on Taxation will be tabled in Parliament next Thursday.

Announcing this yesterday, the State President, Mr P W Botha said the public was "strongly urged" to avoid action based on speculation about the government's eventual response to the report.

Mr Botha said after the report had been tabled, further investigation and consultation would be completed as a matter of urgency after which the government would formulate a response to the report.

Mr Botha said that the Margo report recommended that certain further aspects be investigated and this was already underway.

The State President also announced that a further economic summit would be held in Pretoria on October 22.

Margo: what the experts expect

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This week the long-awaited Margo Report, expected to transform the tax system in this country, will be released and the debate on this vital matter will enter its final stage. AUDREY D'ANGELO spoke to economists, tax experts and members of the Margo Commission itself to find out how it is likely to affect us all.

THREE things seem certain about the Margo Report. One is that capital gains tax, possibly part of a compendium tax which will include estate duty, is on the way.

If it is it will make the SA habit of moving house frequently, each time "buying up" on the profits of the sale, less attractive. As in Britain, where this tax is already in operation, we may move into our houses for life and extend them later.

The second certainty is that despite intensive lobbying our progressive rate of taxation, in which we move up into higher tax brackets as our income improves, is very unlikely to be replaced by a flat rate paid by everyone.

However, we can hope that the tax bracket ceilings will be raised in the next Budget to eliminate the effect of fiscal drag caused by our high rate of inflation which results in people with moderate salaries being taxed at a rate more suited to the highest earners.

There will almost certainly be an attempt to shift some of the tax burden from the individual — who now contributes 60% — to the corporate sector but this seems unlikely to be through raising the rate of company tax which, at 50%, is already high by international standards.

It seems more likely to be through the phasing out of tax allowances which mean that the real rate paid by many companies is far below 50%.

However, since a good case can be made out for most of these allowances, particularly in a country where more jobs are needed, we can expect vigorous opposition to any such changes.

The use of Ciskei as a tax haven by SA residents who register their companies there may end. The Revenue authorities are known to be unhappy about it and no one will be surprised if the Margo Report suggests closing this loophole.

This brings us to the third certainty: although some new taxes and concessions may be introduced in the next Budget the debate before the commission's report results in any major changes to the tax system is likely to be long and bitter.

Attie de Vries

Brian Kantor

David Clegg

Lobbying has already been intensive since the 19-member commission was set up three years ago and with so many interests affected the Government's decision not to paint itself into a corner by publishing the report together with a White Paper, as originally intended, but to retain its flexibility by listening to comment first, means it may be another two years before we finally find ourselves with our new tax system in place.

When we do the individual may not find himself very much better off, even though the intention apparently is to lighten our burden. As all the economists I spoke to this week pointed out, all taxes are eventually paid by the consumer as business passes on its costs.

The only way to reduce the total tax burden is for the Government to reduce spending.

The Margo Report is vast and will be accompanied by a minority opinion report but a member of the commission admitted that although it had "tried to shift the load in the way that the burden is shouldered" all it could do was "create a neutral package which will strengthen confidence and stimulate the economy".

Some members of the business and financial community and leading economists see a lost opportunity to cut the tax burden through a more vigorous privatization.

Professor Brian Kantor, head of the School of Economics at the University of Cape Town, is disappointed by this.

He also believes the Government should provide economic leadership by publishing a White Paper with the Margo Report instead of "inviting a re-run" of all the submissions.

"Our tax structure is full of inadequacies and favouring of vested interests," he told me, "and if we are to have tax reform there must be strong leadership."

Professor Kantor does not believe the Margo Report will revolutionize our tax system but he hopes for changes.

"If we want a sensible tax system we need more indirect taxation. The emphasis should be on that, as in Europe, with less direct taxation.

"What we really need is income tax indexed to the inflation rate to cut out fiscal drag."

Discussing the probable introduction of a capital gains tax, Prof Kantor points out that this will be unfair if inflation is not taken into account.

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Margo: Experts' views

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If an individual who sells his house is taxed on the nominal increase in price instead of any rise in its real value "they will be taxing people's real wealth — their compensation for inflation".

Professor Attie de Vries, professor of economics at Stellenbosch University Graduate School of Business, thinks the individual rate of tax might be cut but, since there are pressures on the Government to increase rather than cut its expenditure, this will have to be made up for by collecting more from business.

Discussing the alternative to privatization, Prof de Vries said: "They could do something on that score but I don't think it will happen in the near future."

He says he is "all for privatization if the money is used for the creation of new infrastructure in another field, such as building schools".

"But if it is used to fund current expenditure such as paying wages and salaries it is a way to head for bankruptcy."

Graham Cochrane, a tax consultant with Arthur Andersen, expects the Ciskei tax loophole to be closed.

David Clegg, a tax consultant with Arthur Young, says: "I think we are going to have a little bit of everything. I see lots of options."

He expects the tax burden on individuals to be eased at the expense of companies but by cutting tax breaks rather than pushing up company tax.

Margo Commission report may hit present Stock Exchange 'boom'

Big tax shock likely

W/t Argus 15/10/87

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by TOM HOOD, Business Editor

THE Margo Commission's report on taxation, due next week, could provide a shock big enough to upset the Stock Exchange boom.

This is the belief of tax experts, who think that some of this year's enormous profits could be target No 1 for any proposals to clobber capital gains.

Under the nose of the commission, profits running into tens of millions of rands have been made through the sale of shares on the day new companies were listed.

One of the most profitable has been this week's Mercedes Datakor, a computer and high-tech company whose staff obtained thousands of shares at R2 each and can now sell them for more than R5. They made profits on the first day.

Have done well

The shares were so popular that other investors paid almost R4-million to buy them on the first day — and sellers made about R1,9-million in profits.

Employees and associates of many newly-listed companies this year have done extremely well and someone in due course must address the tax aspect of this, said Mr Godfrey Shev, tax partner of Hurwitz and Lewak in Cape Town.

"I have a feeling we may see the stock market reacting after the report is made known," he said.

The long-awaited findings of the commission of inquiry into the country's tax structure will be published on Thursday afternoon — and The Argus will be first with the news.

However, the only certain fact is that nothing will change unless the Government decided to make changes. And it will not at this stage issue a White Paper outlining its intentions.

Many tax areas are long overdue for attention and Mr Shev believes that the tax-rate structure is likely to be overhauled.

The questions of taxation of married people, estate duty, GST and VAT and capital-transfer taxes are also likely to have been considered.

President Botha finally announced the publication date this week of the report by Mr Justice Cecil Margo and his team — a report said to run to about 2 000 pages with hundreds of recommendations.

Some people could end up paying less tax, others more — especially if Judge Margo's 16 men and two women do something to stop the loss through tax evasion of R10-billion a year (the judge's own estimate).

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Poll highlights Margo report problems

BDay 18/8/87

A tangled web of views on tax reform emerges

THE tangled web of conflicting views which must have confronted the Margo Commission was highlighted in a recent straw poll by Business Day. Tax experts unanimously called for reform, but differed widely on how it should be achieved.

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Michael Stein of Divaris Stein Publishers said tax concessions given to companies should be eliminated.

"They have eroded the tax base. On average, companies are paying only 20%-25% of their taxable incomes to the Receiver. The elimination of concessions would bring corporate income more into line with accounting profits."

Tax relief should be given only on the basis of well-substantiated claims. It should not be granted via the Income Tax Act, Stein said.

But, said Price Waterhouse partner Chris Frame, government needed to use tax allowances to lure business in desired directions.

Effective

"Tax allowances are an effective tool for bridging the gap between the businessman's drive to make profit, and government's long-term goals. To facilitate the flow of foreign exchange into SA, for example, government has to induce businessmen to market their products overseas by making it worth their while."

Frame said the tax net was fully extended within SA and should be widened by tapping tax sources overseas.

However, Marius van Blerck, Anglo's group tax consultant, said most SA companies with foreign connections conducted their operations through entities already resident

JENNY BOBERG

overseas. Switching to a worldwide basis of taxation would yield an insignificant amount of additional revenue.

Economist at JCI, Ronnie Bethlehem called for shifting the emphasis from direct to indirect taxation.

"While the major part of tax revenue comes from the direct taxation of whites, the swelling black population is the major beneficiary of increasing government expenditure on housing, health services and education.

"A process of income redistribution is taking place. But there is a limit to the extent to which this can be achieved solely by increasing white taxes. A greater emphasis is going to have to be placed on indirect taxation."

Explosive

But Frame said indirect taxation was politically explosive because an increased tax burden would fall on the poor.

What most urgently needed attention was the insidious effects of fiscal drag, said Dave Mohr, economist at Old Mutual. This could be addressed by bringing capital gains into the realm of taxable income.

Agreeing with Mohr that fiscal drag needed addressing, Van Blerck said there should be an annual adjustment of the tax tables to take account of inflation. He was, however, stongly opposed to a capital gains tax.

Partner at Arthur Young, Ian Mckenzie, voiced the rider expressed by all those interviewed — "unless government spending is reduced, there is no way in which Margo or anyone can reduce taxes."

The Margo report, set to be tabled on Thursday, will be published and comprehensively reviewed in Business Day on Friday.

Warning on Margo tax findings

Private sector expects too much from report, say experts

Own Correspondent

CAPE TOWN — The long-awaited report of the Margo Commission of Inquiry into the Tax Structure of the Republic of South Africa — the largest commission in the country's history — will be tabled in Parliament tomorrow and tax experts have warned against over-optimism on Government response to the recommendations.

The terms of reference of the commission, set up by the Government in November 1984 under the chairmanship of Mr Justice C Margo, were, in essence, to investigate the special economic development needs of South Africa and its constitutional dispensation. It had three aims:

- To make recommendations on implementing a cohesive tax structure at all levels of government.
- To comment on other sources of finance at all levels of government.
- To make proposals on the introduction of new taxes, excluding property rates, at the levels of government in question.

In giving the commission a mandate to review and recommend changes to the overall tax structure in South Africa, the Government acknowledged the need for an overhaul of the tax system, which has become too complicated and unwieldy through repeated ad hoc changes, outmoded in terms of trends in other countries and damaging to the country's economic performance as a result of the excessive tax burden placed on businesses and individuals.

Negative impact of 'fiscal drag'

In particular, the problem of "fiscal drag" has had a major negative impact on individuals who are carrying a far higher proportion — 60 percent — of the total tax burden than before.

The 19 members of the commission, who were buttressed by full-time and part-time advisers, sub-committees and sub-subcommittees, investigated every aspect of taxation, including fringe benefits, company tax allowances, comparative studies of international tax structures, private sector tax and the financial implications of the constitutional dispensation.

At the time the commission was established, Mr Justice Margo promised to be "methodical and ruthless" in determining the options available to the Government and declared it was "not going to pull any punches".

But he made it clear that the committee would act as an advisory body and "in no way would determine Government policy".

The appointment of the commission was welcomed by the private sector which, said Mr Ian McKenzie of Arthur Young and Co, had developed an unrealistic expectation of what the report might bring.

"Whenever tax and tax reform is discussed, the comment is made 'Wait for Margo' as if the commission is in a position to wave a magic wand and reduce all taxes overnight.

"Clearly this is not going to happen, firstly because of a severe restriction in the commission's mandate and, secondly, because Government has still to review and comment on the commission's recommendations before deciding what, if any, changes should be implemented.

"The limitation on the commission was that its mandate did not include a review of Government expenditure, which is the root cause of most of the problems.

"Given that the Government needs a certain amount to finance the expenditure, the commission will probably only be able to vary the mix of taxes between direct and indirect taxes, to redistribute the tax burden by eliminating special allowances and to suggest next tax sources such as a capital gains tax," he said.

The report, which was signed by the commissioners in December, has been subject to a number of delays in publication.

It was originally intended that a White Paper would be released simultaneously, but the Government has since stated it will not respond officially for some time to allow further public debate on the commission's findings and recommendations.

Experts predicted it could be a number of years before any of the recommendations are implemented.

Tax experts have also said that although the appointment of the commission was a recognition of the need for tax reform, the Government had a poor track record in implementing recommendations of commissions of inquiry and that a similar response could not be ruled out this time.

Mr McKenzie said: "Real tax reform can only be achieved by tax reduction, not by revenue neutral changes.

"It is notable that many other countries, including the United Kingdom and the United States, are budgeting for major tax cuts and statistics published by the World Bank indicate that countries experiencing the biggest tax cuts have shown the best economic progress.

"This is because lower taxes stimulate higher output by increasing incentives to save, invest, work harder and innovate," he said.

Mr Pierre du Toit, international partner at Arthur Andersen and Co, said it could be a long time before any of the more radical recommendations of the Margo Commission were legislated.

Draft legislation would be required, which was time-consuming, he said.

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Margo Report on taxation — Margo Report

All reports by the Post's Political Correspondent, PATRICK CULL

Joint taxing 'one that should go'

CAPE TOWN — Joint taxation of husbands and wives should be scrapped and the tax based on individual earnings, according to the Margo Commission Report tabled in Parliament today.

Also rejected by the commission was the concept of taxing the joint income of the family.

Sketching the history of joint taxation, the report states that the system was originally based on the premise that almost all the income was generated by the husband.

Married women, it states, were then properly described as housewives while the husbands were the breadwinners and the wife's income was viewed as supplementary to that of her spouse.

The first significant change, the report points out, came in 1953 when the woman gained some control over her earnings and only in 1984 that equal powers of administration of jointly owned property were extended to wives.

The report adds that against this background it is hardly surprising that official investigations continued to support joint taxation and also the rejection of the argument that joint taxation acted as a disincentive to skilled women entering the labour market.

Also rejected was the argument that joint taxation influenced the decision to marry.

The report states that the so-called "marriage penalty" which came into operation only when the joint income exceeded R12 000 began to bite after 1983 and a year later only 20% of families with two breadwinners had an income of R12 000 or less.

On the question of people living together rather than marrying as a result of joint taxation, the report states that no "empirical data" existed to show that joint taxation was solely responsible for a state of affairs which was on the increase in the modern society.

The report points out that the inability of the PAYE system to deal with a dual income source and the arbitrary loading of a married woman's Paye to compensate for her husband's earnings was a cause of resentment.

In addition, the inadequate collection of PAYE created a major problem for both the taxpayers and the authorities.

On assessment, husbands were thereafter required to find a lump sum which caused further resentment.

The report states that a widespread belief exists that joint taxation discourages women from working and this was not easily dispelled.

Data showed that there were married women who were not working who might do so if the financial reward was equal to that of their unmarried counterparts.

"A good tax system should not diminish the incentive of any section of the population to participate actively in the labour force," says the report.

GST: Drop it to 4%

CAPE TOWN — General sales tax should be reduced "preferably to 4%", the rate for which the system was originally designed, says the Margo Commission Report.

However, it initially should be reduced to 7,5% to permit the phasing in of other tax measures designed to make up for the loss of revenue — with a new comprehensive business tax envisaged for this purpose.

The report recommends that after starting at 7,5%, sales tax should be brought down to 4% as soon as possible, adding that GST is not effective at higher rates.

It contends that if GST is reduced to 7,5% and capital goods and immediate goods are excluded from the GST base, the current exemption of foodstuffs should be repealed.

The report argues that relief should not be provided by way of exemption from GST, but on the expenditure side by way of subsidies and social services.

The report also recommends that the definition of taxable goods should be extended to cover "the widest possible range of services", but that what it describes as "intermediate goods and services" — those sold or rendered to registered vendors — should be excluded from the GST base.

It also recommends that the exception limit for small traders should be increased to R100 000 and that this limit be increased from time to time in line with inflation.

Dealing with a hypothetical situation should the Government not accept the new comprehensive business tax and couple it with a drop in GST, the report recommends that GST be abolished and value added tax introduced.

'Scrap deductions for international sport and give direct aid'

CAPE TOWN — Tax deductions claimed by sponsors of international sports events should be scrapped and international sport should be encouraged by direct aid rather than tax concessions.

This is one of the recommendations of the Margo Report.

A sponsorship allowance was inserted in the Income Tax Act of 1986, and Yellow Pages, sponsors of the rebel Australian cricket tour was one company to benefit hugely from the move.

The allowance on any international event — cultural, educational or sporting — approved by the Minister of Finance, includes expenditure incurred in sponsoring the event and advertising directly connected with it.

The allowance granted is equal to 80% of so much of the sponsorship expenditure actually incurred as the Minister directs.

The report adds that the total amount which is allowed to a sponsor by way of normal deduction in terms of Section 11(a) of the Income Tax Act and the sponsorship allowance is 180% of the expenditure incurred.

This means that a company paying tax at a rate of 50% will recover 90% of its sponsorship expenditure.

Call to spread liquor load

CAPE TOWN — A "moderate" duty should be reintroduced on natural and flavoured wine and on sorghum beer, while a uniform single duty should be levied on malt beer, the report of the Margo Commission recommends.

The report states that the malt beer industry claims that the current system is unfair because it taxes malt beer heavily relative to spirits and to natural wine and sorghum beer, which are currently not subject to excise duty.

The malt beer industry, the report adds, proposes alcohol content as the basis for excise tax because this would lead to a fairer distribution of the tax burden between consumers and producers.

The wine industry, on the other hand, submitted that on account of the special economic factors, particularly at a regional level, natural wine should not be subject to excise tax.

Pointing out that the use of alcohol could be beneficial in certain circumstances, the report adds that its abuse caused major social problems which placed a burden on health and social services, on commerce and industry for which all pay.

Names of the tax dodgers 'should be made public'

CAPE TOWN — The names of defaulting taxpayers should be published as this could be a "potent deterrent" according to the Margo Report.

Dealing with the question of tax evasion and tax avoidance, the report points out that the 'tax gap' — the tax lost through avoidance and evasion — is large and growing.

Tax evasion is a deliberate action of the part of the taxpayer not to pay what is legally due, while tax avoidance is where taxpayers legally arrange their affairs in such a way as to reduce income on which tax is payable.

The International Monetary Fund (IMF), the report states, estimates that in some countries the tax gap is as high as 50% of the total income.

South Africa, it points out, faces a serious problem in this regard but this can be resolved by appropriate measures.

The report states that both tax avoidance and evasion tend to increase with taxpayer dissatisfaction — "taxpayer morality declines with resentment over what is regarded as unfair or unduly burdensome taxation".

It adds that recent research has shown that 70% of taxpayers believe that the personal income tax and sales tax rates are too high.

A second cause of the size of the tax gap is deficiencies with regard to administration particularly as in relation to collection and inspection.

The report recommends that:

- The elimination or amelioration of the harshness of the present tax system whether this is actually so are merely perceived as such, particularly the high tax burden on individuals.
- The improvement of anti-avoidance provisions in the Income Tax Act.
- The introduction of effective deterrents to combat evasion and ways to eliminate loopholes and tax shelters.
- The improvement of the administration of the system.

The report contends that anti-avoidance legislation is beneficial and that it should be amended so that if a taxpayer is successfully challenged he will be liable for arrear interest payments which should not exceed the total tax involved.

The report also favours the introduction of an "at risk" rule in terms of which the deductible losses from a business activity are limited to the amount which the taxpayer has at risk in the activity.

Plan for heavy trucks

CAPE TOWN — A tax on the mass of heavy vehicles is recommended.

The report states that research has shown that the revenue generated by licence fees and levies, especially as far as heavy vehicles are concerned, is not always sufficient to cover costs in connection with new plans and maintenance.

A CSIR study had shown that damage to roads increased with rises in vehicle mass, so it was recommended that the tare mass — weight of the vehicle without fuel and load — be the base for tax.

The report recommends that measures also be introduced immediately to offset the present disparity between certain levies and licences on the one hand and costs and benefits on the other.

'Some duties should go to spur economy'

CAPE TOWN — The Margo Commission has recommended that the list of *ad valorem* duties should be evaluated and the duties abolished as far as possible.

Recognising that the duties account for a "substantial share of total revenue" from customs and excise duties, the report states that this loss of revenue should perhaps be seen in the light that removal of the duties could result in increased turnover. This in turn would generate sales tax which "might well temper the loss".

"The need to raise revenue determines the overall level of taxation, but does not, in itself, warrant discriminatory taxes on particular goods."

Medical benefits for the over 65's

CAPE TOWN — All medical costs incurred by people over the age of 65 should be allowed as a deduction.

It also outlines a new system for people under the age of 65 to claim medical costs and medical aid expenses.

Currently a taxpayer can deduct:

- Contributions to a medical aid scheme.
- Professional services rendered or medicines supplied by a doctor or dentist.
- Services provided by registered nursing homes, hospitals and nursing services.
- Prescribed medicines supplied by pharmacists.

The report states that the tax system ought not to attempt to fill the role of a welfare system and the two should operate independently.

The present system, it states, has come under criticism because taxpayers whose medical expenditure exceeds the prescribed limits are restricted in the amounts they can claim.

"Taxpayers who pay large amounts of medical costs in relation to their incomes and whose ability to pay is seriously impaired do not enjoy the relief which they should, whereas taxpayers who pay small amounts may claim the full amounts paid."

The commission recommends that the present system be replaced by one in terms of which medical expenditure, including contributions to medical aid schemes, be allowed as a deducation to the extent that it exceeds 5% of the taxable income with no limit on the amount which may be deducted.

'Increase rebates for lower income elderly'

CAPE TOWN — The rebates for elderly people should be increased as soon as this is possible, but restricted to people in the lower income brackets, the Margo Commission Report recommends.

The reason for the restriction is to ensure that the rebate is granted only to people in need of assistance.

The report says that differentiation by exempting, wholly or partly, ceratin kinds of taxation purely on the grounds of old age is "not logical".

"An objective view of taxation does not accept that a person's ability to meet his tax liability is influenced by his age," the report says.

New business tax proposed

CAPE TOWN — A new comprehensive business tax (CBT) is proposed by the Margo Commission Report as a means to raise significant revenue at a low rate of tax and, at the same time, lower rates of tax elsewhere in the system.

The tax, according to the report, is a broad-based tax on incomes.

It is income tax because it is levied on incomes generated by business activity; indirect because, inasmuch as it is levied at a flat rate on the whole income, it does not take account of the personal circumstances of individual taxpayers as direct taxation does; and broad-based because it would include the generation of every type of business income.

The report says there is a need for such a tax in order to effect certain structural reforms and lower taxes in other parts of the system.

Assessing the reasons for looking at the business sector for such a tax, the reports says:

- Taxes on business are more easily "shifted" to consumers and also to the suppliers of capital and the other means of production and, if they are well designed, tend to be "widely and thinly spread".
- The existing tax on business is not well designed, especially for inflationary conditions, and is imposed at a nominal rate which is high enough to cause significant distortion.

The report says that what the CBT is intended to achieve is relief from this high rate because it seeks to achieve a low rate by "encompassing more than just the profit element in income generated".

The base of the CBT would be salaries plus wages, interest, royalties rent, profit and depreciation less gross investment.

The report emphasises that the incomes generated by a business are the amounts paid out as salaries, wages, interest, royalties and rent, provided for by depreciation and left over by profit.

"They do not include amounts expended on purchasing goods and services from outside firms such as accountants, auditors and advertising agents.

"These outside firms themselves will be paying CBT and their bases will include the salaries paid to their employees."

Stating that the CBT was origin-based as opposed to value added tax (VAT), which was destination-based, the report says that the advantage of this is that its basis was broader and therefore could be imposed at a lower rate.

In addition, being so broad, it was less likely to fluctuate over the business cycle.

The report adds that because profits make up only one element of the CBT, some unprofitable businesses would be liable for tax.

It points out that the logic behind the tax is that it is a "payment to the State for the use of the community's resources and the social infra-structure".

"It is a tax based on the benefit principle, not the ability to pay principle.

"The underlying premise is that there is a rough connection between the incomes generated by a business and its use of the infrastructure. This connection may not always be direct and the premise is not beyond criticism, but it is not easy to find something better with which to replace it."

Listing other advantages of the CBT, the report points to:

- Few changes in the Income Tax Act would be necessary.
- Tax assessors would need little training to issue assessments.
- Provisional payments could be made on a regular basis.
- Very little room would be left for manipulation.
- It would be neutral in its treatment of all the factors of production.
- It was suitable for both regional and national taxation.

One problem, the report points out, would be that banks, hire purchase companies and life insurance companies would require special attention.

Mr Justice CECIL MARGO who headed the inquiry into SA's tax structure.

Tax perks in full and move to cash

CAPE TOWN — Fringe benefits should be taxed in full at the earliest opportunity and the move should be towards a mainly cash remuneration system, the report of the Margo Commission into Taxation advocates.

The report is highly critical of the relaxation in fringe benefits as far as luxury cars are concerned, stating that relief to the motor industry should be given outside the provisions of the Income Tax Act.

If accepted by the Government this could mean the reintroduction of the full rate as far as luxury cars are concerned, while the industry would have to hope that relief would be afforded it in another way.

The report urges the State take the lead by paying cash remuneration in the place of fringe benefits.

A cash salary, the report contends, would ensure that the way in which people were paid was "tax neutral" but it was vital that the State took the lead.

The report is critical of legislation which was aimed at slowing down the introduction of fringe benefits and also changes made to the assessed value of luxury motor cars, a move which was geared at assisting the motor industry.

The report deals with the motor industry at length in this regard.

It states that representations were received from the industry for concessions to be made in the taxation of fringe benefits, as far as motor vehicles made available to employees by employers were concerned.

The representations pointed to the fact that the current difficult trading circumstances in the industry were partly due to the introduction of the fringe benefits taxation.

The report states that during 1986 a change was made so that luxury cars were assessed at a ratio of three to one against the value of the cheapest car — down from seven to one.

"Clearly as far as company cars are concerned the principle that the value for purposes of taxation should be a realistic value has been abandoned."

Stating that it appreciates the plight of the motor industry, the report adds that the present situation is "cause for concern".

"The principle that the taxable value of fringe benefits should be based on realistic values is fundamental to the treatement of such benefits," it says.

"If this principle is discarded in the area of company cars, it could have an adverse effect on the valuation of other benefits and consequently on the tax treatment of fringe benefits as a whole."

The commission believes that it is "crucial" to the maintenance of neutrality in the economy, and also to allow the "free transferability" of people from one economic sector to another, that the move be strictly to one of cash remuneration.

The report states that while it is not qualified to advise on the kind of relief which should be afforded the motor industry, this should be done outside the Income Tax Act.

Summarising its recommendations, the report says that:

- The valuation of company cars should be adjusted annually until more realistic values are achieved
- The method of taxing a car allowance should be altered to ensure that recipients of the allowance are taxed on its true value.
- The recoupment provisions of the Income Tax Act should be amended to ensure that any benefit arising from the sale of a vehicle is brought into account.

'Replace RSC levies with single tax'

CAPE TOWN — The regional establishment levy and the regional services levy should be replaced by a single regional tax, according to the Margo Commission Report.

Addressing the question of local taxes and regional taxes, the report recommends the rate of the single tax be determined by each region on the same tax base as the Comprehensive Business Tax (CBT) made applicable for that region.

It also states that the tax should be collected by Inland Revenue on behalf of the regions at the same time as it collects its CBT.

Currently, the Regional Services Council Act makes provision for the payment of:

- A regional establishment levy payable broadly on the turnover in the region of any enterprise.
- A regional services levy payable by employers on the remuneration paid to employees in the region.

The report points out that it does not seem possible to evolve a local tax system capable of uniform application throughout the country due to the wide variations in wealth and economic activity.

As a result, the report reccomends that the tax system should cater for as large a part of the country as possible, and that where the yield is seen as inadequate the State should supplement this by means of subsidies.

Stating that "turnover tax" is a "multi-stage tax" the report states that objections to turnover taxes are that:

- They provide a stimulus to vertical merging of companies and undertakings.
- They create distortions because of the tax-on-tax effect.
- They give rise to difficulty as far as defining "turnover" in certain coccupations such as banks, where the whole idea of turnover has to be scrapped in favour of another measurement with which has to be defined for the purpose of taxation.

The report states that as with the present levies the new regional tax should be self-assessed, payable to Inland Revenue for transmission to regional authorities and subject to test audit by Inland Revenue.

While it was difficult to forecast an average regional tax "it could well be of the order of 2% depending on the size of the base for the CBT".

The report recommends that if the Government should decide not to accept the introduction of CBT as a national tax that it should nevertheless be used as a local tax for regional purposes to replace the current regional services and regional establishment levies.

Car industry's ideas are referred to BTI

CAPE TOWN — Representations for tax relief from the motor industry have been referred to the Board of Trade and Industries.

The Margo Report points out that the present tariff is based jointly on the excise value and the vehicle mass, meaning that the effect of inflation is allowed for because the excise value reflects the increase in price.

The report says that the excise duty on vehicles has both specific and ad valorem components.

The tax is primarily regarded as a specific duty but does not recommend that it be included in its general recommendation that specific rates be adjusted regularly.

It points out that the excise duty on vehicles is structured in such a way that it also serves as a protection measure for the local motor vehicle manufacturing industry, as rebates are based on the percentage of local content.

The matter is referred to the Board of Trade

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MARGO COMMISSION

Biting the hand that feeds

While many other Western countries — even some with socialist governments — are reducing taxes on business to foster economic growth and create more jobs, the Margo Commission has recommended two new taxes for this country, one of which will be a direct impost on business.

Simply put, it appears that the commission has taken the view that it should recommend what is likely to be politically acceptable rather than what would be economically most desirable.

Essentially it recommends a desirable shift in emphasis from direct taxes (that is, income and company tax) to indirect taxes such as general sales tax (GST) which would mean that more taxpayers spend the more tax they will pay. They will therefore be encouraged to save rather than spend, leading to increased investment and more jobs.

The Margo Commission wants a desirable shift towards consumption taxes, but with the main burden falling on business. This doesn't augur well for economic growth.

The trouble is that proportionately indirect taxes fall more heavily on lower income earners. This is not necessarily to their ultimate disadvantage. For the stimulus that proportionately less taxation gives to richer investors creates the greater benefit of faster overall economic growth.

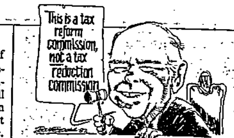
But trade unions as well as the Indian and coloured houses of parliament are unlikely to see the advantage that easily. So the commission has decided instead to impose heavier indirect taxes on business and lift the burden on the lower income groups by recommending that GST be cut from 12% to its original 4%.

Accordingly, it has recommended a comprehensive business tax (CBT) which could erode much of the desirable economic shift in emphasis away from direct taxes to indirect ones. Business taxes, under any name, are paid for by people: workers are paid less wages and salaries; customers are charged more, and shareholders receive smaller dividends.

The commission no doubt argues that if government accepts its proposals and reduces income and company taxes while imposing the CBT and other taxes, the shift will have been achieved. But there is nothing in its proposed changes in the tax system that makes this either inevitable or even probable.

The danger is that it is recommending to government a taxation mechanism which will hand a free spending administration a more convenient means of increasing the taxation burden on the country's productive resources, that is, business. Taxation is one of the most important measures of obtaining a particular economic growth goal. The commission is quite right in maintaining that the goal needs to be set by parliament. But it cannot escape the fact that the nature of its tax proposals do suggest a basic philosophical attitude.

The path the commission has chosen delivers to government a resounding message: tax in such a way that you avoid the maximisation of economic growth. Is that really what we should be doing in this country — travelling in a fiscal direction eschewed by our main trading partners?



In any event, the commission's official brief specifically states that it must have "regard for the special economic development needs of SA."

Commission chairman Judge Cecil Margo is a sensible and learned lawyer. But clearly, as Rab Butler believed politics was the art of the possible, so he must believe that taxes, to be effective, need popular acclaim rather than economic advancement. That is not our view nor, we suggest, would it find much support abroad.

What is disappointing about the commission is its lack of courage and originality in the most central issue of taxation in this country. There is much to be acclaimed in what it has recommended in many of its 270 recommendations. But it lacks coherence between the philosophy of tax and the execution of tax collection.

Its compact report of 516 pages is a distillation of "thousands" of pages of evidence, research and other information. Its 29 chapters contain much that will sweep many anomalies and inequities from the SA tax system. For instance, it is against joint taxation of married people; it suggests a broader base for claiming deductible expenses; its recommendations on trusts suggests tax avoidance will be reduced; and, it is encouraging on the questions of depreciation, the timing of income accrual and inventories, and on the rationalisation of regional service levies.

The second new tax it recommends is a capital transfer tax (CTT) which amounts to

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Margo Report

Package hinges on new business tax

P.T.O

Finance Staff

THE Margo Commission of Inquiry's tax reform package hinges on the introduction of a comprehensive business tax, (CBT) which could tap a broad tax base of R67 billion.

The commission believes that the reduction in taxes such as GST, corporate tax, individual income tax and minor taxes as well as structural reform of the tax system will be made possible by providing this alternative source of revenue. The commission has recommended that the CBT be introduced rapidly and with a minimum of legislative change.

Origin-based

At a rate of 5%, the commission estimates it could provide revenue of R5 billion which will increase by R1 billion for every additional percentage point.

The concept for a CBT is broadly based on the United States state of Michigan's "Single Business Tax", which raises substantial revenue at a low rate of 2%.

Described by the commission's report as an "origin-based fiscal value added tax of the consumption type", CBT is in fact a massive instrument to shift the burden of taxation onto business.

The commssion says there are two reason for looking to the business sector for a new source of revenue:

- Taxes on business are more easily shifted forward onto consumers and backwards onto suppliers than other forms of tax. This means they are "thinly spread" and create minimum distortion; and,
- The present tax on business income is not well designed, especially for inflationary conditions. The rate of 50% on companies is high enough to cause significant distortion.

Unlike GST, retail sales tax and the EEC-type VAT — which are indirect taxes on commmodities — the comprehensive business tax is a tax on incomes generated by the level of business activity.

It also differs from them as an origin-based, rather than destination based, tax. It is this characteristic, the commission believes, which will overcome the problems associated with open borders and the lack of fiscal harmonization in southern Africa. Income will be be taxed where it is generated.

CBT aims to achieve a low rate by encompassing more than just the profit element in income generated by business.

The amount of CBT owing by a firm would be calculated by subtracting all purchases from all sales, other than those of financial assets. This could be expressed as profit, plus salaries, plus wages, plus interest, plus royalties, plus rent, plus depreciation, minus gross investment (in fixed assets and inventories).

Says commissioner Mr Johan de Villiers Graaf: "The comprehensive business tax will provide the revenue to compensate for a reduction in GST and personal and corporate income tax. It is ideal for the problems of inflation and neutrality. It also provides a wide base and is not subject to fluctuations in the business cycle."

'Tax reduction'

Says Mr Justice Cecil Margo: "One option that was not acceptable to us was to increase rates of tax and GST. Our call is for tax reduction. What is requested is a light tax with a broad spread which is simple to impose and is flexible enough to handle the transitional period."

The commission rejected a tax on consumption. The system has failed in both India and Ceylon, mainly because of the complexity involved in administering its collection.

It also rejected wealth taxes, taxes on capital gains and the taxing of banking transactions. A VAT on commodities was considered unsuitable because of the country's geography and the many boundaries.

'Individual tax' call for married couples

Finance Staff

A SIGNIFICANT and fundamental recommendation from the Margo Commission is that the existing system of joint taxation of married couples be abolished.

It stresses that acceptance of this proposal would be a major reform in its own right, fulfilling a long-felt social need.

The recommendation stems from a basic view that the tax unit in South Africa should be the individual.

The commission believes that the need for marriage neutrality and the equal treatment of men and women justifies a change in the tax unit, and individual effort should be recognized.

Apart from the considerations of policy and principle, administrative considerations have played a compelling role in dictating this recommendation.

In particular, PAYE deductions cannot be calculated correctly while the incomes of spouses must be aggregated.

Joint ownership

In its report the commission recommends that separate taxation should apply in respect of all income, and not merely earned income.

It also believes that the community of property system be overriden by statute for the purposes of income tax.

The commission argues that this is necessary to ensure that spouses who choose the system are precluded from relying upon their joint ownership to average their incomes.

Only one compromise is proposed in respect of married couples, and that relates to the primary and child rebates, which it suggests should be made fully transferable between spouses.

The commission expresses the view that a separate tax system could be implemented in a single year, but suggests that that it could be done over two years in order to spread the costs.

Effects of inflation

In its report, the commission calculates that the potential loss of switching to the "individual" tax unit could amount to R2,19 billion, or 20,5% of the total revenue yield.

In a linking recommendation affecting personal income tax, the Margo Commission has called for the broadening and reduction in the number of tax brackets.

According to a member of the commission, Professor John Morris, these proposals were not made in isolation, but flowed from an overriding desire to introduce reforms which countered the eroding effects of inflation — a feature which permeates the Margo report.

Bracket creep, caused by inflation, has resulted in people who are only moderately well-off paying rates of tax designed for the wealthy

Barend warns: Changes will be gradual

By ANTHONY JOHNSON

FINANCE Minister Mr Barend du Plessis yesterday warned that the public should not let its immediate "purchases, investments and the like" be influenced by the Margo Commission's proposals.

The government had not yet formulated an official view on the report but the drafting of a White Paper reflecting the government's stand would begin before the end of the year, he said.

Mr du Plessis stressed that the public should bear three points in mind relating to the practical effects of the report:

- "New or amending legislation cannot be introduced before the 1988 parliamentary session. Such measures can thus be fully implemented only in

Table 50 Continued.

Job Description	1968	1973	1977	1981
2. DELIVERY				
(a) Machine Operators				
Tractor / Truck Drivers	1,6	1,7	2,0	2,2
(b)				
		1,0	0,8	0,9
		0,6	0,4	0,3
		1,6	1,2	1,2
		3,3	3,2	3,4
TOTAL		4,6	4,2	4,3
TOTAL MANUAL WORKERS	3,8	3,9	2,7	2,8

- "Changes (including policy changes) will have to be effected gradually so as to minimise disruption.
- "All existing taxes and levies will continue in force until changes can be announced and effected."

The minister said that since the government had not yet formulated an official view on the report it would not take part in the public debate on the subject.

"It (government) does have an interest, however, in the report being debated constructively, and as widely as possible.

The report's proposals regarding further investigations would be followed up "with all urgency" by the Department of Finance task force working in conjunction with members of the Commission.

People or parties who want to raise points before the Department of Finance submits its final recommendations can write to the Director-General of Finance at P O Box 29, Cape Town, 8000, before September 30 1987.

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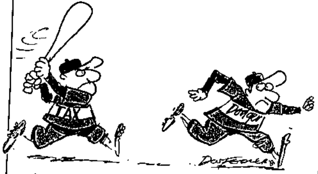
a merger of donations tax and estate duty at 15%, against the present top estate duty (without allowances) of 35%. At first view this appears to be a modest advance.

The disappointing thing about the commission's report is in fact a lack of core reform. For instance, it says: "A comprehensive statutory definition of capital and income should not be attempted." The capital-income concept is the foundation of the South African tax system. Income is taxed in full while capital is zero-rated.

Neither income nor capital are defined in the Income Tax Act, and about 90% of tax case law is concerned with transactions trying, for various reasons, to be one or the other. The fuzzy line between capital and income is one of the main reasons for, among other things, the low level of share turnover on the JSE.

The most Margo is prepared to do is recommend that objective criteria should be substituted for subjective criteria in distin-



guishing between capital and income. This cautious attitude is reflected in many other parts of the report dealing with fundamental areas of our tax law. Its attempts to deal with the pernicious drag of inflation on incomes are not convincing. The best it can come up with is indexation.

The core of the recommendations is the CBT. The chapter dealing with it is one of the shortest, lacks a single footnote, and refers off-handedly to the "Single Business Tax" in Michigan, US. It seems that the commission, in searching for a new tax to plug the hole left by the taxes it wants to reduce, turned in desperation to the CBT, which has frail precedents.

Margo's other new tax is capital transfer tax (CTT) — to replace estate duty and donations tax. Tax on dividend receipts by residents would also be abolished. While, as the report says, the loss in revenue would be but small, the cut in the GST rate to below 7,5% would entail a loss running into billions of rands. In steps the CBT, keeping in line with the commission's theme of broad-based taxes with low rates. In another part of the report, the base of the CBT (for 1985) is presented as R67 billion.

While time will be needed to understand the nature of the CBT, Margo defines it in its most simple sense as "sales less purchases," where both sales and purchases refer to goods and services. The *FM* understands this to be nothing less than a modification of the cash-flow tax of the pure Universal Expenditure Tax (UET) type recommended by the UK's Meade Committee. While Meade is referred to in other parts of the report, it is ignored in the chapter on CBT. And, in other parts of the report, the pure UET, along with the differential land tax (both imply fundamental reform), are rejected out of hand.

Anyhow, Margo is evidently determined to be accepted. Tax commissions are notorious for doing great things and getting thrown out by governments. While Margo will prove to be a disappointment for economists and proponents of the pure UET, it will probably find wide-based support in SA's current political atmosphere.

Margo presents CBT thus: "Taxes on business are more readily shifted (forward onto consumers and backwards onto the suppliers of capital and other factors of production) than most other forms of taxation." The *FM* finds this attitude disingenuous.

We have the impression that the commission wants to move the perception of who pays tax from the individual taxpayer to the business community.

For example, while the merits of GST as a tax are accepted — provided the rate is low — it comes under heavy fire in the report. "The high visibility of the tax creates hostility;" "Perceptions of GST are not good, and VAT would serve to counter some of the problems in this area;" and "GST at 12% has become an unpopular tax, and there is evidence of extensive evasion of a type that cannot easily be counteracted."

The guts of Margo, for those short of time, is contained in Chapter 29. The "main" reform package relies almost entirely on CBT, which by the commission's calculations would have raised R1 billion for each percentage point in 1986-1987. Elsewhere it is suggested that CBT at 14% can replace GST in its entirety at 12%. Chapter 29 suggests that CBT be introduced at 5%, while GST, personal and corporate rates are cut. GST would be known as a retail sales tax. Other components in the "main" package would include a wider GST-base; fewer bands in the personal income tax tables; separate tax for individuals; a fuller fringe benefits net; tax-free dividends, and assimilation into the system of new notions of depreciation, inflation and neutrality; use of the CBT to replace the two despised RSC levies; *and* urgent changes within the SA Customs Union.

The "alternative" package notes that if CBT be rejected, the options for reform will be limited to the extent that existing bases can be widened and collections improved. Separate taxation would have to be postponed. CBT could be used as a regional rather than national tax. Sales tax reform would still have to take place, though immediate introduction of an invoice-VAT would require a rate of 17% if food and capital goods are left out of the net.

Phasing-in and -out new and old taxes is an area not convincingly dealt with. The commission does not explore the vital area of taxes on taxes; this can be seen as in line with its desire to throw the perception of who pays tax onto business. The abolition of marketable securities tax, and no CGT could give the commission a mistaken image that it panders to the rich.

There are continual suggestions that the buck in important areas be passed. An example is its recommendations on gold mining taxes. In conclusion, Margo says that: "No tax reform commission can ever provide final answers." Well, this commission certainly hasn't even attempted to do so.

In the final analysis, the real problem with tax in this country is that it is too high as a percentage of GDP. Unless it is cut there is no incentive to create jobs. No amount of streamlining the tax system will substitute for lower taxes.

The manner of the release of the commission's recommendations has not given time for ample study or reflection. Considering the new taxes it recommends and their complexity, the risk now is that they will make business confidence even more fragile and thus further inhibit new fixed capital investment. ■

Changes unlikely until 1989/90

Barend cools hopes of a quick tax fix

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Star 21/8/87

By Michael Chester

The Minister of Finance, Mr Barend du Plessis, has issued a caution that Government action on any new tax packages is unlikely until the 1989/90 Budget at the earliest and warned against financial speculation in the meantime.

The Government, he said, had still not formulated an official view on the Margo recommendations and intended to stay outside the public debate now in progress.

A task force inside the Department of Finance was engaged in intensive studies of the commission's findings and he expected to submit proposals to the Cabinet by the end of the year.

New legislation to implement Government decisions could not be introduced before the end of the 1988 parliamentary session or acted upon until the 1989/90 Budget.

Both the Association of Chambers of Commerce and the Federated Chamber of Industries (FCI) have given a guarded nod of approval

But big business is in no way unanimous in accepting the whole Margo package.

The Life Offices Association said the majority report on life assurance taxation was "totally unacceptable".

And the Chamber of Mines said proposals that mining capital expenditure should be written off over three years instead

● For more reaction see Page 13.

● For details of the report see special supplement.

of immediately would "severely prejudice existing and future mining development".

But Mr Harold Groom, national president of Assocom, welcomed the Margo Report as "a major contribution towards the tax reform which South Africa needs to improve its economic performance".

The FCI said it fully supported the sound fiscal principles on which the report was based. Its release was "a first important step towards fiscal reform needed to create an environment conducive to economic and employment growth".

Jaycee South Africa urged the Government to spell out its action plan on the commission recommendations on tax reform as soon as possible to avert unnecessary speculation on any final new tax package.

Mr Clive Hatch, president, said any moves to reduce the tax burden on individuals was to be welcomed but there was disappointment over the absence of specific measures to promote home ownership.

Margo report in a nutshell

These are the recommendations of the Margo Commission in a nutshell.

The main package:

- General sales tax (GST) should be reduced to 4 percent and be levied at retail level. The exemption on food to fall away.
- Married couples to be taxed separately with primary and children rebates to be transferrable between spouses.
- Personal income taxes to be reduced sharply with broader and fewer tax bands to offset the effect of "bracket creep".
- Ideally, all remuneration should be in cash. In this regard the State has to set the example.
- Remaining tax expenditures to be eliminated soon.
- Dividends to be freed from tax in the hands of resident shareholders.
- Neutrality between the various forms of taxation on businesses, close corporation and individuals.
- Plant and machinery in all sectors, farm improvements and capital expenditure in mining to be written off over a uniform period, depending on the ruling inflation rate.
- Should inflation increase, business income to be extensively adjusted.
- A comprehensive business tax (CBT) to be introduced to finance the gradual lowering of tax rates throughout the system. Introduction will coincide with a lowering in the company rate and the top marginal rate for individuals.
- Regional Services Council levies to be replaced by the CBT.
- A capital transfer tax, at a flat rate of about 15 percent, to replace the present estate duty and donations tax.
- The Customs Union Agre ment should be re-negotiated secure a fairer balance of a vantage. Every effort should made to achieve a measure tax harmonisation among th nine States of the region.
- The resources of Inland Rev nue should be strengthened t combat transfer pricing tha prejudices the SA fiscus.
- Taxes that individually yiel little revenue, but are regarde as a considerable nuisance, ar anachronisms in a modern so ciety. They should be phased ou if revenue from a CBT permits.

If, for any reason, a nationa CBT is rejected, the options fo reform become limited. Th move from joint to separat taxation of husband and wif will have to be postponed.

The commission says there are, however, proposals that remain feasible:

- CBTcould replace RSC levies.
- The need for sales tax reform remains urgent. GST should be transformed into an EEC invoice VAT at a single rate.

'Tax burden shifted to business'

AT, 21/2/87 (320)

This is the first part of an analysis of the Margo Commission of Inquiry into the tax structure of SA report and its implications by GRAHAM COCHRANE of Arthur Andersen & Co. It will be continued in the Cape Times tomorrow.

THOSE with realistic expectations have understood that government expenditure is not likely to decrease; at best, the commission can only propose a redistribution of the overall tax burden. This is exactly what has happened, with the burden being shifted markedly in the direction of business.

The core of this shift is represented by a proposed new tax on business, a Comprehensive Business Tax (CBT). While income tax will remain (the commission recommends a downward rate trend), it is recommended that general sales tax (GST) should be reduced, with the lost revenue to be made up through the new CBT.

Other indications of the burden shifting to business include a recommendation for a reduction in personal income tax, a proposal that dividends should not be taxed in the hands of shareholders (with an additional percentage on the income tax or CBT rate financing the change), recommendations for the abolition of special allowances, and the recommended replacement of estate duty and donations tax with a capital transfer tax.

Other features of interest in the report include a final onslaught on fringe benefits, a new tax depreciation regime, the failure to recommend some form of group relief for companies, recommendations affecting use of the Ciskei, the taxation of business trusts on the same basis as companies, the abolition of the "minor taxes" like marketable security taxes and stamp and transfer duties, and a whole body of recommendations aimed at increasing the efficiency of tax administration and enforcement.

A feature of particular interest is a recommendation for the replacement of the Regional Services Council Levies.

A NEW TAX (CBT)

This tax is designed to collect revenues on all forms of income generated by a business unit. These incomes include items generally referred to as expenses, such as salaries and wages, rentals, royalties, and interest.

In the case of items with matching incomes, such as interest income, or rental income, the net figure is used.

The tax, which is to be at a low rate (the Commission discussed rates approximating 5%) will be levied on the total of incomes defined above, plus the profit of the enterprise as adjusted for certain issues.

The adjustment to profit will comprise an add-back of accounting depreciation, but will grant an allowance for "gross investments".

The composition of this gross investment allowance was not clearly explained in the report, but it would appear to include an allowance based on the cost of tangible assets, including inventory. This formula makes it possible for a loss-making company to be liable for CBT.

The tax will be collected on a quarterly basis, with no provision being made for refunds of taxes overpaid. The intended absence of a refund provision is, it would apear, a retrogressive step.

The Income Tax Act recently introduced provisions entitling taxpayers to a refund of taxes overpaid. In addition, the existing refund provisions include the payment of interest on amounts owed.

The commission suggested that regional levies be replaced with "a regional surcharge", which is calculated on a basis identical to the CBT. The rate at which this surcharge is levied would be determined by the individual regions' needs.

Regional Levies

As already indicated, the commissioner recommended the scrapping of the regional levies presently in force, and that they be replaced by a regional surcharge.

Evidence submitted to the Commission by the Department of Finance indicated that the existing levy rates are nominal in comparison to the councils' anticipated needs.

The rates, presently 0,1% for the regional establishment levies, and 0,25% for the regional services levies, are substantialy below those figures submitted to the commission by the Department of Finance.

It would appear that this department envisaged, originally, a three-legged structure including establishment and services levies, in addition to an investment levy.

The rates submitted by them were 0,25%; 1,5% and 12,5% respectively.

Assuming the investment levy is not introduced, the department envisaged the establishment levy approximating 0,45%.

This revelation indicates that the initial levies imposed are significantly below the intended levies, and shocks may well be in store for business if the levies should continue.

The structure of the levies themselves was not viewed favourably by the commission. They felt that these levies would create certain distortions in the marketplace.

In addition, the service levy may have an adverse effect on the labour market by favouring capital investment, rather than labour-intensive industries.

● From Page 7

is satisfied that in the circumstances of the particular case no liability to pay tax is likely to arise.

Delays in refunding taxes: Delays in refunding taxes overpaid should, with the aid of adequate data banks and computerized systems, be eliminated as far as possible.

Penalties: In the event of a taxpayer's failure to lodge a return or a correct return of income, the penalty element should be served from the interest element. The penalty for fraud should be 200% of the tax due and the penalty for negligence 100%. The CIR should have a discretion — subject to objection and appeal — to remit these penalties in whole or in part. There should be no penalty for bona fide mistakes.

Interest: A taxpayer's culpable failure to render a return timeously should attract interest from the date on which the tax would have become payable but for the default. Such interest should run at a commercial rate and not be deductible for tax purposes. Where a taxpayer has overpaid tax because of an over-assessment, interest (which itself will attract tax) should run in favour of the taxpayer until the refund of the overpayment.

Expansion of functions of special court: The powers of the Special Income Tax Court should be expanded to enable it to her appeals against the decisions of officials who administer any fiscal statute and who, in the exercise of such functions, levy a tax or disallow an expense or impose a penalty. The name of the court would have to be changed and an appropriate filter mechanism would have to be considered.

Internal administration: Inland Revenue — Status of CIR: The Commissioner for Inland Revenue should be in the front rank of public servants and, if he cannot be restored to the position of head of a Department, his status should be rasied by the creation of a special post with appropriate emoluments. The posts of his various deputies should be regraded accordingly.

Personnel shortage: The serious shortage of properly qualified personnel in Indland Revenue must be redressed without delay.

Accommodation: The lack of proper accommodation in the offices of many receivers of revenue must also be redressed.

Autonomy of inland revenue: Consideration should be given to rstoring to Inland Revenue some of its original authority in respect of appointments, determination of salary scales ofnew appointees, and promotions.

Need for greater vigilance: Improvements are necessary in the number and quality of:

(a) desk audits of returns;

(b) GST inspections;

(c) PAYE and FDS inspections;

(d) fringe benefits tax inspections; and

(e) controls over investment income.

Areas requiring improvement: Particular attention should be given to strengthening:

(a) the Special Investigation Branch;

(b) the collection of GST; and

(c) the system of random audits.

Special regional court: A special peripatetic regional court should be established to deal with prosecutions in tax cases. Cases should be heard in the nearest main centre.

Taxation administration in the nationals states: Tax assessment and enforcement in the national states which collect tax require revitalization. The present ineffective administration prejudices the South African taxpayer.

Civil proceedings for recovery of tax: The State Attorney's office should be briefed on the special requirement of prompt action, and, where necessary, on the desirability of obtaining an interim interdict preventing the disposal of assets, in civil claims for the recovery of tax.

Black personnel: The recruitment and training of black personnal in Inland Revenue, to communicate with and educate Black taxpayers and to meet the growing need for Black administrators in the Directorate, have become imperative.

Consultation with management specialists: The CIR should have the advantage of consulting management specialists to assist in meeting the peculiar administrative requirements of Inland Revenue.

Public relations: An effective public relations section for Inland Revenue is necessary and would be a good investment.

Data processing: Drastic and urgent steps must be taken to improve the numbers of qualified computer programmers and other staff necessary for effective data processing to facilitate the valuation of tax measures and proposals.

CIR's annual report: The CIR should present an annual report which should be tabled in Parliament.

Internal administration: Customs and Excise — Personnel Shortage: The recruitment and training of competent staff, particularly to redress the vancancies in middle management posts, must be undertaken as a matter of urgency.

Inspectorate: Constructive steps are necessary to raise the whole level of competence, qualifications and productivity of the inspectorate.

Other recommendations: The recommendations in respect of Inland Revenue, in paras 2.257, 2.266 and 2,267 and 2.268 above, are made *mutatis mutandis* in respect of Customs and Excise.

Possible restructing of Inland Revenue and Customs and Excise — Macro-policy in taxation: The Commission supports the suggestion that macro-policy in taxation should not burden Inland Revenue or Customs and Excise, but should be concentrated in a policy research unit, under the Director-General: Finance.

Administration of GST, VAT or CBT: The Commission is opposed to the suggestion that GST, VAT or CBT should be administered by Customs and Excise or by a separate tax authority.

Tax reform in perspective

Tax reform committee: A small tax reform committee should be created to carry on this Commission's work of research and study. This Committee should have the following characteristics, which are regarded as essential:

(a) a chairman, preferably from the private sector, whose responsibility it will be to —

(i) develop, in consultation with the other members and the appropriate, representatives of the public and private sectors, a continuing work programme; and

(ii) assign work and research, and ensure that it is carried out;

(b) an adequate secretariat;

(c) access to adequate research facilities;

(d) the capacity to investigate and advise on urgent tax problems with reasonable despatch.

Margo: A long wait for state response

Own Correspondent

BY the time the government has finished encouraging debate and drafting its White Paper in response to the Margo Commission much of the fuss will have died down.

The cabinet is due to consider the proposals on reform in the tax system arising from the Margo proposals. And if it decides to reject many of the commission's innovations, it will at least have got favourable publicity out of the report. And it will have opened up a debate about equity and reform in the tax system.

Individual taxpayers will welcome Margo's suggestion that personal income tax rates be reduced. The commission's proposal that general sales tax be reduced from 12 percent to four percent will meet with wide acclaim. And higher earning dual income couples will welcome proposal that joint taxation for married couples be ended.

There are costs to individuals of this: The exemption from GST of some foods should be abolished, and the commission recommends full taxation of all fringe benefits.

But the main way in which the Margo package proposes to cover the cost of tax reform is the levy of a new kind of income tax, a comprehensive business tax on all kinds of business activity. They searched the world and found this idea in the state of Michigan, USA. The plan is to change the system of taxing companies to a flat rate over a wide base, and to abolish many of the special allowances which provide loopholes for companies to exploit.

This is not to say Margo is "bashing business": The commission is in favour of lower rates of company tax, but more effective tax collection from more business activities.

An approach favoured by the commission is "invisibility"; according to the report, "the view that the best taxes are those paid by other people. The ideal tax is one which siphons spending power out of the private sector before it has accrued too obviously to any particular individual."

Now that the report is out, experts can start working out who will be benefitting and who will be paying.

"Broadly, the present system is viewed as being too complicated, as being unfair and as interfering with economic choices which ultimately affect economic growth," the commission report says.

The question now is whether the proposals contained in the voluminous report are a recipe for fairness and economic growth.

Other points in the Margo Commission:

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- The commission says indications are that the tax gap — tax lost through both avoidance (legal) and evasion (illegal) is "large and growing" and recommends appropriate legislative provisions to reduce this.
- It recommends that the number of tax brackets for individual taxpayers be reduced, to counter "fiscal drag" (in which people whose pay goes up lose most of it to tax because of inflation and 'bracket creeping').
- It recommends that moves "tax harmonisation" between South Africa and its neighbours should be taken up as a matter of urgency. — Own Correspondent, Sapa

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Margo Report Recommendations

Cuts in GST, no bond relief — and all other recommendations of the report

The Margo tax commission is certain to have a major influence on South Africa's tax system for years to come. It has been hailed as the most comprehensive and significant analysis of that system ever produced.

As a service enabling readers to follow the progress of the commission's proposals the Cape Times today provides a summary of all 300 recommendations.

The recommendations of the Margo Commission are:

Exemption of foodstuffs from General Sales Tax: The exemption of foodstuffs from GST, or whatever form of sales tax is decided on, should be withdrawn, provided that an adequate and effective system of targeting the same relief for the poor is implemented, whether by means of food coupons, and/or direct assistance and/or by other appropriate means.

Tax Expenditures: As many as possible of the tax expenditures still to be found in the South African system should be phased out and the tax base broadened.

Economic Growth: Tax policy should be aimed at encouraging long-term economic growth and at raising the necessary revenue in as equitable and neutral a way as possible rather than as short-term anticyclical measures.

Tax Options

Benefit principle: The benefit principle should be applied generally to recover user charges from those sections of the community that use public goods and services.

Income base: The time is not ripe for abandoning income as the base for direct taxation.

Low tax rates: Individual marginal and corporate income tax rates should be held as low as possible.

Interest exemption: The R500 exemption in respect of the interest income of individuals should be adjusted re u- ... be amended to ensure that any benefit that arises on the sale of a vehicle is brought into account.

Relief for adverse effect of taxation of fringe benefits: The relief, if any, that should be granted to any particular section of industry that perceives itself to be adversely affected by the taxation of fringe benefits should be given outside the provisions of the Income Tax Act to ensure that the principle of the taxation of the full value of fringe benefits is not affected.

Rebates of the aged: As soon as budgetary considerations permit, the additional rebates in respect of aged persons should be increased but restricted to persons in the lower income brackets.

Exemption of war and disability pensions: Exemptions in respect of war pensions, diseases contracted by persons employed in mining operations and certain disability pensions should continue.

No additional tax relief for the aged: Further relief for the aged through the Income Tax Act (other than an additional rebate) is not recommended.

employment insurance fund should be abolished.

Benefits payable by the UIF: Exemption should be granted in the Income Tax Act to benefits received from the unemployment insurance fund.

Lower income tax: There should be a slow move back towards a simpler income tax structure with fewer, broader bands and lower marginal rates.

The Unit

The individual as the unit: Despite the considerations that support taxing the couple as a unit, the Commission recommends that the individual replace the couple as the unit. Its decision was reached after a thorough evaluation of previous South African investigations into the subject, of trends in other Western jurisdictions and of local and international criticisms of joint taxation.

Marriage neutrality and equal treatment of men and women: The Commission believes that the need for marriage neutrality and the equal treatment of men and women justifies a change in the tax unit. It is no longer true that average their incomes. As between the spouses themselves, however, the matrimonial property system would operate normally. The commission would have recommended that the attribution of unearned income in these marriages should depend on the criterion of control, were it not for possible administrative difficulties. Appropriate criteria should be investigated by the committee on tax reform which should continue the work of the Commission.

Transferability of rebates: The substitution of the individual for the couple will yield marriage neutrality but it will entail a loss of neutrality between one-breadwinner and two-breadwinner families. The Commission believes the individual is the correct tax unit but that, as long as the one-breadwinner family remains an important family structure, a compromise in favour of the married couple should be made. This compromise takes the form of a recommendation that the primary and child rebates be made fully transferable between spouses.

NO GST EXEMPTIONS

ALL ITEMS TAXED

spections of employers' records.

Contractors and subcontractors: A withholding tax at source should be thoroughly investigated and if feasible introduced in respect of contract moneys paid to independent contractors and sub-contractors, resident and non-resident. Details of foreign contractors and individual job seekers and employees entering the country should be made available by the Department of Home Affairs to enable Inland Revenue to register them as taxpayers and, in the case of independent contractors, as employers for PAYE purposes.

Improvement of administration: Internal adminstrative procedures should be investigated by Inland Revenue, in consultation with the Work Study and Data Sections, with a view to streamlining them and making them more cost-effective. The installation of more microcomputers would promote decentralization and relieve the burden on the central mainframe computer.

Education and information: There should be a concerted effort to educate employers, employees and provisional taxpayers about their rights and obligations under the Income Tax Act. More attention

Separation of profit and finance charges: In a transaction containing both profit and finance charge elements the latter should be separated from the former and amortized over the period of the loan with reference to the outstanding capital amount. The Commission recognizes, however, that not all transactions can be dealt with in this way.

Excessive and fluctuating interest charges: The CIR should adopt a more vigilant approach to prevent the draining of taxable income by excessive and fluctuating interest charges.

Thin capitalization: Thin capitalization rules and practices are not recommended.

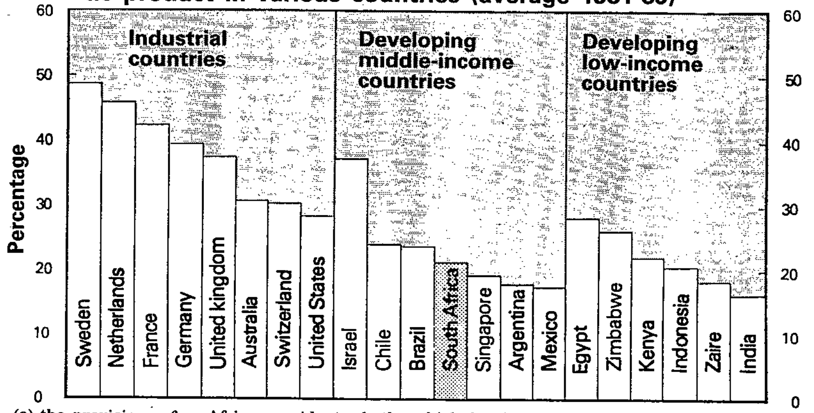
Arbitrage: Arbitrage should be recognized as a component of the financial system but its abuse should be constrained by limiting the availability of tax-free investments.

Acceleration of inflation: If the rate of inflation accelerates beyond present levels, consideration should be given to a system of inflation adjustment that addresses both the asset and the liability sides of the balance sheet, such as in the Israeli system.

Inflation at current levels: As long as inflation remains at current levels —

(a) The hotel-equip-

General Government tax revenue as % of gross domestic product in various countries (average 1981-83)



(a) the provisions of s 16 of the Income Tax Act in force as at 28 February 1984 should be restored and extended to certain other professions;

(b) the taxpayer claiming the allowance under the section in respect of overseas travel should be required to profide proof of his bona fide attendance at the relevant conference, and to obtain a certificate.

(i) in the case of a member of a recognized profession, from the

African residents, both corporate and individual, subject to certain safeguards:

(a) the exemptions presently contained in s 10(1)(k)(v) of the Income Tax Act should remain;

(b) at least partial relief should be given for foreign taxes paid;

(c) relief should be given where the foreign dividends emanate originally from South Africa and have been subjected to NRST on leaving South Africa;

(d) the [illegible]

which the close corporation is taxed should be equal to the maximum marginal rate for individuals.

Future development of close corporation law: The future development of close corporation law should be accommodated by appropriate changes to the taxation rules governing the close corporation and its members.

Stamp duty on transfer of member's interest: While stamp duty re- [illegible]

expenditure: Farming development and improvement expenditures and the cost of farming plant and machinery at present included in para 12 of the First Schedule should be written off on the following basis: 50% in the first year, 30% in the second year and 20% in the third year.

Recoupment provisions: Recoupment provisions which presently apply to movables and immovables in farming should continue to [illegible]

Low-income rebate: A low-income rebate of R600 for every taxpayer should be introduced. This rebate will diminish by R1 for every R10 by which taxable income exceeds R6 000. It will therefore disappear at R12 000 — the new FDS threshold as recommended. The purpose of this rebate is to prevent thresholds from falling too low and to alleviate the hardship to taxpayers within the FDS of being unable to transfer primary and child rebates.

Transferability confined to primary and child rebates: In the Commission's view, and to keep the recommended system of the individual as the unit as pure as possible, transferability should be confined to the primary and child rebats. The Commission, therefore, recommends the following:

(a) trading losses of one spouse should be confined to that spouse and not be set off against the income of the other spouse.

(b) medical expenditure including contributions to recognised medical benefit funds should be deductible from the husband's in-

... publication of information brochures and pamphlets, and to securing better cxo-operation and understanding between the revenue authorities and the taxpaying sectors.

Retention of the FDS: The final deduction system should be retained.

Improvement of the FDS: The efficiency of the final deduction system should be improved by:

(a) strengthening the administration by appointment more trained staff;

(b) introducing measures to ensure that all changes in the personal particulars of employees are accurately and timeously communicated to employers;

(c) *making amendments to the deduction* tables necessitated by changes in the tax rates effective for a full tax year.

Consideration should be given to:

(i) introducing a standard income tax on employees (SITE), thereby virtually eliminating refunds; and

(ii) raising the threshold of the final deduction system to R12 000.

Investment income: Although a withholding tax on investment income would improve the functioning of the final deduction system, there are practical difficulties associated with it. It would also clash with the present R500 exemp-

... ciation (which comprehends both wear and tear and obsolescence) in respect of industrial plant and machinery, the allowances for ships and aircraft, and the expensing of capital expenditure in mining and agriculture, should be replaced by a depreciation allowance in terms of which the cost of the relevant asset may be written off over a period of three years on the basis of 50%, 30% and 20% in the first, second and third years respectively. If inflation accelerates, the period will have to be shortened; if it abates, the period can be lengthened and the pattern of write-offs readjusted.

(b) Plant and machinery should include for this purpose buildings and other improvements in farming, and capital expenditure, as defined in s 36 of the Act, in mining.

(c) the cost of newly constructed employees' housing on mining and farming premises should be subject to an appropriate 'cap' but be depreciated on the same 50%, 30% and 20% basis.

(d) In so far as newly constructed industrial, hotel and residential apartment buildings are concerned, a 10% per annum allowance should be granted until the building is written off.

(e) The dispensation applying to those existing residential buildings

... utory or otherwise, which regulates that profession;

(ii) in all other cases, from recognized bodies as the Council for Scientific and Industrial Research certifying that such taxpayer's attendance falls within the provisions of the section;

(c) save the respect of courses referred to in para 9.76, the taxpayer claiming the allowance in respect of a conference or course within the Republic should be required to obtain a certificate prescribed by the CIRT;

(d) the concession should be extended to members of the essential professions who are in salaried employment;

(e) all the other constraints contained in s 16 at February 28 1984 should remain.

Deductibility of certain expenses: The deductibility of such expenses as audit fees and security guards should be statutorily acknowledged.

Shares exchanged for Mutual Fund Units: The fact that s 24A does not apply when trading stock in the form of shares is exchanged for units in a mutual fund is an anomaly that should be remedied.

Work in progress: Work in progress with regard to contruction business should be brought within the ambit of s 22 of the Income Tax

... not be so ... as to discourage the repatriation of profits by the subsidiaries of South African companies; and

(e) the rate of tax should not be so high as to encourage the repatriation of profits by means other than dividends.

Group taxation: In regard to the issue of group taxation, the Commission recommends as follows:

(a) The time is not ripe for group taxation in the Republic, but wider powers should be granted the Commissioner (similar to those contained in s 14 of the Act) to cater for cases where the Republic's strategic interests are involved.

(b) The company and not the group should remain the basic tax unit.

(c) Save possibly for exceptions in respect of mining, farming and leasing, there should as a general principle be no ring-fencing or schedular limitation of a company's activities.

NO BOND TAX RELIEF

Assets distributed in

...er ... member ... est in a close corporation should attract the same stamp duty as the transfer of shares in a company.

Partnerships: Annuality principle: The annuality principle — which requires the annual accounting of taxable incomes or accrued losses — should be extended to partnerships.

Losses apportioned to limited partner: The losses apportioned to a limited partner should be limited to the losses actually borne by that partner.

Trust income not accruing to a beneficiary: Where trust income does not accrue to any particular beneficiary at the end of a tax year, it should be taxed in the hands of the trustee at the maximum rate applicable to individuals.

Business trusts: The business trust should be treated for purposes of taxation as a company, beneficiaries being regarded as shareholders of the company. For this purpose a trust should be regarded as a business trust if, in the opinion of the Commissioner, it is used for carrying on business for profit, including the owning and letting of property for profit. Trusts designed simply to protect and conserve assets should fall outside this provision. A trust should be deemed to be a business trust where (a) the interest of a beneficiary is

... capital expenditure in respect of immovables: The Income Tax Act should be amended so that capital expenditures in respect of immovables are allowed for tax purposes only at the time when such expenditures are initially incurred.

Averaging system: The existing general tax averaging system should be retained as the only averaging formula for individual farmers.

Spreading of exceptional income: Certain anti-bunching measures should be abandoned.

Livestock reduction and expropriated land: Provisions in respect of the livestock reduction scheme and the cessation of farming on sale of land to the State and other specified bodies should remain. Likewise the provision for drought relief should remain.

Income equalization deposit scheme: An income equalization deposit scheme, whether as a complement to or a replacement of the current averaging scheme, should not be implemented.

Set-offs against proceeds in farmer's estate: An assessed loss, together with balances in the livestock and improvement accounts at the date of a farmer's death, should be transferable to the farmer's estate to set off these amounts against proceeds in the estate.

Margo draws approving nods

2/8/87 320 Star

Magnus Heystek
Finance Editor

The recommendations of the Margo Commission should have a positive effect on the economy, leading to greater confidence and an upsurge in investment, says Dr Japie Jacobs, senior vice-president at the Reserve Bank.

He told the Frankel, Kruger conference to discuss the Margo report in Johannesburg last night the economic growth rate would "pick up rapidly up as confidence returned to the economy as a result of the recommendations". He said indications were that the Government was, on the whole, quite positive about most of the recommendations.

His views were echoed by other economists at the seminar, including Mr Rudolf Gouws, chief economist for Rand Merchant Bank.

Stockbrokers and analysts at the meeting were also confident that, if implemented, the recommendations would have a positive effect on the stock exchange, leading to even greater investment participation by the public, particularly as dividends

Dr Japie Jacobs ... report should help economic confidence

would be tax-free in the hands of investors. The abolition of the marketable securities tax would also have a beneficial effect, leading to increased turnover of equities.

Dr Jacobs said much of the current economic hiatus could be blamed on the tax structure, which had contributed to a lack of confidence and large-scale emigration.

"The report should go a long way in turning the economy around, leading to greater investment and the creation of employment opportunities."

Mr Leslie Kruger, senior partner at Frankel, Kruger, felt sure the report would have a favourable impact on the JSE. He predicted a further rise in the market.

Other brokers also felt that theoretically JSE activity would increase significantly as investors scrambled for high-dividend stocks.

Others, however, took an opposite view and said that as a whole the report would have a neutral effect, specifically because the abolition of tax on dividends would be countered by an increase in the Comprehensive Business Tax.

Mr Pierre du Toit, senior partner at accounting firm Arthur Andersen, warned however that "there is a long road between the recommendations of a commission and, ultimately, legislation". Even those recommendations that did in time become law, could be radically changed from the original proposals, he said. He called on the Government to make known its attitude on the possible implementation of the recommendations as soon as possible.

Rival lobbies will fight to protect interests

320 B/Day

Margo: stage set for major battle

21/8/87

THE MARGO Commission's tax reform package has set the stage for a major political battle over at least the next two years as rival lobbies fight to protect vested interests threatened by the proposals.

First shots were fired yesterday by the life insurance lobby which condemned the Margo proposals on insurance as "totally unacceptable". But other private groups and political lobbies were bound to join the fray as soon as they had digested the full implications.

Among them are the motor industry, the farmers, the civil servants, the mining industry, business executives earning large "perks" and other powerful vested interests — even the constitutional reformers wedded to regional service councils (RSCs) and the RSC levies.

CHRIS CAIRNCROSS and GERALD PROSALENDIS

They have plenty of time. Finance Minister Barend du Plessis said there was no possibity of any measures being meaningfully implemented before the 1989/90 Budget. He said government was still open to persuasion.

Du Plessis said: "The Commission has received and weighed close on a thousand representations and submissions. It is certainly not the intention that this exercise be repeated; but there may well be persons or parties that in the light of the release of the report wish to raise new points before the Department of Finance submits its final recommendations."

The Commission's recommendations affect the nature of society and the stakes are huge. Many initial reactions were cautious, even welcoming.

However, the life insurance lobby — the Life Offices Association — looks set

To Page 2

SPECIAL coverage of the Margo report inside Business Day includes:

- ☐ **A 12-page pullout supplement summarising the major recommendations;**
- ☐ **What the report means — comment and interpretation: Page 6.**
- ☐ **What the report says: Page 7.**
- ☐ **Reaction to the report: Page 8.**

LOA slams proposals

GRETA STEYN

THE Life Offices Association (LOA) criticised the Margo proposals yesterday, saying if they were implemented the life assurance industry would pay too much tax on behalf of policy holders.

"The majority report on life assurance taxation is totally unacceptable," LOA chairman Dorian Wharton-Hood said yesterday. "We object to the new definition of taxable income and the departure from the traditional pragmatic approach which worked for a long time."

Wharton-Hood criticised the recommendation that proceeds of the sale of investments by financial institutions be treated as income and taxed without any adjustment for inflation. He also felt there was a lack of clarity regarding the taxation of dividends in the hands of financial institutions.

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Margo: stage set for battle

for a direct confrontation with government over specific recommendations which, it claims, will drain too much revenue from the life insurance industry.

A row is also in the offing over government's constitutional plans and the RSCs in particular. Despite sharp criticism by Margo and a recommendation to delay, the Department of Finance yesterday indicated the RSC payroll and turnover levies would be imposed from September as planned.

Besides evoking the special interest lobbying, the report has laid the basis for more fundamental attacks. The rejection of a capital gains tax and the proposals to abolish estate duty and tax on dividends are calculated to draw fire from trade unions and poor people's lobbies.

More seriously, government has already begun to come under pressure from organised commerce and industry not to use any of the new tax measures to further feed rising expenditure.

There has been extreme criticism from every quarter that the Commission was not allowed to also address the expenditure side of fiscal policy.

Political commentators observed government was being offered a flexible package which it could manipulate in any manner it wished to fuel its own profligate revenue needs without the likelihood of attracting too much attention from the man-in-the-street.

The Commission recommends a package consisting of:

☐ Reform of GST by lowering the rate first to 7,5% and then 4% as soon as possible. GST should be more clearly a retail sales tax, with double taxation eliminated, and extended to include all food;

☐ Reducing the rates of personal income taxes and broadening and reducing the number of tax brackets;

☐ Changing from the joint taxation of

● From Page 1

husband and wife to the separate taxation of individuals;

☐ Full taxation of fringe benefits which will encourage a move back towards cash remuneration;

☐ The elimination of tax allowances on expenditure;

☐ Dividends should be free from taxation in the hands of shareholders, if paid to residents by resident companies. The taxation of dividends should be replaced by small (2%) tax up front on company profits;

☐ Neutrality to the form which business takes, partly achieved by freeing dividends from further taxation, will be further achieved by eliminating the tax on undistributed profits, taxing business trusts as companies and the imposition of a branch profits tax on foreign subsidiaries;

☐ As a concession to inflation, depreciation should be uniform in sectors of the economy with 50% written off in the first year, 30% in the second and 20% in the third;

☐ The rapid introduction of a national comprehensive business tax (CBT) at a rate of about 5% accompanied by a reduction in the company rate and top marginal rate for individuals to 45%;

☐ The replacement of RSC levies, of which the Commission is critical, by CBT type levies on a regional basis;

☐ The imposition of a capital transfer tax at a flat rate of 15% to replace estate duty and donations tax;

☐ The re-negotiation of the Customs Union Agreement and efforts towards tax harmonisation in southern Africa;

☐ The phasing out of minor taxes, such as *ad valorem* duties on luxuries, stamp duties, marketable securities tax and transfer duties.

Reduction recommendation a no-confidence vote

GERALD PROSALENDIS
Financial Editor

THE Margo Commission's recommendation that GST be reduced to 4% is a clear vote of no confidence in this tax.

Says commissioner Johan de Villiers Graaf: "It is not correct that so large a portion of revenue should come from sales tax."

In 1986/87, GST is projected to

REDUCING GST

provide revenue of R9,4bn, compared with only R650m in 1978/79.

The Commission believes that the comprehensive business tax (CBT) will allow government to reduce GST in two stages, initially to 7,5% and then to 4%. This should be done as soon as possible, the report says.

"Since GST is not efficient at higher rates, it should not be increased beyond 4% in future," it says.

"Once the rate passed above 10%, the problems associated with this tax became serious. In most countries sales tax of the GST type has tended to be trouble-free up to about a rate of 10%," says Graaf.

The Commission's report says increases in GST have exacerbated the distortions caused by the wide base selected for the tax, led to exemptions which have eroded and further distorted the base, greatly increased the incentive to evade the tax, and generated unpopularity and resistance to the tax.

However, government's inability to keep GST at a low rate — the Minister of Finance gave the assurance it would be a low-rate broad based tax when it was introduced — casts serious doubt on the future of the new CBT.

Tax experts believe it would require tremendous will-power on the part of the fiscal authorities not to sneak up the rate of a tax that would provide an additional R1bn in revenue for every percentage point increase, the same amount as GST.

According to the Commission, other disadvantages of the present GST system include:

☐ It is regressive. It appears that the ability of market forces to shift the incidence of income tax was underestimated;

☐ Increases in sales tax have had a more direct impact on prices than increases in income tax; and,

☐ Double taxation on capital goods used in production, non-exempt consumables and certain non-exempt services to traders, has become a problem because of the high rate of GST.

Separate tax for spouses

PARLIAMENT — The Commission has recommended that joint taxation of husbands and wives be discontinued.

The Commission said it was persuaded that the tax unit should be the individual.

The Commission also rejected the concept of taxing the joint income of a family.

The system of joint taxation, where all the income generated was deemed to be the husband's earnings, was based on the typical household structure prevalent at the introduction of income tax in 1914 and for many years after.

Married women were then properly described as housewives and husbands as breadwinners and a housewife's income was considered to be a supplement to her spouse's to assist him in discharging his legal obligation to maintain the joint household.

"To deem all income accruing to the woman living with her husband (to be) the income of her husband rested on an assumption valid for the early part of this century," the Commission commented.

Similar situations prevailed in the UK and the US.

In SA law, the common assumption was fortified by the universal community of property and of

JOINT TAXATION

profit and loss which for many years applied to the large majority of married couples.

It was not until 1953 that the woman "subject to her husband's guardianship" acquired some control over her earnings.

In 1984, equal powers of administration of jointly owned property were extended to wives.

Against this background, it was not surprising that in SA joint taxation of married couples did not feature prominently on the list of possible tax reforms.

All official investigations into the matter continued to support it and there was still support for the retention of the *status quo* among academics and practitioners.

They rejected the argument that joint taxation acted as a disincentive to skilled women entering the labour market.

They also rejected the argument that it influenced couples' decisions to marry. — Sapa.

CBT will tap base of R67bn

GERALD PROSALENDIS
Financial Editor

MARGO'S comprehensive package of tax reform hinges on the introduction of a comprehensive business tax (CBT) which could tap a broad tax base of R67bn.

The commission believes the reduction in taxes such as GST, corporate tax, individual income tax and minor taxes as well as structural reform of the tax system will be made possible by providing this alternative source of revenue. It has recommended that CBT be introduced rapidly and with a minimum of legislative change.

At a rate of 5%, the commission estimates it could provide revenue of R5bn which will

BUSINESS TAX

increase by R1bn for every additional percentage point.

The concept for a CBT is broadly based on the US state of Michigan's "single business tax", which raises substantial revenue at a low rate of 2%. The CBT is a massive instrument to shift the burden of taxation onto business.

TAX experts have given cautious approval of the Margo Commission's proposed comprehensive business tax (CBT).

However, they said the potential complexity of the tax should not be underestimated. It would require careful definition, involve sophisticated accounting issues and introduce new concepts such as "gross investment".

Arthur Andersen & Co's international partner Pierre du Toit said: "When it is considered CBT will constitute a major pillar in the overall tax structure the ultimate legislative merit of clarity and certainty must be achieved. It would be disastrous for a tax of this importance to be legislated with the same degree of confusion and imprecision as were the RSC levies."

Some said the commission's proposal that overpayments should not be refundable but be merely credited against a future CBT liability, which may never arise, seemed to be unfair.

The commission says there are two reasons for looking to the business sector for a new source of revenue:

☐ Taxes on business are more easily shifted forward onto consumers and backwards onto suppliers than other forms of tax. This means they are "thinly spread" and create minimum distortion;

☐ The present tax on business income is not well designed, especially for inflationary conditions. The rate of 50% on companies is high enough to cause significant distortion.

Unlike GST, retail sales tax and the EC-type VAT — which are indirect taxes on commmodities — the comprehensive business tax is a tax on incomes generated by the level of business activity.

It also differs from them as an origin-based, rather than destination based, tax. It is this characteristic, the commission believes, which will overcome the problems associated with open borders and the lack of fiscal harmonisation in southern Africa.

CBT aims to achieve a low rate by encompassing more than just the profit element in income generated by business.

'State should set the example'

CHRIS CAIRNCROSS

MARGO has called for the scrapping of all fringe benefits and for the imposition of tax measures which will promote the ideal of a purely cash remuneration system in SA.

This step is crucial to the maintenance of neutrality and equity in the economy, and the free transferability of personnel between sectors in the economy, the Commission observes in its report.

The Commission pointedly concedes, however, that it is not clear how much progress

FRINGE BENEFITS

can be made in reaching towards this ideal unless the State itself sets the example.

It stresses that while the State continues to pay its servants packages that contain significant untaxed fringes, it is weakening one of the principal bases on which it depends for its own revenue.

Indeed, the Commission firmly states that it believes the wide range of deductions granted in the form of fringe benfits militates against the primary objective of getting the tax rate as low as possible — in that it does seriously erode the tax base.

"The State should set the example to other employers by paying cash remuneration in place of fringe benefits."

Accepting that this proposal is unlikely to be acted upon, the Commission has instead recommended that no further relief be given in respect of the taxation of fringe benefits.

Further, that the Commissioner for Inland Revenue should, in general, restrict the substitution of fringe benefits for cash by the strict application of the Seventh Schedule of the Income Tax Act.

Action should include the imposition of penalties where appropriate.

The exception Margo is prepared to concede in this regard relates to approved share incentive schemes for employees.

In dealing with the fringe benefit issue, Margo makes especial reference to the case presented by the motor industry.

The Commission concluded that it was not qualified to advise on what form or degree of relief, or any, should be accorded any sector.

But it does propose that if any relief is to be considered, it should be done outside the provisions of the Income Tax Act.

As to the motor industry, it has recommended that:

☐ The valuation of company cars be adjusted annually until more realistic values are achieved;

☐ The method of taxing the car allowance be altered to ensure that recipients of the allowance are taxed to its true value; and

☐ The recoupment provisions in the Income Tax Act be amended to ensure that any benefit arising from the sale of a vehicle is brought into account.

Commission hits at RSC levies

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CHRIS CAIRNCROSS

THE Margo Commission disapproves of the two regional services council (RSC) levies government has so hastily imposed.

It has called on government to replace them with a single regional

RSCs

tax, with the rate to be determined by each region on the same tax base as the comprehensive business tax (CBT) which the commission has recommended as the key to its reform package.

The commission describes the turnover levy as "unfair" and contrary to the objectives of neutrality and equity which it has tried to embody in its tax reform proposals.

Its clearly stated objections to the levy are:

☐ It provides a stimulus to vertical integration (merging) of companies/undertakings;

☐ It will create distortions by the cascading "tax-on-tax" effect, and

☐ It will give rise to difficulties of defining "turnover" in certain occupations, like banks and stockbrokers.

The commission's objection to the payroll tax is that it is already being critically construed as a tax on employment.

It believes government's firm desire to impose a regional tax on wages should be neutralised, or at least reduced in impact.

Margo sets stage for tax battle

Dispatch Correspondent

JOHANNESBURG —The Margo Commission's tax reform package has set the stage for a major political battle over at least the next two years as rival lobbies fight to protect vested interests threatened by the proposals.

The first shots were fired yesterday by the mining industry, life insurance lobby and aid and consumer groups opposed to the reintroduction of GST on basic foods. Other private groups and political lobbies were bound to join the fray as soon as they had digested the full implications.

Among them are the motor industry, farmers, civil servants, business executives earning large "perks" and other powerful vested interests — even the constitutional reformers wedded to regional service councils (RSCs) and the RSC levies.

They have plenty of time. The Minister of Finance, Mr Barend du Plessis, said there was no possibility of any measures being meaningfully implemented before the 1989-90 Budget. He said the government was still open to persuasion.

The commission's recommendations affect the very nature of society and the stakes are huge. Many initial reactions were cautious, even welcoming.

However, the Chamber of Mines and the life insurance lobby — the Life Offices Association (LOA) — look set for direct confrontation with the government. Aid and consumer groups have already described the recommendation that GST be extended to all foods as a blow to the poor.

The chamber said if the proposal that mines' capital expenditure be written off over three years instead of immediately were implemented, "it could severely prejudice existing and future mining development".

Drawing its battle lines, the LOA described proposals on insurance as "totally unacceptable", and condemned specific recommendations which, it claimed, would drain too much revenue from the life insurance industry.

A row is also in the offing over the government's constitutional plans and the RSCs in particular. Despite sharp criticism by report and a recommendation to delay, the Department of Finance yesterday indicated the RSC payroll and turnover levies would be imposed from September as planned.

Besides evoking the special interest lobbying, the report has laid the basis for more fundamental attacks. The rejection of a capital gains tax and the proposals to abolish estate duty and tax on dividends are calculated to draw fire from trade unions and poor people's lobbies.

The government has already begun to come under pressure from organised commerce and industry not to use any of the new tax measures to further feed rising expenditure.

Political commentators observed the government was being offered a flexible package which it could manipulate in any manner it wished to fuel its own revenue needs without the likelihood of attracting too much attention from the man-in-the-street.

The commission recommends a package including:

- Reform of GST by lowering the rate first to 7,5 per cent and then 4 per cent as soon as possible. GST should be more clearly a retail sales tax, with double taxation eliminated, and extended to include all food;
- Reducing the rates of personal income taxes and broadening and reducing the number of tax brackets;
- Changing from the joint taxation of husband and wife to the separate taxation of individuals;
- Full taxation of fringe benefits which will encourage a move back towards cash remuneration;
- The elimination of tax allowances on expenditure;
- Dividends should be free from taxation in the hands of shareholders, if paid to residents by resident companies. The taxation of dividends should be replaced by small (2 per cent) tax up front on company profits;
- The rapid introduction of a national comprehensive business tax (CBT) at a rate of about 5 per cent accompanied by a reduction in the company rate and top marginal rate for individuals to 45 per cent;
- The replacement of RSC levies, of which the commission is critical, by CBT type levies on a regional basis;
- The imposition of a capital transfer tax at a flat rate of 15 per cent to replace estate duty and donations tax;
- The re-negotiation of the Customs Union Agreement and efforts towards tax harmonisation in Southern Africa;
- The phasing out of minor taxes, such as ad valorem duties on luxuries, stamp duties, marketable securities tax and transfer duties.

MR JUSTICE MARGO . . . yesterday's picture

Details of report, pages 4 and 5; MPs react page 11

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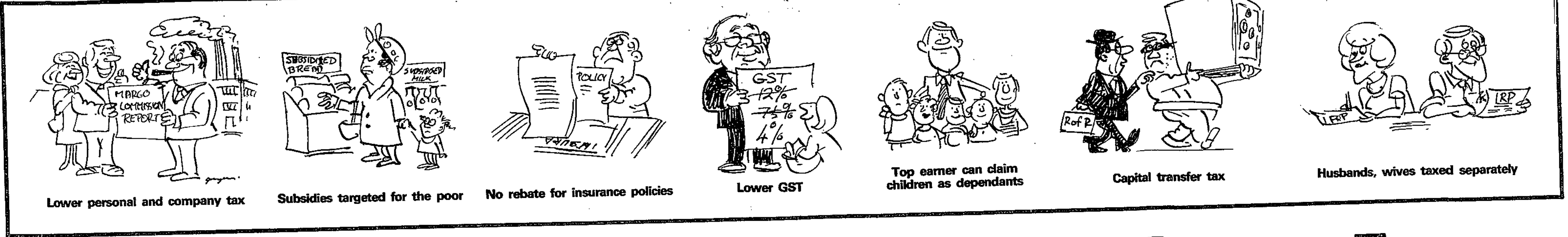

Lower personal and company tax
Subsidies targeted for the poor
No rebate for insurance policies
Lower GST
Top earner can claim children as dependants
Capital transfer tax
Husbands, wives taxed separately

Margo tax relief plan

→ cont.

Cape Times 21/8/87 (320)

[redacted]

By AUDREY D'ANGELO
Financial Editor

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More on Margo

- All the recommendations — Page 6, 7 and 9
- Package hinges on new business tax — Page 4
- Mining, insurance lobbies uneasy — Page 5

21/8/87

A COMPLETE overhaul of South Africa's tax system is proposed in the long-awaited report of the Margo Commission. The tax base would be widened by a new comprehensive business tax, and lower, simpler personal and corporate rates, are proposed.

Response to the report tabled in Parliament yesterday has been generally enthusiastic, but the government has reserved its position and it could take several years for implementation of those proposals it finally accepts.

Margo's recommendations would leave the man and woman in the street better off through lower taxes — a maximum marginal rate of 28% is proposed — fewer brackets, and a two-stage slashing of GST to first 7,5% and then 4% from the present 12%. But exemptions from GST, including food, would be eliminated.

Most families with working wives would gain in real terms because each spouse's salary would be taxed separately, instead of the present system of lumping incomes together into a higher tax bracket.

Shareholders

And in cases where the wife earns more than the husband, the higher salary would claim the primary rebate and allowances for children.

Shareholders who are permanent residents would not be taxed on their dividends.

Medical expenses in excess of 5% of the taxpayer's income would be fully deductable. Below that level, however, tax claims against medical costs would not be permitted.

Abolition is recommended of the Marketable Securities tax of 1,5%, which will make it cheaper to put money into a unit trust or buy shares.

Pointing out that exemptions and subsidies for food meant the taxpayers' money was being spent on subsidizing the wealthy as well as the poor, Mr Justice Cecil Margo explained at press briefings that it would be better to pay a subsidy to the needy instead of using the tax system for this purpose.

In theory, companies will also be better off if the report is adopted in its entirety.

Company tax would be cut from the present 50% to the same low level as individuals. This would then be topped up by an extra 2% to make up for the loss of tax on dividends in the hands of the shareholder, and a new comprehensive business tax to be levied at a 2% rate on all companies on the basis of sales minus purchases.

The commission recommends the scrapping of allowances to companies for activities like training and exporting. Again, as with GST, it thinks that the government should give direct subsidies for activities it wants to encourage rather than using the tax system to do so.

The life insurance industry will also be unhappy about the main report. It recommends taking away the present tax allowance to individuals for insurance premiums and cuts the allowance of 60% which insurance companies and mutual societies claim for expenses.

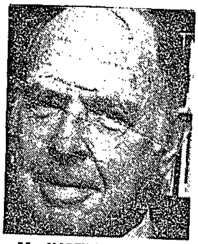
The industry is certain to lobby for the adoption of a minority report recommending that the situation should stay as it is.

Surprisingly, there is no request for a capital gains tax. Instead, a capital transfer tax of 15% is proposed. This would have some of the effect of a capital gains tax, and of death duties.

Fringe benefits would be taxed at their full value, and the commission is sharply critical of recently introduced regional service council levies which would fall away.

SOWETAN
Daily Mirror
FRIDAY, AUGUST 21, 1987
27c + 3c GST (PWV) Prices elsewhere on Back Page

'New deal' on taxes



Mr JUSTICE Margo.

A NEW deal for married couples has been struck by the Margo Commission, which says in future working wives should be taxed separately from their husbands.

Primary and children's rebates may also be switched from husband to wife to suit their financial circumstances.

Couples should not be penalised because they marry, says the report.

"It is no longer true that women necessarily depend on their husbands. Fiscal policy should be seen to discourage neither marriage nor employment. Individual effort should be encouraged."

The commission recommends that separate taxation of spouses ~~should be~~ compulsory.

But for administration reasons, husbands and wives should submit joint returns unless they ask for separate returns.

A low-income rebate of R600 for every taxpayer is proposed, the rebate dropping by R1 for every R10 by which taxable income exceeds R6 000 and disappearing

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Tax deal

● From Page 1 21/8

at R12 000.

The commission also recommends:

● Trading losses of one spouse should be confined to that spouse and not be offset against the income of the other spouse;

● Medical expenditure should be deducted from the husband's income;

● Deductions not fully used by one spouse — for example, pension and retirement annuity fund contributions exceeding the allowance deduction — should not be transferrable between the couple; and

● Fixed amounts of deductions should be available in their present form to each spouse in his or her capacity as a taxpayer, the report recommends.

"It is wrong that more taxes should be paid on marriage and it is wrong that two people living together should be taxed less than two married people," commented a member of the commission, Professor John Morris.

One of the most serious problems is that it is almost impossible to devise PAYE tables to take the correct amount of tax, he explains.

Org hints of tax cut to come

W Mail By HILARY JOFFE

(320)

THE government is "lying low" and waiting for public comment on the Margo Commission, but some indication of its response was given this week in some off-the-cuff remarks by Deputy Minister of Finance Dr Org Marais.

"We in the Department of Finance believe we must bring down taxes," Marais said on Wednesday evening.

Speaking at the annual general meeting of the SA Lumber Millers' Association, he said the United States, Canada and Australia had all brought down their average tax rates and if South Africa wanted to compete internationally it could not overtax the investor or the voter.

Marais said he had intended to speak to the lumber millers on the commission but publication of the report, initially scheduled for last week, was delayed until the end of the president's budget vote.

It is likely that the timing was changed to ensure maximum media coverage of the commission's report.

Marais spoke to the lumber millers instead on international economic conditions and their implications for South Africa.

He pointed to the harmful effects for economic growth in the developed countries of the trade imbalances both between developed and developing countries and between the United States and other developed countries.

South Africa was not the only country with a decline in fixed capital investment, he said: In developed countries total fixed capital investment is expected to grow by only one percent in real terms this year.

But he speculated that disinvestment and isolation might protect South Africa from the worst of the world debt problem and recession.

He also said disinvestment and sanctions would force South Africa to look to new markets, particularly in the Far East.

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Business world in favour of Margo report's sug[g]estions

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Star 21/8/87

CBT welcome 'if tax rates cut'

Own Correspondent

DURBAN — The Margo report's proposed new Comprehensive Business Tax (CBT), based on that of the American state of Michigan, is likely to be welcomed only if is accompanied by a large reduction in company tax rates.

This is the view of Mr Robert Stretch, a tax specialist with Ernst and Whinney in Durban.

He says the proposal means companies will cope with company tax, general sales tax, income tax (for employees), Comprehensive Business Tax and Regional Services Council levies.

With the exception of CBT and RSC levies, they will be on different tax bases.

The CBT has been described as Margo's most revolutionary proposal.

It is the one upon which all the proposed reforms depend because it will supply the additional revenue to implement them.

In Michiga[n] ...e only area in the world ...ave the tax (known th... s the "Single Business T... 2,34 percent of the tax b... led to repeal of corporat... e tax, property tax on ...ries, franchise tax, pr... tax on insurers and taxes on savings and loa[ns]

CBT's benefit is that it loo[ks] far further for tax sources th[an] the present profit-based com[pany] tax system.

Basically, the tax base com[prises] the sum of salaries, wages, interest, royalties, rent, profit and depreciation.

Its formula, simplified, is sales less purchases (both on goods and services).

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The business world has given a general nod of approval to the approach of the Margo Commission which has recommended a sharp drop in GST, separate taxation for married couples and a revolutionary new business tax.

The recommendations are contained in the report, which follows a three-year investigation into South Africa's tax structure. The report was tabled in Parliament yesterday.

Though business organisations generally approve the main recommendations, question marks still hang over what decisions the Government will take on the proposed new tax packages.

If implemented, the sweeping proposals will lead to significantly lower levels of individual and company taxation but at the same time increase total tax revenue by the abolishing tax expenditures and introducing measures to combat tax evasion.

Another exciting recommendation is that dividends be exempt from tax in the hands of resident shareholders.

Government's view on the report will only be made known in due course, but already a source close to the Minister of Finance has admitted to "some problems with it".

Both the Association of Chambers of Commerce and the Federated Chamber of Industries noted that government spending patterns had stayed outside the orbit of the investigastion.

But they were relieved the government had allowed time to hear comment and reactions from the private sector before pressing ahead with its own recommendations on an action plan.

Assocom welcomed the report as "a major contribution towards the tax reform which SA needs to improve its economic performance".

Fiscal principles supported

The FCI "fully supports the sound fiscal principles on which the report is based", said a statement. "It believes that if these principles are embodied in tax policy it should have the desired effect of broadening the tax base, improving the tax structure, the balance between direct and indirect taxes and the lowering of tax rates."

Mr Pierre Steyn, president of the Afrikaanse Handelsinstituut (AHI), said the recommendations could pave the way for a completely new tax structure in South Africa.

"Acceptance of the recommendations will lead to a more evenly spread tax load that will result in more money for the man-in-the street, which in turn will result in increased spending, secure economic growth and creation of employment over the long term."

The PFP spokesman on finance, Mr Harry Schwarz, said the report may change the nature or levels of taxation but would not reduce the total amount extracted from the taxpayer. The report contained both good and bad news, he said.

"Before there is too much excitement about the report it should be realised that there are no signs that Government expenditure is likely to come down in years ahead, the White Paper on Privatisation notwithstanding."

The Labour Party said today it hoped the Government would examine closely, and speedily implement, the proposals of the Margo Commission on taxation.

"With a view to resuscitating the national economy, it is trusted that the Government will closely examine and speedily implement the far-reaching proposals," an LP statement said.

The commission, chaired by Mr Justice Cecil Margo, is critical of the present tax structure, labelling it as too complicated, unfair and interfering with economic choices which effect economic growth.

This is the outcome of ad hoc and piecemeal reforms over the years in response to the policy needs of the times.

"The result is a system that lacks cohesion and manifests an absence of overall planning," says the report. This has led to, among other things, a decline in tax morality, a high incidence of tax avoidance and even evasion, and the proliferation of tax shelters.

The commission recommends a reduction in the rate of general sales tax (GST) in two stages; first to 7,5 percent and thereafter to 4 percent, but applicable to all products sold at retail level.

The present exemption of foodstuffs from GST is "highly tax-inefficient", says the report, as it leads to a loss of more than R1,3 billion to the revenue authorities, while at the same time only saving roughly R300 million.

It also recommends the present system of joint taxation be abolished and the two partners be taxed as individual units, still retaining the benefits of primary and child rebates. This will lead to a loss of between R2 and R3 billion to the State.

Uniform top rate

Individual and company marginal rates should be reduced "as much as possible" with a uniform top rate for businesses and individuals.

Central to these recommendations of lower, but broadly based and in many respects "invisible" taxes, is a new tax on business, called the Comprehensive Business Tax (CBT), levied on incomes generated by business activity.

The income generated in this area will affect the structural reforms and lower tax rates which are urgently needed in other parts of the system.

The commission gives its reasons for looking to the business sector in the search of new revenue: "Taxes on business are more readily shifted (forwards onto consumers and backwards onto suppliers) than most other forms of taxation. If they are well-designed, their incidence tends to be widely and thinly spread, creating minimal distortions.

"Secondly, the existing tax on business income is not well designed, especially for inflationary conditions, and is imposed at a rate high enough to cause significant distortion."

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Experts give mixed reactions

Tax experts had mixed reactions yesterday to the Margo Report.

Tax specialist Mr Michael Stein said: "It's a very good report — conservative, sensible and practical. It seems to address the real problems of our tax system."

Mr Chris Frame, of chartered accountants Price Waterhouse, said the report was disappointing to fiscal radicals and conservatives.

Mr Martin Westcott, managing director of PE Corporate Services, said: "The report seems to be politically expedient rather than geared to economic needs. There should have been far more economic stimulation behind it."

Mr Nic Nel, a Johannesburg tax consultant, who has argued in favour of a system of flat tax rates for individuals and companies, said the report came as "a great disappointment, a damp squib, a fizzle".

Mr Marius van Blerck, group tax consultant for Anglo American, said yesterday the main proposals of the commission seemed acceptable provided they were linked to a tax ceiling of about 35 percent for individuals and corporate bodies.

Women's organisations welcomed the commission's recommendation on the abolition of combined taxation, while retaining the benefits of primary and child rebates.

The National Council for the Care of the Aged was not surprised at the report's admission that it saw no solution to the interest rate/inflation problem — which particularly affects pensioners living off interest from a fixed investment.

The National Association of Automobile Manufacturers welcomed the "overall thrust" of the commission's proposals towards a broader spread of the tax burden.

Mr Fred Thermann, executive operations director of the Federated Hotel, Liquor and Catering Association, said a boost for consumer spending would stimulate the tourist industry with widespread benefits for the economy.

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MARGO REPORT

Revenue lost with shortage of staff

Inland Revenue was labouring under severe disabilities, with serious shortages of qualified and experienced staff and government outlay being only one third of what it should be, the commission found.

But for the ability and dedication of the Commissioner for Inland Revenue and his officers, the whole complex of operations would have been reduced to a critically low tempo.

Recommending urgent redress, the commission said a great deal of revenue was being lost through evasion, because of staff inadequacies.

The statistical section was too small and some important data capturing and processing could not be undertaken.

There were serious and well grounded complaints about poor accommodation in some areas.

Run-down buildings, cramped accommodation, shoddy furniture, excessive staff in small offices, and other deficiencies in accommodation were not conducive to staff morale, did not make for efficiency or productivity and worse reflect badly on the standing, competence and authority of Inland Revenue officials in the eyes of the public.

Early improvement was urged.

The commissioner should be in the front rank of public servants, instead of at the level of director-general. If he could not be restored to the position of head of a department, his status should be raised by the creation of a special post with appropriate emoluments. The posts of his various deputies should be regraded accordingly.

Professional competence should be of a high order to attract public servants of calibre and to assure for them the confidence and regard of the taxpaying public and of the legal, accounting and tax consultant professions.

The cost incurred in collecting revenue, compared to figures in other countries in the 1984/85 financial year was 0,3 per cent of the total, while it was two per cent in the United Kingdom, 1,14 per cent in Canada, and one per cent in Sweden.

The recruitment and training of black personnel to communicate with and educate black taxpayers and to meet the growing need for black administrators in the directorate, had become imperative.

JUSTICE MARGO

SA's top man in the hot seat

By ROGER WILLIAMS
Chief Reporter
of the Cape Times

Justice Cecil Margo, whose report on a new tax structure was tabled in Parliament yesterday, has become the country's most respected investigator in the fields of business and finance and aviation.

The 72-year-old jurist has been called on increasingly in recent years to probe particularly sensitive and sometimes extremely complex and controversial issues.

Judge Margo came into prominence as a public investigator when he was appointed chairman of a tribunal inquiring into the country's biggest air disaster — that of an SAA Boeing 707 which crashed after a night take-off from Windhoek in 1968.

A total of 123 passengers and crew died.

I was flown to Windhoek soon after the crash to report on it.

The quietly-spoken Cecil Margo QC struck us all not only as an incisive and extremely knowledgeable person but also as warm, friendly and approachable.

Born in Johannesburg and educated at King Edward VII School and at the University of the Witwatersrand, he went on first to practice at the Bar and then to distinguish himself as a fighter pilot in World War II.

He commanded the SAAF's 24 Squadron and later served in the Royal Air Force, finishing with a DSO and a DFC and with the rank of lieutenant-colonel.

Cecil Margo's war record showed him to be a forceful and fearless leader, both as a fighter pilot and as a test pilot, and later as head of the Air Accident Investigation Organisation in Training Command.

He was appointed chairman of the Standing Advisory Committee on the Companies Act in 1973, and in 1977 he became an obvious choice to head a commission of inquiry into SA civil aviation.

Judge Margo, still honorary colonel of 24 Squadron, again became the obvious choice to lead the official inquiry into the world-publicised crash near Komatipoort last year of a Russian-built jetliner carrying President Samora Machel of Mozambique.

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Relief on dividends to resident individuals

Tax on dividends in the hands of resident individuals, insurance companies, and close corporations should be abolished, the commission says.

This loss of revenue should be compensated by an increase of about two per cent in the company rate after it has been lowered as the commission suggests, or by an adjustment of the rate of the proposed comprehensive business tax (CBT).

If the tax on dividends is abolished, then the undistributed profits tax (UPT) should fall away too, with the repeal of sections 8B, BC and 8D of the Income Tax Act.

If the dividend tax is not abolished and the UPT is retained, then the requirement of section 50 of the Act — that profits must actually be derived before companies having a majority of foreign shareholders or deriving the bulk of their profits from non-SA sources are exempt from UPT — be scrapped.

The commission also recommends that consideration be given to the taxation of foreign dividends accruing to South African residents, both corporate and individual, subject to safeguards.

Other proposals:

● **Capital gains tax** should not be imposed. The few submissions in favour it received failed to address more than a few of the considerations. Only two members voted in favour of the tax.

● **Heavy vehicles** should be taxed according to tare. The recommendation had come from an inter-departmental committee which had found that heavy vehicles in particular were to blame for escalating costs or road upkeep.

● **Excise duties** such as those on cigarettes and liquor should be regularly adjusted to keep pace with inflation.

A modest tax should again be levied on natural and flavoured wines and sorghum beer.

Malt beer be taxed according to a uniform tariff, with differentiation in respect only of specific gravity.

● **A single fuel levy** in the form of an excise tax to replace the existing system of excise duty, levies and rebates.

A system of tax credits should be developed whereby certain identified activities, such as the agricultural sector, specific bus transport undertakings, fisheries and forestry, could claim a refund of particular levies against proof of application.

● **Ad valorem duties** should be re-evaluated and such duties should be abolished as far as possible.

These duties accounted for a substantial share of total revenue from customs and excise duties, but regard should be had for the fact that the removal of the duties could result in increased turnover of the goods in question.

The sales tax generated as a result might well "temper the loss".

"The commission does not believe that ad valorem duties, which in essence are discriminatory taxes on certain commodities, can be justified as a means of raising revenue."

● **Mining** — the redemption allowance should be abolished and replaced with a system of writing off capital equipment over three years.

There should also be no extension of capital allowances for tax purposes.

In the case of aiding new and ultra-deep level mines, these should be replaced by direct grants.

The commission also proposed that the surcharge of 15 per cent imposed on mines that do not mine gold and diamonds should be abolished.

Although it is considers that the formula method of taxing gold mines should be replaced with a flat-rate tax on profits, the commission is not prepared to make a firm recommendation to this effect without a detailed investigation which should be undertaken as a matter of urgency.

● **Charitable**, religious and educational institutions' trading profits should remain exempt from tax provided the income was used to further the objectives of the bodies.

● **Parastatal bodies** with equity capital held by private sector investors should be subject to income tax as ordinary companies, but bodies and institutions not having such equity capital, and state trading concerns, should be exempt.

Exemptions from tax as a general rule should be granted in exceptional circumstances only and should thereafter be subjected to regular scrutiny.

● **Defaulting** taxpayers' names should be published and general anti-avoidance provisions should be inserted in all fiscal legislation.

Use of commercially accepted tax avoidance schemes, in spite of the knowledge that they could be successfully challenged by the Commissioner for Inland Revenue should he choose to do so, could be countered by charging interest with retroactive effect on the amount of tax where a taxpayer had been successfully challenged.

The commission felt that delays in prosecuting tax evaders seriously weakened taxpayer morale and compliance.The law must be seen to take its course where blatant evasion was concerned.

Additional court facilities should assist in more effective prosecutions of evaders, and a special regional court was proposed.

● **Marketable securities** tax and stamp duty should be abolished as soon as possible. This should apply particularly to stamp duties on share transactions.

The transaction duty on cheques and credit card transactions on bank accounts should be abolished, or if it was retained, extended to transmission accounts of building societies and the Post Office Telebank facilities.

MST and stamp duties were "outmoded and inappropriate" in an era in which increasing use was made of electronic devices to effect and record transactions.

● **Benefits** paid to policy holders in long-term insurers should remain free of tax but there was "little justification" for retaining the tax rebate in respect of premiums.

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SA urged to consult with neighbours on taxes

The question of tax harmonisation should be taken up in negotiations between the Republic and its neighbours as a matter of urgency, the commission recommended.

In a section dealing with international aspects of taxation other than those relating to the Southern African Customs Union, it also recommended that immediate action be taken to counter transfer pricing and that double taxation agreements in which the advantage is clearly against the Republic be re-negotiated or terminated.

The commission said tax harmonisation was "an aspect of economic integration between neighbouring states that could promote development for all concerned".

Economic integration alllowed for relatively open borders, which in turn resulted in small national markets being combined into a larger market, thus achieving the advantages of economy of scale which arose from specialisation.

"The ultimate result is industrialisation realised at the lowest cost."

It was only through negotiation that the states concerned could arrive at an agreement which would allow these advantages to be achived.

Referring to transfer pricing, the commission said it had received evidence that taxpayers were using this to exploit the difference between tax systems and to "gain advantages in relations to the currency differentials brought about by South African exchange control regulations".

Common forms of transfer pricing were the export of goods at prices below existing market prices and the import of goods at prices higher than those prevailing in the market.

One effect of legal transfer pricing was to shift the realisation of profit (or a part of it) to a different tax jurisdiction.

Inland Revenue should be given the specialist manpower, access to information and expertise to monitor the position and protect the tax base from this type of erosion.

The fiscus should be empowered by law to adjust prices and payments for tax purposes to levels "which would have resulted from transactions concluded at arm's length".

The present anti-avoidance provisions of the Income Tax Act did not give the fiscus adequate protection in relation to trasnfer pricing.

The commission said it did not recommend the adoption of a "citizenship" basis of taxation under which a government imposed tax on income from all sources accruing to citizens of that country.

A change to a full "world" basis, in which all income accruing to a resident of a country was taxed in that country, was not warranted at present.

It recommended that the "source" basis, in which tax was levied on income from a source located in the country, be retained.

"Anti-avoidance measures" should however be taken to counter income-splitting and tax-avoidance schemes in the case of income arising within southern African states enjoying relatively open borders with South Africa. Existing concessions applying to certain foreign income of immigrants on investment funds acquired before immigration to South Africa should be retained.

Other recommendations on international aspects of taxation were that:

- The provision in the Income Tax Act deeming the source of the proceeds of a contract of sale of goods concluded in the Republic to be located in the Republic be revoked;
- The credit route for unilateral relief should be adopted where international double taxation arose as a result of South Africa's partial adoption of the residence basis, provided that suitable limitations should apply to such relief;
- The non-resident shareholders' tax should be retained;
- A branch profits tax should be levied at the same statutory rate as the non-resident shareholders' tax on branch profits remitted out of South Africa;
- For the present the non-residents' tax on interest should be retained, subject to regular review.

The Commission recommended that when double tax agreements were negotiated the best available negotiating skills, including expertise from the private sector, should be used. — Sapa

CAPE TIMES 19/2/86

1986

Special courts for labour

Own Correspondent

PRETORIA. — Major amendments to the Labour Relations Act, aimed at extending and simplifying South Africa's official dispute-settling machinery were published yesterday.

The bill provides for the establishment of a special labour court to consider appeals from the Industrial Court, allows access to the Appellate Division for appeals against some special court decisions, sets out new definitions on what constitutes an unfair labour practice and an unfair dismissal and deregulates the establishment of conciliation boards.

It also contains various other minor amendments.

The new definitions of unfair labour practices and unfair dismissals are based largely on previous Industrial Court judgments.

Mr Clive Thompson of the Centre for Applied Legal Studies at Wits University described the bill as "mostly an advance".

However, he said some aspects should be carefully reconsidered to iron out certain perversions and anomalies.

Increase in tax cheque thefts: police warning

(320) B/day 29/12/87

KAY TURVEY

MORE than a thousand missing tax refund cheques are being reported a day to the Johannesburg Inland Revenue office, as police warn of an upsurge in the theft of these cheques.

The cheques are being stolen, particularly from post boxes of flats and police believe the high incidence of missing cheques is the work of a gang.

A spokesman for Inland Revenue says the inordinately high number of stolen cheques, which are subsequently cashed, appear to be from black townships.

Colonel Wessel van Niekerk district detective officer for the Vaal Triangle says in many instances these cheques are used to make purchases at bottle stores or other retailers, with the balance taken in cash.

These purchases have been secured through the use of forged identity document application forms with photographs, he says and urges all shop-owners to be on the lookout for payments made with Revenue cheques.

Isolated theft of taxed refund cheques has occured in the past, but Van Niekerk says due to the high number of missing cheques particularly in the Meyerton area, a gang is suspected.

Already, more than R47 000 is involved and investigations have just begun, says Van Niekerk.

According to the spokesman for Inland Revenue, the onus rests with the individual to ensure his tax refund cheque arrives safely, as only cheques over R1 000 are sent by certified mail.

Applications for duplicates of lost cheques can be made at the Receiver's office whereas once cashed, a photocopy of the original can be obtained.

TAX REFORM (320) ΚΜ 2/10/87

Tongaat tax tiff

The disposable income of South Africans is shrinking at an alarming rate and tax reform is an urgent priority, according to Chris Saunders, chairman of the Tongaat-Hulett group.

Addressing an economic forum of the University of Durban Westville recently, Saunders pointed to the fact that a salaried person earning R26 000 a year today pays three times the level of tax that such an income attracted in 1981.

State's tax

"In 1981 some 17% of the State's tax revenue came from individuals and in 1988 this will rise to 34%. Add to this burden the fact that GST receipts as a percentage of inland revenue have doubled in the period 1980 to 1988," he added.

Under the circumstances, South Africans should not be concerned with current rates of economic growth, but the durability of growth. The Margo Commission had gone a long way in recommending the overhaul of the tax system, "but the crux of the matter is government's intentions."

If the government failed to dramatically reform the tax system "the impoverishment of South African citizens will continue," warned Saunders. ■

INCOME TAX BILL — ALL THE CHANGES

The 1987 Income Tax Bill makes extensive changes to tax law — and may be regarded as a "budgetary fragment" — making extensive changes not announced during the main budget. The main changes are for tax shelter schemes in the TBVC states and the film industry.

All changes affect the "principal Act" (Income Tax Act, number 58 of 1962), and apply for the purposes of assessment of normal tax and undistributed profits tax from the years of commencement ending on or after January 1 1988.

Section 9A is introduced. It is "designed to counteract tax avoidance schemes" whereby SA residents "form investment companies and trusts in neighbouring countries and thereby locate the source of their investment income in those countries."

S9A(1) defines *foreign investment company; investment income; resident of the Republic, and untaxed profit.*

The latter is "profit derived by a foreign investment company" attributable to investment income which would have been subject to normal tax had it been derived by the company from an SA source.

The profit must be derived from a source in a neighbouring country and not be subject to tax in that country "which is materially similar to normal tax." The qualifying 40% rate means that in practice this section applies only to Ciskei.

Investment income is broad: interest, dividends, certain rents, gains in respect of Bankers Acceptances (BAs), "certain gains in respect of insurance policies" and profits on the disposal of shares and options — regardless of the source of such income.

Neighbouring country is defined elsewhere as: South West Africa, BLS, and TBVC.

S9A contains numerous other details, including an obligation of taxpayers to disclose their interest in foreign investment companies, and various deeming provisions.

In terms of the new section, investment income diverted by SA residents and companies to trusts and companies controlled by them in neighbouring countries will, in certain circumstances, be apportioned to the SA resident and taxed in his hands.

This should be read with the amendment whereby all interest received by an SA resident from a neighbouring country will be deemed to have been earned in SA — unless the interest is effectively connected to a permanent etablishment in such country.

Section 9A is to apply as from the commencement of years of assessment ended or ending on or after September 21 1987

Section 24F is inserted to provide for the taxable income of film owners.

Drafts of this section were circulated prior to tabling, and have been extensively discussed by the *FM*. In reading the Bill, Deputy Finance Minister Kent Durr said that SA film schemes had come to be structured in a way so that "artificially large exporters' marketing allowances were claimed."

The tax saving from such ventures was of "such a magnitude . . . that even ventures which, from an economic point of view, could never hope to be viable, were, in fact, profitable.

"All this was achieved without placing the participants at risk and, which is perhaps more important, without benefiting the SA film industry to any noticeable extent."

So S24F introduces the "at-risk" principle; gives commercially successful motion pictures the biggest tax breaks, and ensures that investors have to try to pre-judge the commercial quality of the project above all else.

S24F applies with effect from the commencement of years of assessment ended or ending on or after April 7 1987. The new provisions will, however, not apply to any film acquired by a film owner under a written agreement "formally and finally signed by every party thereto before that date."

Durr made an announcement regarding the proposed legislation on that date; to that extent the new section is not retrospective.

Section 10(1)(*c*C) is changed to enable directors of companies formed under Section 21 of the Companies Act to be paid "reasonable remuneration."

Such companies are formed with the sole or principal object of building or acquiring houses or other residential accommodation and, subject to certain conditions, are not taxed.

Section 10(1)(*c*F) is inserted to provide an exemption for any company, society, or other association (other than a co-operative) formed for the sole or principal object of providing residential accommodation to persons over 60 years of age.

Section 10(1)(*c*G) is inserted to provide that any non-resident person or company deriving income from business carried on as owner or charterer of a ship is to be exempt from tax — if the country where the non-resident is grants a similar exemption.

Section 10(1)(*h*) is changed so that interest earned by residents of neighbouring countries on SA government stock (including Sats, local authorities, Eskom and SABC) will not be exempt.

Durr said that "this particular exemption, the purpose of which is to encourage foreign investment in these stocks, has been shamelessly exploited by SA residents and companies which have formed subsidiary companies or trusts in neighbouring territories."

The general exemption increases from R500 to R1 000.

Section 11(*o*) is introduced so that any allowance granted under S24F (for film owners) is to be taken into account in the determination of the scrapping allowance under Section 11(*o*).

The initial allowance under **Section 12,** regarding the date industrial machinery and plant must be commissioned to qualify, is extended a year to December 31 1988.

Section 13 is amended so that commencement of the date of erection of industrial buildings to qualify for the building investment allowance is extended two years to December 31 1988; and commencement of improvements to qualify extended two years to December 31 1989

Section 20A is amended to increase the maximum deduction a married woman can claim against taxable income from R1 800/20% of earnings to R2 250/22,5% of net earnings.

Section 24A is amended, regarding "roll-over" relief where trading stock consisting of fixed property or shares is exchanged for shares. The consideration of the shares is not included in the trader's income.

The shares are, however, deemed to be trading stock and the cost is deemed to be the cost of the trading stock exchanged. The provisions are designed to facilitate company mergers and reorganisations.

After a merger when shares are acquired, the same shares may be used in a later merger or reorganisation. The amendment makes it clear that the S24A may, in appropriate circumstances, again be applied for the later merger or reorganisation.

Section 24D is amended so that all recoupments of expenditure in respect of a National Key Point, allowed as a deduction, are not taxable.

Section 1 is changed to include definition of "neighbouring country" (see above).

Section 4 is amended to allow the Commissioner for Inland Revenue to supply Commissioner for Customs and Excise with information. A person breaching the secrecy provisions may now be fined R5 000, in addition to two years imprisonment.

The primary rebate is increased from R880 to R920 (married) and from R620 to R650 (unmarried).

Section 6*quat* is introduced to provide a rebate on foreign taxes paid.

Section 8(1)(*b*) is modified to allow the Minister of Finance to fix a rate/kilometre to determine the amount an employee can deduct from a travelling allowance.

Section 8(1)(*c*) is changed to increase the out-of-town accommodation and meals business allowance from R100 to R130/day.

Section 8(1)(*c*)(iii) is changed to increase further allowances from R50 to R65/day.

Section 8(1)(*d*) is changed to make it clear that the holder of a public office is not entitled to deduct from his allowance expenditure incurred for the purposes of his office where such expenditure is otherwise recoverable.

Section 8(1)(*e*)(i) is changed to include Ministerial Representatives in the list of holders of public office.

Section 8(4)(*a*) is changed to provide for inclusion in the taxpayer's income of any amount recovered or recouped under the new Section 24F (taxable income of film owners).

Proviso to Section 9(1)(*b*) is changed to include income derived from use of any copyright in a printed publication (other than for certain advertising purposes), where such income accrues to residents of neighbouring countries or external companies registered, managed or controlled in neighbouring countries.

Sections 9(4) and **9(5)** are inserted, deeming interest accruing on or after September 21 1987 and gains made on or after that date on the maturity or disposal of bankers' acceptances to be derived from a source within SA, where its technical source is located in a neighbouring country, and the person to whom the interest accrues or makes the gain is ordinarily resident in SA, or if a company, is a domestic company.

Section 27 is amended to house-keep for agricultural co-operatives, mainly by extending dates to be met in order to qualify for certain tax benefits.

Section 49 is amended so that in terms of the definition of "total net profits," any amount included in the income of a company under the provisions of the new Section 9A(2) is not to be included in the company's total net profits for undistributed profits tax (UPT) purposes.

Section 50(d) is amended so that any company which satisfies the Commissioner that shares representing not less than 50% of the equity share capital were "throughout the specified period held directly or indirectly by one or more external companies" which are public companies, and derive the greater portion of their profits from outside SA, will be exempt from UPT. The amendment takes effect for the years of assessment ended or ending on or after January 1 1983.

Section 50(*h*) is amended to exempt mutual building societies from UPT.

Section 56 is amended to exempt from tax any donations to a company, society or association providing residential accommodation to aged persons (section 10(1) (*c*F)).

Section 64C amended to change certain rules regarding non-residents' tax on interest.

Section 13A of the First Schedule is amended so that proceeds on account of drought deposited by a farmer with the Land Bank not to be regarded as gross income extended from four to six years.

Paragraph 1 of the Sixth Schedule is amended so that a policy issued by an insurer incorporated, formed or established in a neighbouring country, which is materially similar to policies issued by domestic insurers is to be included in the definition of "insurance policy."

"This will ensure that the object of the Sixth Schedule — to prevent insurance policies from being used as deposit accounts — is achieved"

Paragraph 1A is inserted in the Sixth Schedule, deeming a benefit paid out under non-standard policies issued in neighbouring countries to be an "insurance benefit" in SA.

Paragraph 1 of the Seventh Schedule is amended reducing the "official rate of interest" — for "soft" loans — from 15% to 12% on December 19 1986.

Paragraph 9 is amended so that the R20 000 rebate available for those receiving free accommodation (rented by the employer) will not be available if a company (or other controlling interest) owned by such employee has a pre-emption to buy such property.

Paragraph 14 of the Seventh Schedule is amended so that the seven-year phasing-in period for fringe benefits taxation on "soft" loans used as a housing loan is denied to the extent that the value of the benefit is granted in substitution of cash; or with the sole or principal object of providing the employee with the advantage of the phasing-in.

It brings the paragraph in line with other phasing-in provisions.

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They were stopped by members of the South African Police, whereupon they attacked and seiously injured these members.

During the action at Cosatu House:

13 persons were arrested on charges of Public Violence;

3 persons were arrested on charges of Attempted Murder;

1 person was arrested on a charge of Robbery;

1 person was arrested for being a prohibited immigrant.

In addition, large quantities of dangerous weapons, *inter alia* pangas, knives, iron bars and kerries, were seized.

(2) Yes.

(a) Sufficient members to deal with a given situation.

(b) and (c) These members of the South African Defence Force, in accordance with Regulation 1 of the Emergency Regulations promulgated by virtue of the Public Safety Act, 1953 (Act 3 of 1953), form part of the Security Forces and it was in this capacity that they assisted the South African Police to cordon off the building efficiently.

(3) Yes.

(a) and (b) One charge of Theft and one charge of Malicious Damage to Property were submitted on 11 May 1987.

(4) Yes.

(a) and (b) The investigation has not yet been completed and I am therefore not in a position to furnish any further information.

Financial costs for education: tax deductible

*3. Mr M J ELLIS asked the Minister of Finance:

Whether he or any member of his Department has received any representations with regard to making all financial costs incurred by parents in respect of all primary, secondary and tertiary education a deductible expenditure in the determination of taxable income; if so, (a) from whom, (b) when and (c) what was his response thereto?

The DEPUTY MINISTER OF FINANCE (Dr G Marais) [Reply laid upon the Table with leave of House]:

(a) A number of representations have been received requesting that educational costs, or at least school and university fees, be allowed as a deduction against income. In view of the secrecy provisions contained in the Income Tax Act, the names of correspondents cannot be furnished.

(b) About 4 representations are received per annum.

(c) The Minister of Finance has pointed out that expenditure on children's school and university fees and books is a private and domestic expense. In our income tax system, in common with income tax systems in other countries, a taxpayer's total income less only such expenditure incurred to produce such income is used as a measure of his ability to pay tax. The rebate allowed to a taxpayer who supports a child or children is intended in a measure to compensate for the additional expenditure he incurs in maintaining and educating his children.

The primary reason for not allowing private and domestic expenditure as a deduction is that this amounts to subsidisation by the State of the expenditure in question. The first disadvantage of allowing such expenditure is that assistance granted in this form is not subject to budgetary control, which often results in much higher levels of expenditure than would have been voted by Parliament in the form of a direct cash payment.

Schools and universities are already substantially subsidised by the State, and this affects the amount of the

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fees payable by parents and students. As a result of budgetary constraints it is not possible to provide unlimited funds for education and if an income tax concession was granted this would of necessity affect the amount available for education. For example, universities' fees would no doubt increase if the cash subsidy was reduced and in many cases the after tax position of the parent would remain substantially unchanged.

Another cogent reason for granting direct cash subsidies rather than an income tax concession is that less well-to-do parents and students paying their own way through school and university will receive little if any benefit from a tax concession, whereas wealthy persons will receive the maximum benefit. The introduction of a tax concession will most probably result in an increase in fees and the effect will be that the after-tax cost for the wealthy will be reduced while the less well-to-do will have to pay higher fees. This would be a most unfortunate effect of the concession as it would make access to education even more difficult for the children from the lower and middle income groups.

Inanda Road/New Germany: construction of road

*4. Mr P C CRONJÉ asked the Minister of Education and Development Aid:

Whether a road linking Inanda Road in the Waterfall area with New Germany along the Umgeni valley will be constructed as part of the proposal to resettle certain families as a result of the construction of the Inanda Dam; if not, why not; if so, (a) what steps have been taken towards the construction of such a road and (b) when is it anticipated that construction will (i) commence and (ii) be completed?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

A road will be provided, but to date no steps have been taken for the construction of the road as the release of the Waterfall area has as yet not been approved by Parliament, and planning can only commence after purchase thereof has been effected.

Waterfall: upgrading

*5. Mr P C CRONJÉ asked the Minister of Education and Development Aid:

Whether any steps have been taken to upgrade the intersection between Link Road and Inanda Road in the development area of Waterfall; if not, why not; if so, (a) what steps and (b) when is it anticipated that the upgrading of this intersection will be completed?

†The MINISTER OF EDUCATION AND DEVELOPMENT AID:

Not by the Department of Development Aid. The matter falls under the jurisdiction of the Natal Provincial Administration.

Waterfall: schools planned

*6. Mr P C CRONJÉ asked the Minister of Education and Development Aid:

Whether any (a) primary and (b) secondary schools are being planned for the development area of Waterfall; if not, why not; if so, (i) where will they be located and (ii) when will they be taken into use?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

To date no planning has been done for the development area of Waterfall as the release of this area has as yet not been approved by Parliament. Schools will be provided as required once the area has been purchased.

†Mr P C CRONJÉ: Mr Speaker, arising from the reply of the hon the Minister, I want to tell him that the question does not necessarily refer to schools in the other area. It refers to schools in the existing Waterfall area.

Flight SA 351 from Johannesburg/Cape Town

*7. Mr A J W P S TERBLANCHE asked the Minister of Transport Affairs:†

Badenhorst blasts life assurers' 'power'

B/Day 6/10/87 (320)

GERALD PROSALENDIS/Financial Editor

YESTERDAY's attack on the life assurance industry by UBS CE Piet Badenhorst has the makings of a bitter confrontation within SA's financial sector.

Coming after the recent recommendations of the Margo Commission report, Badenhorst has gone further and claimed the present situation — which allows assurers to expand their stake in South African and foreign companies — "is the high road to the concentration of economic power" and is exploited by life assurers and in many cases funded with "deposits".

Central to his argument is the contention that life assurers have become deposit-taking institutions.

"Life assurers have switched the focus of their main business from that of providing for the problems arising from premature death to products catering for the needs of investors in general and to providing tax shelters for the affluent or relatively affluent.

"They have become deposit-receiving institutions without the statutory restrictions and obligations applying to these institutions in terms of the Building Societies and Banks Acts," he said.

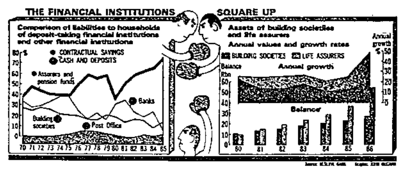
This lack of regulation has given them unlimited powers to diversify.

Also, argues Badenhorst, assurers are paying a fraction of the corporate tax that companies — and, in particular, building societies — pay.

An important driving force behind this trend towards the imbalance between financial institutions has been rising inflation and its effect "on the investment needs and perceptions of investors"(see graph).

Coupled with this has been "the unfairly-weighted ability of particular types of institutions to offer investment products which provide protection against the ravages of inflation and tax".

Also, "the regulatory process by the authorities over the years has been extremely slow in keeping up with the dynamic changes that have been taking place in the market, and government has been very heavily influenced by powerful lobbies making direct representations to it."



That the life assurance industry has political influence is beyond doubt. Possibly the bad blood between the industry and building societies, and Badenhorst in particular, has its roots in the attempts by some life assurers to influence the present Building Societies Act while it was being drafted.

Some believe that the reason for the delay in the implementation of this Act — which, among others, allowed societies to switch from being mutual based to equity based — was that powerful lobbies headed by mutual assurers created doubt in the minds of government.

Many of the arguments forwarded at the time against allowing societies to become listed joint stock companies — among them higher costs, which would be passed on to bondholders and investors — have proved to be false, at least in the short-term.

But there is one which has not been disproved. At the time it was argued that mutual assurers saw the equity route for building societies as the thin edge of the wedge for all mutual institutions. Those who held this view believed that large mutual insurers were trying to bury the legislation as the front line of their own defence.

Nonetheless, the present battle promises to be protracted, bitter and uncommonly public.

Badenhorst argues that the present imbalance between institutions offering fixed interest investments and life assurers has been exacerbated by a number of developments.

More seriously, however, he charges that assurers have succeeded in transferring the benefits applicable to life assurance business, such as no or low taxation, to pure deposit-taking business.

"The result has been that life assurers have been highly favoured and building societies severely penalised in their competition for the custom of the household sector.

"Pure life assurance today is an ever-decreasing element of their business, and the main focus has switched to that of being a deposit-receiving institution."

Although their is sufficient competition to rule out the suggestion that monopolies exist in the financial services industry, Badenhorst believes certain institutions have grown at the expense of others. He uses the following examples to back his argument:

☐ The combined liabilities to the household sector of life assurers and pension funds account for some 76% of the liabilities of all financial institutions to households (see graph);

☐ The gross premium income of life assurers and pension funds and the net sale of units by unit trusts were more than double the flow of funds to deposit-receiving institutions between 1981 and 1986; and

☐ Of the proportion of new investments flowing each year to the different types of financial institutions, life assurers have attracted some 42% of the average from 1981 to 1985.

"The result of the favours which have been heaped upon life assurers is the formation of monoliths in the personal financial services industry. It is evident that marketing muscle is used through cross shareholdings and interlocking directorates with banks and building societies to further exploit the competitive advantages already enjoyed," said Badenhorst.

"I submit that this flow of funds, which contributes little to real economic growth, if allowed to continue unchecked, will cause even greater imbalance in the economy and further concentration of power than present."

VITAL QUESTIONS

BADENHORST has posed some questions which will in time need to be answered. Among them are:

☐ Whether it's in the national interest to allow the present imbalance between life assurers and other financial institutions to continue or grow;

☐ Whether the funds deposited with life assurers are invested in a manner which creates new investment for production and job-creation;

☐ On what grounds can the products of competing institutions be accorded different tax treatment;

☐ Whether it is reasonable, fair or essential that there should be equal corporate taxation of the various types of competitor in the financial services industry; and

☐ On what grounds the advantages enjoyed by life assurers or investors in the tax-exempt products offered by them at the cost of the general body of taxpayers can be justified.

Corporate tax: acid test for life assurers

LIFE ASSURERS pay a minute percentage of their net profit by way of corporate tax, Piet Badenhorst said yesterday.

"Whatever the present basis of calculation of tax applicable to life assurers, the acid test is whether or not at the end of day the amount of tax paid expressed as a percentage of the real profit/operating surplus of these institutions bears any relationship to the rate of tax generally applicable to companies," he said.

If an institution succeeded in paying a lower rate of tax than the company rate, they had a significant competitive advantage.

"Ordinarily, lower costs are achieved only by superior mangement. Thus the tax privileges being discussed impart to those organisations an improper degree of efficiency."

Building societies were taxed on the following basis:

☐ Interest and dividends paid on tax concessionary deposits were allowed as a pre-tax expense in the same way as interest;

☐ They were exempt from undistributed profits tax; and

☐ They were allowed to offer certain tax-free or tax-concessionary deposit products. These, however, were to be phased out.

Life assurers were taxed on a different basis:

☐ Retirement annutiy funds were entirely exempt from tax in the hands of recipients;

☐ On other insurance business, life assurers were taxed at normal rates of company tax on 40% of their gross investment income, an effective rate of 20%. Capital profits were tax-free;

☐ They were exempt from undistributed profits tax; and

☐ Pension and annutiy business was entirely exempt from tax.

"Most organisations are levied with taxation on their 'bottom line' at the corporate rate. Building societies fall into this category."

Badenhorst said his analysis of the tax position of life assurers was not necessarily totally accurate — "but the paucity of information made available leaves me no alternative".

The profits of life assurers for non-pension business:

☐ Included dividends earned;

☐ Excluded realised capital gains for most assurers, which are by and large credited to general or investment reserves or directly to policyholders' funds. These were taxed in the hands of banks and building societies;

☐ Took into account all net premiums, benefits, annuities, surrenders and maturities, irrespective of whether they relate to 'deposit-taking' acitivities or not; and

☐ Represented for business other than pension business merely a prorated portion of the total pre-tax surpluses disclosed.

In 1985 life assurers were charged tax of R288m, against a pre-tax surplus of R6,53bn, an effective rate of 12,1%. Contrasted with this, the five major building societies had paid an effective tax rate of 48%. If assurers had paid tax at the rate of building societies in that year, they would have paid R1,14bn. This represented a loss of R853m to the fiscus, said Badenhorst.

He asked if life assurers, which had argued that building societies' taxable income was only 15% of investment income, compared with the 40% legislated for the assurance industry, were unhappy about this disparity why did they not complain?

He would also welcome taxation of life assurers on the same basis as building societies.

"The deposit products of life assurers — sometimes disguised as life assurance, other times not — have no limits attaching to the premiums payable by any single person or the rate of return offered." This should be related to a maximum of R70 000 per taxpayer at a tax-free rate of 7,5% for building societies.

With building societies, the tax-free rate attached to its products was decided by the Minister of Finance. Life assurers decided for themselves what tax-free returns they would offer and, in addition, taxpayers could invest as much as they liked and from year-to-year extend their holdings.

"After taking into account statutory liquid assets and interest-free cash reserves with the Reserve Bank — which average about 10% of liabilities — building societies must invest 80% of their operating capital in loans against mortgage of urban residential dwellings. This does not leave much for discretionary investment."

A building society had to observe a capital gearing requirement equal to at least 4% of its liabilities.

"By comparison life assurers in respect of all business, excluding pension and retirement annuity fund business, after investing 33% of their funds in prescribed investments — which from time-to-time provide generous returns and capital profit — are free to invest the balance in equities, deposits, fixed property, industry in every size and form.

"Coupled with the tax advantages attaching to the products offered by life assurers, it is starkly evident that there is no contest."

BETTER BALANCE NEEDED

BADENHORST has made the following recommendations to address what he calls the "imbalance" between various financial institutions. These are:

☐ Ensure reasonable equity in the effective taxation of insitutions in the financial services industry;

☐ Balance or eliminate the tax advantages relating to the products marketed by financial institutions;

☐ Ensure a better balance of investment powers. Only equity capital, and not funds received on deposit, should be available for diversification;

☐ Standardise and improve reporting requirements of all financial institutions;

☐ Prohibit life assurers from operating as deposit-taking institutions. If these activities were undertaken they should be subject to the same financial obligations as banks and building societies; and

☐ Ensure detailed monthly reporting for all deposit products to the Registrar of Financial Institutions.

TAX DISPENSATION

THE Margo Commission report said it was the opinion of the majority of commissioners that the present tax dispensation for long-term insurers had contributed to the channeling of savings towards these institutions. It could also be a significant cause of the concentration of power in the SA economy. It said that in the 1986 tax year, life insurers paid R288m in tax on an investment income of R3,65bn — or 7,9%.

"The tax-favoured treatment of life insurance business, which appears to be universal, actually arises from the problem . . . of determining the 'profit' of a long-term insurer on which to base its taxable income. The trend of recent tax reforms is nevertheless towards greater fiscal participation in the profits of long-term insurers," the report said.

However, the LOA — quoted in the report — said that, allowing for certain qualifications and setting expenses as an arbitrary 60% of income, their effective tax rate would be just under 30%.

CAPE TIMES 7/10/87 (320)

Commissioners aimed for broadly based tax system

Financial Editor

THE Comprehensive Business Tax (CBT) proposed by the Margo Commission is "nothing more nor less than a Value Added Tax", leading Cape Town business people were told yesterday.

Law professor Michael Katz, who served on the Margo Commission, spoke at a Seeff/Cape Times Breakfast Club meeting at the Cape Sun.

He said a traditional invoice or credit tax would raise the same amount of money as the CBT but, for the sake of simplicity and avoiding unnecessary paperwork, it had been made a production tax and not a consumption tax.

"It is a business activity tax, not a European-type VAT commodity tax," he explained.

"In a Third World economy like ours it would have been out of the question to have the paper-chase of a European-type VAT."

Katz said the Margo commissioners felt it was important to implement the recommendations as a complete package.

They had set out to make the tax system more broadly based with lower rates and it should be absolutely neutral so that it did not affect business decisions.

"Tax must be taken out of the decision-making process. When business decisions are taken, tax should not have any part in the process because if it does it leads to incorrect resource allocation."

Katz said the present system under which it was better to fund a company through debt than equity led to bad balance sheets and even firms going into liquidation.

He considered the recommendation that a tax unit should be an individual and not a married couple was a most important one. This was not just in order to get rid of "the marriage penalty", which could quite easily be done by changing the tax tables.

"But it is totally inappropriate in today's conditions for a woman to be tagged on to her husband's tax return."

In a statement released in | A notice to this effect is to be published in the Government | It also means government has finally conceded it now will not

Preventive legislation on the way

'TBVC tax havens cost SA millions'

CHRIS CAIRNCROSS

CAPE TOWN — SA has been losing millions of rands to the TBVC states in tax avoidance scams over the past year, according to a spokesman for the Department of Finance.

The extent of this outflow to these newly established "tax havens" has caused government to take urgent action to introduce preventive legislation to close this loophole.

The thrust of this legislation is contained in the Income Tax Bill now being debated in Parliament.

Culprits who have readily been involved in using these TBVC states — Ciskei in particular — for tax avoidance schemes can expect government to crack down on their activities once the draft legislation passes into law.

According to government sources, several businesses, including certain insurance companies, have already been identified and steps will be taken to recover the monies estimated to be due to the SA revenue authorities.

One of the more common ploys, according to a government source, is for SA companies to set up a subsidiary in Ciskei, provide it with loans which are in turn used to buy government securities in SA.

Deputy Finance Minister Kent Durr complained in Parliament this week over the manner in which these neighbouring states have established these tax havens on SA's doorstep.

He maintained that tax experts have been exploiting these loopholes to the extent that it has become essential to take active steps to stop the "substantial erosion" of SA's tax base.

"Had the treasuries of our neighbouring states been enriched by the activities of the tax avoiders, those activities could perhaps have been tolerated," Durr said. "As it is, however, the only real winner is the tax avoider, and the loser is the general body of taxpayers."

According to Durr, the main steps contemplated against these tax avoiders include:

- Deeming that all interest received by an SA resident from a source in a neighbouring territory will be construed to be from a source within this country.
- The exemption enjoyed by foreign individuals and companies resident or incorporated in neighbouring territories on interest received by them from stock or securities issued by government and certain parastatals is to be limited.
- The sixth schedule to the Income Tax Act is to be amended to bring within its ambit any insurance policies issued in these states, and to deem any amounts received by SA residents and domestic companies which are funded out of the proceeds of such policies to be insurance benefits received from an SA source.

Durr said this step was necessary because certain insurance companies have commenced issuing non-standard policies in neighbouring territories, thus securing for the holders foreign-sourced income for SA residents.

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Thumbs-down for Margo tax reform package

From MICHAEL CHESTER
The Argus Correspondent
Dateline: JOHANNESBURG

THE powerful Association of Chambers of Commerce today gave a thumbs-down to the Margo Commission's main package of recommendations on tax reform and handed the Government its own set of sweeping tax proposals.

Big business rejected the main recommendations when a top-level Assocom delegation met the director-general of Finance, Dr Chris Stals, to give oral evidence to the Department of Finance task force guiding the Cabinet on new tax moves.

Reports

The delegation was headed by the chief executive of Assocom, Mr Raymond Parsons, and national taxation committee chairman Mr B O D Wood.

The Margo main package concentrated on the proposed Comprehensive Business Tax, which the commission suggested as the keystone to overall tax reform and cuts in income tax and General Sales Tax.

Assocom warned that this tax would ultimately have to be borne by the consumer.

Assocom also opposed the Margo team's alternative — a change-over from the GST system to a Value-Added Tax (VAT) scheme.

Business chose its stance after Assocom studied reports prepared by Professor B P J van Rensburg of Unisa, who investigated tax policies in Western Europe and North America.

GST reduction

The reports covered especially VAT and the radical business tax system introduced in the US state of Michigan, on which Margo based the CBT recommendations.

The Assocom package of tax reforms handed to the Department of Finance urged:

- Reduction in the rate of GST from 12 to 8 percent, entailing losses in revenue of about R3,6 billion;
- Elimination of GST food exemptions — with full explanations to the public on the pros and cons — which would bring in an extra R1,7 billion;
- Cuts in income tax rates costing around R1-billion — but with all State trading concerns drawn into the tax net;
- Full taxation of fringe benefits, with no exemptions, boosting revenue by R2-billion;
- Abandonment of tax incentive expenditures, bringing in an additional R3-billion;
- Changes in the taxation of married couples, costing R700 000; and
- New tax rates on dividends, costing R300 000.

Assocom said its own package would involve losses of R5,6 billion for the Inland Revenue but gains of R6,7 billion.

This would leave a net gain of R1,1 billion or more to be used in other income tax reforms.

Surcharges

But the delegation said it was reluctant to try to quantify the full impact because "major tax reforms will themselves encourage and stimulate economic growth, which in turn will increase tax revenues in many directions."

It also recommended that the new Regional Services Council levies on companies should be abolished and any tax revenue needed by RSCs should be raised by regional surcharges on GST.

Assocom said GST exemption for exports should be retained, capital and intermediate goods should be kept inside the GST base.

This directly opposes the Margo proposal to change GST to a flat retail sales tax.

The delegation rejected Margo arguments that taxes should be as inconspicuous as possible by shifting towards invisible taxes such as CBT and add-in GST.

The 56-page document said: "Assocom must stress the need for visibility in taxation."

Assocom rejects Margo's main tax proposals

STAR 14/10/87

By Michael Chester

The Association of Chambers of Commerce today gave a thumbs-down to the Margo Commission's main package of recommendations on tax reform and handed the Government its own set of sweeping tax proposals.

Rejection by big business of the main recommendations was revealed when a top-level Assocom delegation met Dr Chris Stals, Director-General of Finance, to give oral evidence to the Department of Finance task force that will guide the Cabinet on new tax moves.

The delegation was headed by Mr Raymond Parsons, chief executive of Assocom, and Mr Bob Wood, chairman of the national taxation committee.

The main target of attack in the Margo main package was the proposed comprehensive business tax, which the commission visualised as the key to overall tax reform and cuts in income tax and general sales tax which Assocom warned would ultimately have to be borne by the consumer.

Strong opposition was also voiced to the alternative outlined by the Margo team of a change-over from the GST system to a Value-Added Tax (VAT) scheme.

Assocom took its stance after studying reports prepared by Professor B P J van Rensburg, of Unisa, who was assigned to investigate current developments and thinking about tax policies in Western Europe and North America — in particular VAT and the radical business tax system introduced in the US state of Michigan, on which the Margo Commission based the CBT recommendations.

The Assocom package of tax reforms handed to the Department of Finance urged:

- Reduction in the rate of GST from 12 to 8 percent, entailing losses in revenue of about R3,6 billion.
- Elimination of GST food exemptions — with full explanations to the public on the pros and cons — bringing in an extra R1,7 billion.
- Cuts in income tax rates, costing around R1 billion — but with all State trading concerns drawn into the tax net.
- Full taxation of fringe benefits, with no exemptions whatsoever, boosting revenue by R2 billion.
- Abandonment of tax incentive expenditures, bringing in an additional R3 billion.
- Changes in the taxation of married couples, costing R700 000.
- New tax rates on dividends, costing R300 000.

Assocom estimated that its own package would involve Inland Revenue losses of R5,6 billion, but gains of R6,7 billion, leaving a net gain of R1,1 billion.

CAPE TIMES 15/10/87

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Opposition greets Margo tax package

Own Correspondent

JOHANNESBURG. — The Margo Commission's proposed tax-reform package, which has the Comprehensive Business Tax (CBT) as its linchpin, has met strong opposition — even condemnation — from a wide range of commerce and industry.

This has been emphasized in further submissions presented this week to the Finance Department's Margo Task Force.

Yesterday Assocom rejected the report outright, expressing its "very strong opposition" to the CBT.

A spokesman for the Chamber of Mines, which also gave evidence yesterday, said a wide range of issues related to the Margo report had been discussed. He said comment before government's White Paper would be premature.

Soon after the Margo report's release, the chamber expressed disappointment at the commission's proposals that capital expenditure incurred by mines should not be written off immediately but over three years.

The Life Offices Association (LOA) is to meet the task force today.

Up in arms over what it termed "the apparent intention to increase the tax burden of life assurers", the LOA was one of the first to criticize the "main package" of the Margo report.

Meanwhile, Tradegro financial director Mr Bill Chambers added his voice to criticism of the CBT.

He said: "CBT would discriminate against businesses with a high turnover and low profit margin."

It has become apparent since the Margo report was published that government itself is also unhappy with the idea of accepting the Margo proposals in toto — which flies in the face of the commission's representations that the recommendations need to implemented comprehensively if they are to be effective.

The CBT — perceived as a late attachment to the reform proposals — has found few supporters in either the private or public sectors, and the odds are that government will have to go along with this view.

The most common reaction to Margo concerns not its recommendations, but that its investigation was unable also to deal with state expenditure.

The stage is set for fierce debate when President P W Botha meets business leaders for a "summit" on Margo next week, with Assocom's report serving as a valuable curtain-raiser.

CBT comes under fire

320
B/day
15/10/87

CHRIS CAIRNCROSS
and GRETA STEYN

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(320)

DAILY DISPATCH, THURSDAY, OCTOBER 15, 1987 — 11

Assocom: CBT to quadruple tax

JOHANNESBURG — Organised commerce yesterday rejected the concepts of a Comprehensive Business Tax (CBT) or Value-Added Tax (VAT) in any tax reforms, and instead put forward an "Assocom Package" to the government.

In a 56-page memorandum to back up its oral evidence to the task force of the Department of Finance on the Margo report in Pretoria yesterday, Assocom detailed its views on the commission's findings.

It said the government appeared to have four alternatives — to leave the present basic tax structure alone; to adopt Margo's "main package" with its new CBT; to adopt Margo's "alternative package" with no CBT but considerable reform in personal and corporate taxation and GST; and a scrapping of tax based on incomes and switch to an expenditure-based tax system.

Assocom said it took "the very firm view" that the third option, the "alternative package" with no CBT and no VAT, should be introduced.

None of the other alternatives, it said, would be in the interests of the country's economic welfare and growth, "but rather would do very material damage to the South African economy."

It agreed with the important elements of reform and rate reduction in GST and personal and corporate income taxes in Margo's "main package," although it did not favour a narrowing of the GST base.

Margo recommendations it agreed with included:

- Reduction in the rate of GST;
- Repeal of the exemption of various foodstuffs from GST;
- Reduction in the rate of personal income tax;
- Separate taxation of husbands and wives;
- Virtual elimination of tax expenditures;
- Abolition of double taxation of income received by way of company dividends;
- Virtual abolition of ad valorem excise duties;
- Office investments.

Other apparently implicit proposals Assocom would support included:

- Equality in the treatment of cash remuneration and fringe benefits, with no exceptions;
- Increased rebates for lower-income aged persons;

Opposing CBT, Assocom said the present co-existence of company and personal income tax and GST already represented a large measure of double taxation and tax proliferation.

Two important constituents of the gross domestic product, labour and the net operating surplus after depreciation, were in effect each taxed three times by income tax, then again to a large extent by GST on end consumption expenditure, and then a third time by the Regional Services Councils services and establishment levies.

"To add a CBT would mean quadruple taxation."

Overseas experts, it said, had been deeply puzzled that South Africa might have both a GST and a CBT, and had said most countries would reject such a possibility.

It was also considered that a CBT discriminated against labour-intensive industries, newly-started businesses experiencing a precarious profit position, and other businesses in low profit situations because of structural recessions or other factors.

It would be more difficult than under GST to tax imports and not exports.

"If passed on, the CBT would make our exports still less competitive and expose our manufacturing industries to competition from preferentially taxed, disruptive imports."

Assocom also rejected the suggestion that GST might be converted to a value-added tax.

The private sector administration and accounting involved in VAT was far more complex and troublesome than was generally realised, it said, and would be beyond the competence and level of sophistication of large numbers of businesses in South Africa operating virtually in "third world" environments.

Such complexities, it added, would increase the administrative burdens of the Department of Inland Revenue.

It would be difficult for South Africa to adopt VAT without similar measures being adopted by the TBVC and BSL countries, said Assocom, adding that the Margo Commission had admitted GST was much easier to collect, avoided large numbers of refunds, demanded a lower level of record-keeping, involved lower costs, and had a very wide base.

The proposed "Assocom Package" would embrace virtually all the personal and corporate income tax and excise duty reforms listed, to be implemented as soon as possible, some immediately and the others as soon as they could be accommodated.

It would also call for the withdrawal of GST exemptions for foodstuffs; the rate of GST to be reduced to eight per cent; rejection of the so-called inclusive system of invoicing under GST; the retention of capital and intermediate goods in the GST base; the retention of the GST exemption on exports; and the rejection of CBT and VAT.

It added that any tax revenue required by Regional Services Councils should be raised by regional surcharges on the GST, with the abandonment of the establishment and services levies which were unrelated to taxpayers' ability to pay.

15/10/87

Margo tax package takes a hammering

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Daily Dispatch Correspondent

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This has been emphasised in further submissions presented this week to the Finance Department's Margo Task Force.

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Meanwhile, Tradegro's financial director, Mr Bill Chambers, said: "CBT would discriminate against businesses with a high turnover and low profit margin."

It has become apparent since the Margo report was published that government itself is also unhappy with the idea of accepting the Margo proposals in toto — which flies in the face of the commission's representations that the recommendations need to be implemented comprehensively if they are to be effective.

The CBT — perceived as a late attachment to the reform proposals — has found few supporters in either the private or public sectors, and the odds are that government will have to go along with this view.

The most common reaction to the commission does not concern its recommendations but the fact that it was unable to deal with State expenditure.

The stage is set for fierce debate when the State President, Mr P. W. Botha, meets business leaders for a "summit" on the Margo Commission next week, with Assocom's report serving as a valuable curtain-raiser.

Alternative tax system proposed

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Assocom rejects Margo's CBT 'main package'

● MARGO

GRETA STEYN

ASSOCOM has rejected Margo's "main package", of which the core is comprehensive business tax (CBT). Instead, it urges a system similar to that contained in Margo's "alternative package" — avoiding a CBT.

But though Assocom rejects the main package, it supports certain reform proposals contained in it, such as the reduction in both the rate of GST and the rate of personal income tax.

The organisation, in a report handed to the Department of Finance yesterday, has taken a very strong stance against the Margo proposal that a CBT be introduced. CBT, Assocom says, will in no way represent the replacement of a less efficient tax by a more efficient tax.

The rejection of CBT came after research done on behalf of Assocom by Unisa tax expert Prof B P J Van Rensburg on value-added tax systems.

Michigan visit

Van Rensburg visited Michigan, the American state where a tax similar to CBT called Single Business Tax (SBT) is levied. The Margo commission's CBT is based, to a large extent, on Michigan's SBT.

Van Rensburg, when visiting Michigan, found experts "deeply puzzled" at the possibility that SA might have a General Sales Tax alongside a CBT, as proposed by Margo.

Assocom says: "These experts pointed to the dangers and possible distortions involved in taxing the same base more than once under the same regime. They contended that the number of taxes should be minimised in any one tax system."

The proliferation of taxes, Assocom says, will cause "cascading". A CBT will also counteract the beneficial effects of reducing the rate of GST.

In Michigan, the point was also made that SBT or, as Margo calls it, CBT, discriminates not only against labour-intensive industries but also against businesses experiencing profit problems.

'Invisible' tax

Referring to the implications of CBT for labour-intensive industries, Assocom said: "A CBT would, *par excellence*, be a tax tending to distort and discourage the use of labour — and this at a time of high unemployment."

Other criticisms of CBT were that it was an "invisible" tax — it is not seen by consumers, although they ultimately bear its entire cost.

Apart from its strong rejection of CBT, Assocom also objects to the Margo commission's proposals on GST. It opposes the commission's move to eliminate GST on capital goods.

Assocom says: "Removal of GST from capital and intermediate goods will in actual practice save the end consumer nothing — just as the removal of GST from packing and wrapping materials earlier in 1987 saved the consumer nothing."

Even more important is the fact that the GST base would be significantly reduced.

Though it rejects Margo's main package, in its own "package" Assocom endorses Margo's proposals on the reform of personal and corporate income tax — for instance, the abolition of double taxation on income from company dividends "immediately or as soon as possible".

The "Assocom package" also proposes that GST exemptions for certain foodstuffs be withdrawn, that the rate of GST be reduced to 8% and that no CBT and no Value Added Tax be contemplated.

On the question of the taxation of married women, Assocom says there is merit in the recommendation that the individual replace the couple as the tax unit.

But, the organisation says, "rapid steps away from the present system of taxing couples are not desirable."

Margo 'summit'

"The loss of revenue resulting from phasing in separate taxation in 1988 and 1989, estimated by the commission at about R2,4bn over those two years, would tend to oust or retard other more important reforms."

Assocom's response to Margo is a valuable contribution to the debate on tax reform. The last word will not be spoken for some time. Assocom's rejection of Margo's main package has set the stage for an interesting Margo "summit" between the State President and business leaders next month.

TAX REFORM

Assocom shoots down Margo

320

Assocom, representing 94 chambers of commerce, has fiercely rejected Margo's would-be hallmark reforms: the Comprehensive Business Tax (CBT) and the main alternative course of replacing GST with Value Added Tax (VAT).

But, unlike those who criticise without giving alternatives, Assocom has piggy-backed a number of minor Margo recommendations and added a few of its own to produce an alternative package. The result **(see table)** increases overall net revenue, cuts GST to 8%, reduces income taxes, introduces separate tax for married couples and ends double taxation of dividends.

Indeed, the main changes envisaged by Assocom are simple, long overdue tax changes that accord with logic and reality. Such changes, in theory and practice, could have been proceeded with a short time after Margo was appointed four years ago.

Instead, any major changes flowing from Margo are unlikely until 1988 and 1989. And more important, the Assocom "package" is more likely to stimulate economic growth and widen the tax base.

Assocom read Margo alongside Adam Smith's canons of taxation *a la Wealth of Nations:* equity, certainty, convenience, economy — and the two corallaries, neutrality and simplicity. Accordingly, its comments on Margo, and departure from Margo's train of thought, are "based squarely upon deviations from those basic principles that unfortunately mar an otherwise praiseworthy document."

In general, Assocom found that it was to be greatly regretted that Margo's terms of reference excluded an examination of the level of, and trends in, government expenditure. It recommends "tentatively" that consideration be given to reverting to the former system of separate budgetary revenue and capital loan accounts.

And, in line with the *FM*'s main initial criticism of Margo, Assocom constantly emphasises the need for taxes to be visible. It argues that Smith's canon of certainty implies that the time, manner and amount of payment should be clear to the taxpayer "and every other person."

Assocom "strongly refutes the argument that taxes should be as inconspicuous as possible. There is an apparent inclination in the report to shift collection from visible tax forms, such as income taxes and add-on GST, toward invisible tax forms such as the proposed CBT and add-in GST."

Assocom sees that Pretoria has four main options for tax reform:

☐ Continuing with the present system;

In a closely reasoned argument, Assocom has rejected Judge Margo's proposed Comprehensive Business Tax and a Value Added Tax system. But it has gone further, arguing that reform is essential, both to personal and corporate taxation, and to GST.

☐ Adopting Margo's main package — CBT, along with reducing GST to below 8%; major reductions in other taxes; abolition of other taxes and introduction of Capital Transfer Tax (CTT);

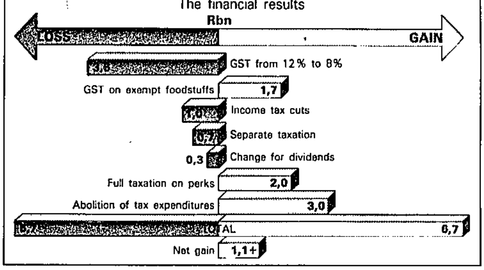
☐ Implementation of Margo's "alternative" package: that is, no CBT; substantial reduction in corporate and personal tax rates, and adopting an add-in VAT system if GST is not reduced; or

☐ A "radical scrapping of taxation based upon incomes and a fundamental change to an expenditure-based system."

Assocom's package (see **box**) would include a system "somewhat similar to Margo's "alternative" package, involving very considerable reform of personal and corporate income taxation and substantial changes in GST, but not a VAT.

Assocom's ideal

The financial results



There are two main differences between Assocom's package and Margo's "alternative" package:

☐ Reform in personal and corporate income would be virtually as far-reaching as that proposed in Margo's "main" package; and

☐ GST would be retained at a lower rate and the GST base would be widened.

In recommending that the RSC levies be scrapped, Assocom argues that the turnover and payroll imposts are unrelated to the taxpayers' ability to pay. They are, moreover, "in gross conflict with the cardinal Adam Smith principle of equity."

"Strong opposition" is expressed to the proposed introduction of CBT, for a host of cogent reasons:

☐ CBT is an invisible tax not seen by end-consumers, "although they ultimately bear its entire cost;"

☐ There are many details and "loose ends" of CBT that are not cleared up in the report and it would require complex legislation;

☐ It would be almost certain that a CBT system would be impossible to lend itself to "border adjustments" in the sense of taxing imports, but freeing exports from tax;

☐ If passed on CBT would make South African exports still less competitive and expose the country's manufacturing industries to competition from preferentially taxed and "disruptive" imports;

☐ Two important constituents of GDP, labour and net operating surplus after depreciation, are already subject to triple tax — income tax, GST, and RSC levies. To add CBT would amount to *quadruple* taxation;

☐ CBT is not based on the ability to pay, thus immediately conflicting with the canon of equity;

☐ CBT would be a tax *par excellence* to discourage the use of labour, contrary to one of the main recommendations of the Kleu Committee; and

☐ "CBT will in no sense at all represent the replacement of a less efficient tax by a more efficient tax."

A report-back after visits to Europe and the US, by Assocom personal representative, Unisa's Professor Ben van Rensburg, makes the outlook for CBT and VAT dreary. The report makes stark reading, with Van Rensburg finding Michigan (which uses the main apparent source for CBT, the Single Business Tax, SBT) experts in various fields "deeply puzzled" at SA's chances of having both GST and CBT.

They felt that such a possibility would be "rejected in most countries." In Michigan SBT is levied at state level alongside a sales tax, but both are imposed at relatively low levels, and deductible from Federal Income Tax, and many exemptions have been adopted to soften the blow.

The experts pointed to the dangers of taxing the same base more than once in the same tax regime: "The number of taxes should be minimised, with as broad a base as possible." Michigan experts felt that "unnecessary" increases in compliance and administration costs would result in the private and public sectors.

They added that high compliance costs lead to special pleadings, such as deductions for small businesses; deductions related to labour compensation, and deductions for sales in other states.

The experts also said that SBT (and CBT)

P.T.O

Tax: govt will do what's best

16/10/87 (320) B/day

AMANZIMTOTI — There could be no taxation by consent or consensus, Finance Minister Barend du Plessis said yesterday.

He told the Natal NP congress as far as the Margo Commission tax recommendations were concerned government would base its decisions on what was in the best interests of the country.

Since the tabling of the report, 300 representations had been received and processed by his staff.

Du Plessis said: "From this has emerged one clear fact. There can be no tax on the basis of consent or consensus.

"Everybody squeals on how the taxation affects them. Ultimately, somebody will have to decide regardless of the individual's interests."

Du Plessis said the matter would be raised again at next week's business conference of the President when Mr Justice Margo and he would make contributions.

By then his department's investigations would be complete. A Cabinet decision was expected by year end and a white paper would be prepared during the summer holidays. Du Plessis said: "By the first quarter of the new year we will be going public with our proposals."

LIFE ASSURERS

Taxing question

When a government imposes a new tax, it can distort the free market mechanism. Businessmen can lose sight of this when they argue for "more equitable treatment" of their own industry. They often argue not for lower taxes, as they should, but for higher taxes on an opponent.

So it is with financial institutions. The recent attack by UBS CE Piet Badenhorst on life assurers' "preferential tax treatment" is a case in point.

Says Dorian Wharton-Hood, chairman of the Life Offices' Association (LOA): "The problem is that building societies are over-regulated, not that life offices are under-regulated." To tax life offices more is no solution.

Societies and their investors pay less tax as a percentage of gross investment income than life assurers in respect of their taxable business, according to recent figures from an LOA sub-committee based on information from members and the statistician for the Commissioner for Inland Revenue.

Life assurers paid tax of R236m, plus tax by individuals on policy proceeds. With gross investment income derived for members of R1,18 billion, tax as a percentage comes to at least 20%.

Building societies' taxation comprises: tax paid by institutions, R148m; tax paid by individuals on all interest income, regardless of source, R406m (considerably overstated, says Wharton-Hood); and tax paid by individuals on dividends paid out by building societies, R61m. This gives a total of R615m, or just 15,7% of gross investment income derived for members of R3,9 billion, according to the LOA.

The assurance industry has been discussing the matter with the Department of Finance as well as the Margo Commission for some time. "We are aware of problems some building societies have with developments in the financial services industry," says Peter Garthwaite, GM of Norwich Union.

"We would prefer ironing these out in discussion with the societies and the authorities. We are as keen as they are to have different financial institutions compete on a level playing field for the savings of individuals. And we support equal and fair competition in a deregulated environment."

The life industry agrees with the building societies that they are limited now that other financial institutions are increasingly competing for the same savings. Building societies are subject to the major limitation that they have to invest some 80% of assets in housing loans.

Furthermore, the mortgage rate is a political issue. Until it is depoliticised and societies allowed to charge and offer market-related interest rates, "they will be unable to offer a return on savings higher than the rate of inflation."

Life assurers have been able to offer a return better than inflation. However, says Wharton-Hood: "We believe that the angle of the attack from the building societies is wrong.

"They apparently want to see life offices regulated and taxed to the point where nobody can offer individuals a better return on savings than the rate of inflation."

It would be better if societies attempt to achieve greater investment freedom, so that individuals are offered more realistic alternatives.

"Badenhorst appears to be lobbying for tax to be payable in respect of pension funds and retirement annuities. The fact that this business is tax-free is not a concession to the life assurance industry.

"It is socially desirable to encourage people to provide for retirement. The management of pension and retirement annuity business is not the exclusive preserve of life assurers. The life assurance industry would support any move to allow building societies and other institutions to compete on equal terms." ■

320 SMN 21/10/87

Controversy over Margo expected

Taxation summit begins tomorrow

By David Braun

South Africa will be a step nearer to a completely new taxation regime after tomorrow's economic summit conference between the State President and the leaders of commerce and industry.

The conference, which will deal exclusively with the recommendations of the Margo commission of inquiry into a new tax system, will be held at the Government Guesthouse in Pretoria.

Mr Harry Schwarz, chief spokesman on Finance for the Progressive Federal Party, who has not been invited to the summit, last night warned that the tax proposals could not be discussed in isolation from the current turmoil on the world's stock markets and from short-term and long-term objectives for the economy.

Any changes to the tax system should be carefully weighed against the consequences for the gold mining industry and job creation, particularly if the world was about to enter a recession, he said.

The Margo proposals, which include a drastic cut in GST and the introduction of a sweeping new form of tax on turnover to be known as comprehensive business tax (CBT), have been at the centre of a raging controversy since they were announced.

Powerful opposition

A powerful group in the Government is known to be in favour of them, but much of the business sector, including Assocom, is against them.

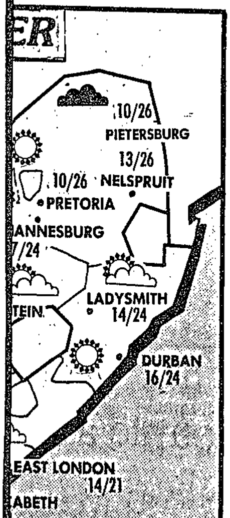
The conference will be hosted by President Botha and attended on the Government side by Minister of Finance Mr Barend du Plessis, members of the State President's Economic Advisory Council, representatives of homeland governments, and representatives of state departments and parastatals.

The private sector will send representatives from the top 100 companies, employer groups, organised trade and industry and the small business sector.

Also in attendance will be academics, representatives of various interest groups, and the members of the Margo Commission.

After tomorrow's conference, the Cabinet will choose in principle which of the Margo proposals the country should have. Government officials will work through the summer holidays to prepare a White Paper which the Government hopes to table within the first quarter of the new year.

The Margo proposals accepted will be phased in over the next few years.



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Star 22/10/87

President forecasts a modern streamlined system

Tax reform to go on — PW

By David Braun, Political Correspondent

President Botha today signalled that the Government was determined to press ahead with the complete reform and restructuring of the tax system.

Tax reform as part of the Government's economic strategy had an important and indispensable part to play in the entire reform process, the President told business leaders at the fourth State President's Economic Conference at the government guest house in Pretoria.

Opening the conference, which was otherwise closed to the media, Mr Botha said taxation and the tax system affected practically every inhabitant of the country directly in one way or another.

He said that, in any country, a subject as far-reaching as the complete reform and restructuring of the tax system would lead to divergent points of view and even disclose conflicting interests — between the authorities and the private sector, between the employer and the employee, between the producer and the consumer, and even among various segments of the private sector itself.

"In our multi-cultural country we also have to consider the interests of the First World and Third World components of our complex demographic composition.

"I have no doubt that a modern, streamlined tax system which meets South Africa's unique requirements will contribute significantly to our endeavours to achieve the highest possible economic growth rate in the long term, to promote price stability and to maintain equilibrium in our balance of payments," the President said.

Impediments

But, he added, it would be shortsighted not to take into account certain impediments which might have an adverse effect on these endeavours.

One of these was that South Africa would have to be a capital outflow country in the foreseeable future, in contrast with the times when foreign capital contributed about 20 percent to the country's net fixed investment.

In spite of the favourable conditions of the second interim debt arrangement, the fact that certain types of foreign funds were more readily available at present and a more positive foreign view was being taken of economic and political prospects in South Africa, the room for movement was still smaller than before the debt standstill.

The Government was also thoroughly aware of the particularly high rate at which Government expenditure had increased over the past few years and of the fact that it exceeded the economic growth rate.

There were sound and valid reasons for this but, nonetheless, several initiatives had been launched to rationalise State expenditure and limit its growth as far as possible.

Resolution on PAYE too taxing

Religion Reporter

A resolution that there should be no taxation without representation and which urged employers to support workers' call to stop deducting PAYE tax from wages was yesterday partially abandoned by the annual Methodist conference.

It was pointed out to delegates that supporting the resolution would amount to breaking the law and that there were heavy tax evasion penalties involved.

The original resolution was rephrased to say the conference affirmed there should be no taxation without representation, regarding this as basic to a just constitution.

STAR 22/10/87

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 Eve Vol (320)

Tax reform essential for SA, says PW

PRETORIA — Tax reform is needed if South Africa is to improve its economic achievements, says State President Mr P W Botha.

He was opening the conference in Pretoria between Government and some 200 representatives of the private sector on the Margo Commission's tax proposals.

He said that for many years the Government had expressed "the need to eliminate from our governmental dispensation certain discriminatory characteristics and other shortcomings which we have largely inherited from an out-dated colonial system".

He said that in the light of the divergent reactions to the tax proposals, a tax system should be devised which would restore confidence by being balanced and fair, and at the same time serve the best interests of South Africa and its economy.

In his address at the start of today's conference, Mr Botha said the long-term economic strategy adopted at last year's meeting made mention of the necessity to reduce tax pressure and to abolish aspects of the tax system which caused distortions in the use of resources.

"In conjunction with this, this year's conference is being devoted to the long-awaited report of the Margo Commission, whose recommendations consist not only of changes or adaptations, but of proposals for the complete reform of our tax structure."

Mr Botha said he had no doubt a modern, streamlined tax system which met South Africa's unique requirements would contribute significantly to efforts to achieve the highest possible economic growth in the long term, to promote price stability and to maintain equilibrium in the balance of payments.

There were, however, certain impediments and one was that South Africa would have to be a capital outflow country in the forseeable future, in contrast to the times when foreign capital contributed some 20% to its net fixed investment.

He said the current rate of growth was insufficient to provide employment opportunities for the existing labour force and new entrants.

"The expected growth rate of between 2% and 3% for this year — significantly higher than the previous few years

Tax changes on the way, PW tells big business

ARGUS 22/10/87

320

The Argus Correspondent

PRETORIA. — President Botha today said the Government was determined to press ahead with reforming and restructuring the tax system.

Tax reform as part of the Government's economic strategy had an important and indispensable part to play in the reform process, he told South Africa's business leaders in opening the fourth State President's economic conference in Pretoria.

Opening the conference, which was otherwise closed to the media, Mr Botha said taxation and the tax system affected practically every inhabitant of the country.

"That is why we have decided to invite the widest representation that space and manageability will allow to this important conference on the report of the Margo Commission," Mr Botha said.

THIRD WORLD

"In our multi-cultural country we also have to consider the interests of the First World component and of the Third World component."

Mr Botha said it was the Government's task to reconcile the divergent reactions to the Margo report as far as possible, so that a tax system could be implemented that would be fair and balanced and so restore and strengthen confidence, and which would best serve the interests of the country and its economy.

Mr Botha said today's discussions could also make a significant contribution towards the implementation of the Government's long-term strategy regarding inflation.

TAXATION

Margo's wealth tax

Since capital, said the Margo Commission on tax, contributes to a person's ability to pay taxes, it offers a potential base for levying tax. It was good enough reason for Margo to recommend a Capital Transfer Tax (CTT) — but in return, donations tax and estate duty would be abolished.

SA also taxes wealth through local authorities' taxes on land — but this impost was excluded from the commission's brief.

The main argument given the commission against estate duty (death tax) was fiscal unproductiveness: it produces at most R100m a year. It also inhibits capital build-up, and is imposed at an inopportune time.

The main arguments in favour are that capital not only creates security, it also increases the ability to consume — thus contributing to the taxpayer's ability to pay; and that such a tax is needed to redistribute wealth and spread the tax burden equitably.

The commission's principal problems with estate duty and donations tax are:

☐ The effects of bracket creep; and

☐ The "relative ease with which the taxes are avoided."

Increasing numbers of middle-class taxpayers are being pushed into the target area, with the obvious consequence of a "massive growth in tax avoidance activities."

The commission quotes a study that found that 5% of SA's wealth-owners account for 88% of personally owned wealth, compared to 54% in Britain; 34% in Germany; 44% in the US; and 57% in Australia.

The commission says that while it is perfectly within the parameters of the law for a taxpayer legally to minimise taxable income, the position is different from the national point of view. Such tax avoidance schemes are "inherently unproductive." They create no additional wealth, but consume unproductively the time of entrepreneurs and professional advisers.

The commission looked at a number of options including an annual wealth tax, gift taxes, a capital gains tax, and a national land tax. However, it recommended CTT; which, it hopes, combines as many advantages of wealth taxes and as few disadvantages as possible (see box).

While Ernst & Whinney's Roger Bramwell notes that "no definite planning ideas" can be advanced until CTT appears in legislative form, several general observations may be made.

Bramwell feels that the features of CTT will reduce the number of people setting up elaborate tax avoidance structures. He believes that while CTT appears to eliminate many advantages of trusts, they will not disappear.

"The use of trusts is not only limited to fiscal duty avoidance or restriction."

If CTT is indeed levied at a flat rate of 15%, and the annual lump sum deduction of R10 000 is granted, "this would effectively mean that an interest-free loan of up to R66 667 a year could still be made without incurring CTT liability."

Bramwell observes that the annual exemption of R10 000 could be used over time "to give away substantial amounts of capital." Furthermore, it may still be possible for a person to make gifts on a regular basis out of income.

English legislation exempts such gifts as long as the income forms part of normal expenditure and the gift does not reduce the person's standard of living. ■

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No decision on proposals, but. . .

Tax changes for next Budget

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Cape Times 23/10/87

By AUDREY D'ANGELO
Financial Editor

SOME of the tax changes recommended by the Margo Commission will be implemented in the Budget next March and others, if accepted, will be phased in as soon as the necessary legislation has been passed and other preparatory work completed, Finance Minister Barend du Plessis said yesterday.

Speaking at the State President's conference on tax reform, Du Plessis said that at this stage the Department of Finance and the government had taken no decision on any of the commission's proposals but the matter could not be allowed to drag on.

"Today's discussions are being approached with an open mind. But it is also clear that discussions of this kind could go on indefinitely without decisions being reached and could thus ultimately be counter-productive."

Outlining the programme proposed to prevent this happening, Du Plessis said that, although the department would hold further discussions, chiefly in government circles, it would begin at once with a joint submission to the Cabinet on the commission's recommendations. "It is hoped to finalize this by the end of November."

This submission would receive the Cabinet's immediate attention and the government would take a final decision on broad principles "as speedily as possible".

In the meantime, Du Plessis said, his department would prepare a White Paper giving the government's view on each of the Margo Commission's recommendations. It was hoped to table this in Parliament early next year.

"While the date of the release of the White Paper cannot now be fixed, it will be no later than at the time of the submission of the main Budget for 1988-89.

"It will thus be possible for certain of the commission's recommendations to be implemented in the 1988-89 fiscal year."

Du Plessis told the conference that the commission had "sought to design a structure leading to a more equitable division of the tax burden and which rests on a broader base but at the same time does not increase the total tax load."

Although sectoral interests were important he hoped those involved in the debate would "put the broad national interest foremost".

Commodity Index 1679,5
Platinum $577,00
Palladium $132,00

Cabinet to decide which of Margo Report proposals will be accepted

Botha determined to reform SA's taxation system

(320)

Mr P W Botha, engineer of four summits which delved into SA's deepest economic problems.

By David Braun, Political Correspondent

The fourth President's conference with the private sector, held in Pretoria yesterday, is likely to be an important factor in determining a new taxation system for South Africa.

Each of the previous three "economic summits" made such positive contributions to the management of economic policy, in the Government's view, that it was decided last year to hold them more regularly, and, if possible, on an annual basis.

Among the results of the first gathering, the Carlton conference of 1979, were the establishment in 1981 of the Small Business Development Corporation.

The conference also saw the institution in 1983 of the Development Bank of Southern Africa to channel funds to developing areas in the sub-continent; and proposals to change the Government's regional development policy.

At the Good Hope conference in 1981 it was decided the private sector should become more involved in the economic development of southern Africa and that the decentralisation policy should be revised.

This led in 1982 to an investigation into the promotion of industrial development as part of a co-ordinated regional development strategy for southern Africa.

It resulted in the introduction of the National Regional Development Advisory Board, regional development committees and a new programme for industrial decentralisation.

The third conference, held in Pretoria last year, dealt with the country's economy and ways of ensuring economic confidence against the background of the Economic Advisory Council's proposed long-term economic strategy.

The conference approved the proposed strategy in principle and the Government accepted it with some qualifications.

The 1986 conference also discussed a framework for privatisation, and this was taken into account when the White Paper on privatisation and deregulation was formulated.

ThePresident, Mr P W Botha, told the fourth conference yesterday he had, since becoming head of Government in 1978, gone out of his way to place the relationship between Government and the private sector on a sound footing and to create a climate of mutual confidence.

"Without such confidence a healthy economy is not possible and in a country such as South Africa it is of the greatest importance that all who take the lead in the economic development and progress of the country should come together from time to time to consider the road ahead.

"Every one of the previous conferences not only offered an opportunity for constructive discussion, but promoted mutual trust, engendered great interest and produced positive results in the interests of all in our country and region," he said.

Mr Botha clearly signalled his determination to reform the country's taxation system when he said this aspect of the Government's economic strategy had an important and indispensable part to play in the entire reform process.

Taxation affected practically every inhabitant of the country directly in one way or another, he said.

A subject as far-reaching as the complete reform and restructuring of the tax system would lead to divergent points of view and even disclose conflicting interests.

For that reason the Government had decided on the initial publication of the Margo proposals without comment so that certain aspects could be subject to further study and to give all parties the opportunity to consider them thoroughly.

The next step towards a new taxation system for South Africa will now be a Cabinet decision on which of the Margo proposals to accept.

The Government's response to the Margo commission is expected to be known by Easter next year.

320 B/day 23/10/87.

Sales Tax Act will hit many manufacturers

HELEN WISHART

MANUFACTURERS will be hit hard by the recent amendment to the Sales Tax Act which widens the definition of "non-qualifying" goods.

Still reeling from the twin impact of the new consolidated fuel levy — the cash flow disadvantage and effective price increase — Deloitte Haskins & Sells associate director Ken Boggis says manufacturers will lose out again under the amendment to the Sales Tax Act.

The Taxation Law Amendement Act, effective from 14 October, will require tax to be paid on a wider range of maintenance spares than has been the case to date.

Although the explanatory memorandum says the change is merely "textual", the implications are substantive.

"Revenue was always obsessed with 'non-qualifying' goods — detachable machine tools were first outlawed, then it was tools that come into direct contact with goods being processed, now component parts have also been added," Boggis says.

The amendment follows an appellate division decision of the CIR against Dunlop SA earlier in the year, which the Receiver lost. The judgement limited the definition of a "machine tool", so widening the ambit of goods which qualified for tax exemptions.

By inserting the words "or component parts" in the definition of non-qualifying goods, manufacturers will have to reassess their taxation on equipment and will be liable where they were previously clearly exempt.

Crucial tax proposal probed after report

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5/M 23/10/87

Pretoria Bureau and Correspondent

The Margo Commission of Inquiry into South Africa's tax structure made its findings on the controversial Central Business Tax system (CBT) — based on a similar structure used in the state of Michigan in the United States — before a commission committee had concluded its findings on the issue.

This emerged yesterday following the fourth "economic summit" with the State President, Mr P W Botha, in Pretoria at which the Margo Commission report formed the focal point.

The CBT was the major contentious issue, according to delegates lobbied after the meeting.

But two "independent" committees — a Government delegation and one consisting of commission members — were sent to Michigan to investigate the nuts and bolts of the working of the CBT after the Margo Commission Report had been publicly released.

The Deputy Minister of Finance, Mr Kent Durr, when confronted with this fact, said both committees had confirmed the "theoretical findings" of the Margo Commission's final report.

Overall, delegates reacted positively to the conference and as one put it: "The Government heard things today they obviously have not heard before. They sat up and listened."

The conference was described afterwards by Mr Botha, as "a final step in the protracted process of comment and mutual advice between the public and the Government" on the Margo Commission.

In a statement issued through the Bureau for Information, he said a White Paper, setting out the Government's decision on the Margo recommendations would be published early in 1988.

Mr Botha said the meeting with 200 top private sector representatives was "frank, taking place in a constructive and amicable spirit".

● See Page 15.

Next year could usher in new era

Govt set to implement tax reform

(320) B/day 23/10/87

GERALD REILLY

PRETORIA — Government hopes to implement some of the Margo Commission's tax recommendations next year after sifting through some 300 "divergent" business responses to the proposals.

● DU PLESSIS

This emerged after President P W Botha's fourth summit with businessmen, this time focusing on SA's tax structure.

The meeting with 200 top businessmen was held behind closed doors, but Botha said a white paper setting out government's decisions on tax would be published early in 1988.

All evidence gleaned from the conference, plus written and verbal evidence, would be evaluated by Finance Minister Barend du Plessis and his department before recommendations were made to the Cabinet.

Botha described yesterday's conference as "a final step in the protracted process of comment and mutual advice between the public and government on the Margo Commission report".

Ideas and criticism were exchanged freely on economic background, income tax on individuals, company tax, capital versus revenue, the proposed comprehensive business tax (CBT), adjustments to the system of general sales tax (GST) and specialised sectors.

The discussions were frank and took place in a constructive and amicable spirit.

Du Plessis said a final decision on broad principles would be taken as speedily as possible. Some of the commission's recommendations could be implemented in the 1988/89 fiscal year.

Reaction to the Margo Report had been "divergent". It was plain overall consensus was simply not possible on most aspects of taxation.

● PW's summit: Page 7
● Comment — Page 8

There was general agreement the pivotal recommendation — the CBT — was one of the most controversial, with reactions ranging from unbounded enthusiasm to rejection.

The Department of Finance would have more discussions on the report, mainly with other state departments. It would begin at once with the preparation of submissions to the Cabinet and it was hoped to complete that by the end of November.

Du Plessis said government had given the private sector every opportunity to participate in the tax debate. His department had already processed about 300 submissions.

● To Page 2

A task force, headed by Finance director-general Chris Stals, had had more discussions in the past week with organised commerce, industry and finance.

Referring to personal taxation, Du Plessis said the commission's proposals on separate taxation of married couples would no doubt be the main focus of attention. The commission had pointed out the full implementation of that proposal would mean about R2,4bn would be forgone annually in income tax.

Several opinions had been given that a revenue loss of that magnitude, if it could be comtemplated at all, should rather be incurred in lowering the scales of personal income tax to compensate for fiscal drag.

GST recommendations seemed to have been favourably received. There was reasonably general support for the exclusion of capital and intermediate goods and for the re-incorporation of foodstuffs. This, however, remained contingent on a drastic reduction in the rate of GST.

Du Plessis said the department and government had taken no decision on any of the commission's proposals and that yesterday's discussions were being approached with an open mind.

Other points to come up were:

- Du Plessis said the Margo report had been released at a time when the SA economy was poised for a powerful upswing;
- Gross Domestic Product was expected to grow at 2,5% this year;
- The surplus on the current account of the balance of payments was expected to be a little less this year than last year's record R7bn;
- This comparatively large surplus enabled SA not only to meet all foreign debt commitments under the interim arrangements but also to build up foreign reserves;
- The gold and foreign exchange reserves had more than doubled since April 1986 and were running at about R8bn;
- There was a good deal of under-utilised production capacity, and in the public sector there was adequate capacity for many years without a need for large new investment;
- While still unacceptably high, the inflation rate was falling;
- The gold price remained favourable and the rand-exchange rate had been relatively stable during the past year.

THE RECOMMENDATIONS

Capital Transfer Tax (CTT) is a combined death and gift tax imposed on dispositions of property for no or an inadequate consideration. Margo said it should be imposed on all such capital transfers (during life or on death) at a flat rate of 15%.

The commission also said that:

- ☐ For dispositions at inadequate consideration, CTT should be levied on the difference between "full and actual" consideration;
- ☐ The exemption now offered to donations between spouses should be retained *but* certain anti-avoidance measures may be needed to protect the tax base and control splitting of estates;
- ☐ The lack of interest on "soft" loans should be regarded as a taxable capital transfer;
- ☐ Other means of financing used to transfer real wealth for an inadequate consideration should also be subject to CTT;
- ☐ Generation-skipping devices — such as trusts — should be subject to CTT after a certain period (15 years is suggested), to the extent that the beneficiaries have not obtained vested rights to the trust property;
- ☐ For donations made during the donor's lifetime the primary obligation to pay CTT should be imposed on the donor, with secondary liability on the donee;
- ☐ For capital transfers on death, liability for CTT should rest on the estate;
- ☐ Legislation should provide for payments of CTT, arising on death, to be spread over, say, five years, on condition that a market-related rate of interest is paid to Revenue. In the case of income-earning assets such interest should be deductible against normal tax;
- ☐ With the low 15% tax rate and extended payment period, no special treatment should be given for farming property;
- ☐ CTT should apply where spouses mass their estates, so that the value of a survivor's contribution to the massed estate is not matched by the value of the limited interest (for example, a usufructuary interest) he/she received in the massed estate; and
- ☐ The existing deduction for certain usufructuary rights or similar interests in property, created by a predeceased spouse, should be abolished with retrospective effect from November 1 1984 "in view of the general deduction which has applied to dispositions between spouses since that date."

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TAX REFORM

Margo finds a friend

The Federated Chamber of Industries (FCI) has given the Margo Commission its own rubber stamp. And it adds some special arguments to protect members' interests.

Like Assocom (*FM* October 16), the FCI regrets that Margo was constrained by government to address "merely one side of fiscal policy." It says: "Tax reform cannot make an adequate contribution to the solution of the problem of structural imbalance if it is not linked to a complementary reform of government expenditures."

Unlike Assocom, which all but demolished Comprehensive Business Tax (CBT), the FCI has no problems with it in principle. FCI chief Steve Anderson adds that "CBT is not ideal, but a necessary step in tax reform."

But, also unlike Assocom, it seems to misunderstand certain tax concepts.

Like Margo, the FCI thinks that capital goods and intermediate transactions should be removed from, and food brought back within, the GST net. This would reform GST to, in its words, a "pure consumption base."

Yet GST is a sales tax (as its name implies), or a transaction tax, not a pure consumption tax — which is one that penalises people for what they take out of an economy and rewards them for what they put into it (savings or investment). GST is concerned with only one side of the consumption coin.

The FCI also seems to trip up when it supports a "consumption base, together with the retention of the present income base. Both bases comply with the canon of equity, as equity includes both user-charging (consumption), and ability to pay (income)."

FCI spokesmen say that taxpayers should be "user-charged" for use of productive factors (such as capital and labour).

Yet this understanding is vastly different from the normal definition of user-charging as being for real consumption (such as household electricity).

The FCI supports CBT mainly because it is just an accounting VAT or AVAT (accounting value added tax), or IVAT (invoice VAT). FCI thinks VAT is much better than GST, mainly because it requires a bipartite, rather than GST's Receiver-taxpayer-vendor tripartite relationship.

"Somehow the idea has gained currency that VAT is more complex than GST." The FCI suggests the opposite is the case, noting that 36 countries use VAT, including Bolivia, Costa Rica and Haiti. This observation is strange, given that Margo itself noted that GST is subject to fewer refunds than VAT; involves lower costs; needs less record-keeping; and has a wider base.

Having convinced itself that VAT is better than nothing, and a good base for CBT, the FCI asks whether it is cumbersome to have GST of 7,5% (as it recommends) and a 5% CBT, giving three reasons why this may not be so:

- ☐ A future tax system should cater for national and regional interests;
- ☐ Two taxes give greater flexibility to keep pace with changes in such needs; and
- ☐ The incidence of CBT will "be somewhat heavier on business than IVAT, thus facilitating the re-introduction of food to both the new (clean) GST base, and the CBT base."

Whether these are valid is a moot point, but the FCI argues that "a large part of CBT will be moved on to the consumer." To the criticism that CBT is a tax on labour and hits low-profit businesses, the FCI retorts: "To the extent that CBT can be moved on to consumers, it is no different to GST."

The FCI agrees with Margo that RSC levies should be scrapped, and funded by a CBT piggy-back; and that exports should be exempt from CBT. Unlike Margo, it believes CBT should be tax-deductible. The FCI concludes with that universally accepted tax saying, that two low taxes are better than one high one.

While the FCI's plea for special treatment of exports may be economically sound, its historic role as a lobbyist sometimes comes through crudely: "A full costs base" for perks tax on motor vehicles "in the foreseeable future is, unfortunately, unrealistic."

On the other hand, "the State should set an example to other employers by remunerating officials in cash." Such payment would, in effect, tax cars on a "full costs basis."

Regarding the time-frame, the FCI sees Margo as "the first step in the reform of fiscal policy." It favours Margo's "main package," provided it is introduced as a whole with significant lowering of GST, personal and, "particularly," corporate tax rates.

Probably the most important part of the FCI response is its insistence that Pretoria "should now address with more urgency the expenditure side of fiscal policy through development of a national strategy of economic growth and development."

SHORT-TERM INSURANCE

Losses flood in

As claims pour in from the worst disaster in South African insurance history, it is clear the R500m total insured losses initially estimated were on the conservative side (*FM* October 9).

31/10/87

MONEY SUPPLY HOTS UP

Money supply — as measured by broad M3 — jumped a hefty 3% in September from August, from R84,45 billion to a preliminary R87,01 billion.

M3 increased 12,04% in the 12 months to September. This is closer to the 14%-18% growth target than August's downwardly revised 10,20% year-on-year increase — the preliminary figure for August was 11,34%.

To hit 14% in September, the actual figure for M3, not known until next month, would have to reach R87,86 billion. The preliminary figure indicates it will miss the mark by some R850m, or just under 1%.

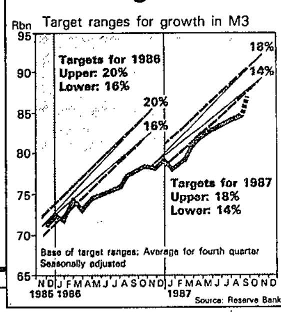
An analyst calls the September jump a "sharp increase," attributing it to a boost in credit to the private sector.

He says, however, that part of the rise is a statistical aberration, because banks submit quarterly credit reports in the month.

The Reserve Bank also reports that, in August:

- ☐ M1(A) was R15,47 billion, a 17,75% year-on-year increase but a 1,9% drop from July;
- ☐ M1 was R28,30 billion, an 18,73% year-on-year increase but a 0,6% fall from July; and
- ☐ M2 rose to R59,48 billion, an 8,66% year-on-year increase and a 0,6% jump from July.

Getting closer



Margo will add teeth to tax Act, say consultants

320 B/Day 26/10/87

HELEN WISHART

THE Margo Commission recommendations on legislation against tax avoidance will add more teeth to the Income Tax Act if implemented, but the recommendations also confuse avoidance with evasion.

This is the opinion of tax consultants and accountants who commented on Margo's recommendations on section 103 of the Income Tax Act.

The section enables the Receiver of Revenue, in certain cicumstances, to deduct tax as if a particular tax-avoiding scheme had not been entered into. But the Receiver must prove:

- ☐ The transaction effectively avoided tax — a matter of arithmetical construction;
- ☐ The transaction was done solely, or mainly, to avoid tax — and it is difficult to prove the scheme was done for some other commercial reason if it *de facto* avoids tax; and
- ☐ That the transaction was entered into in a manner not normally used, or that rights and obligations were created which would not arise from a transaction entered into by parties acting "at arms length".

Margo hits directly at the third, or "abnormality" test, because this section provides the taxpayer with the only real defence.

Arthur Young's Ian MacKenzie said: "The Margo report recognises that the test for abnormality can be very subjective and that it can be changed by the circumstances of the transaction.

Contrary to practice

"A new tax-avoidance scheme can be dreamt up and may be abnormal at first, but once everyone else latches onto the idea, the scheme becomes 'normal' simply through usage.

"Therefore, the Receiver has not used the section often. Careful tax-planning can bypass the abnormality test anyway.

"But the report considers tax avoidance to be as evil as tax evasion, although no special provision is required in the Act to combat evasion. This is contrary to established practice and this is where the impact of Margo's recommendations could be felt.

MacKenzie said the recommended deterrent, if the Receiver invoked section 103, was that a taxpayer would be liable for arrear interest in addition to the tax he should have paid.

"The penalty can be imposed on something which is not actually illegal — a tax-avoidance scheme."

Price Waterhouse partner Chris Frame said people would hesitate to apply a scheme which was likely to be challenged by the Receiver.

He said: "Taxpayers become more aggressive over time and do not seem to mind being seen to avoid tax, so long as they do not have to pay for the privilege. Margo recommends the section be revitalised and more penalty-orientated.

"Taxpayers will now have to consider the section in every financial decision taken."

Need for clearance

He said this would have an opposite effect to that intended by Margo — to promote a system where business would not revolve around tax-planning.

Frame said retrospective payment of interest was legitimate only if it was clear the Receiver, if asked, would give a formal clearance prior to entering into the transaction.

Arthur Andersen manager Younaid Waja said the abnormality test was onerous for the Receiver to prove because of the dynamic nature of the business environment, where novel schemes gained acceptability within a short period.

"It is difficult to visualise how the concept of abnormality can be qualified in the business environment without being seen to smother the process of wealth-creation.

"The recommendation that interest be charged retrospectively is unfortunate since it will not only bring to an end tax-driven schemes, but it will severely inhibit the implementation of schemes which are conceived on sound business reasoning and which are found to be tax-efficient but not tax-driven."

Aiken and Peat partner Patrick McGurk said: "To qualify the concept of 'normality' to include all types of transactions is a steep order."

It could also be measured by looking at the relationship between the parties.

[redacted]

TAXATION 28/10/87

Is VAT the answer?

The controversial Comprehensive Business Tax (CBT), the Margo Commission's hoped-for hallmark tax reform, was the main topic at last week's summit with State President P W Botha. Finance Minister Barend du Plessis said reaction to CBT had ranged from "unbounded enthusiasm to outright rejection."

There was some confusion at the summit — as there is elsewhere — about the difference between CBT, VAT and GST. Nor was it known until the summit that the commission planned gradually to substitute CBT for GST.

In a nutshell, CBT is (or so the commission claims) an income tax calculated on the value added basis; VAT, in the traditional sense, is calculated on companies' invoices; while GST is an end-user's transactions tax, calculated purely on the price the consumer pays for the item.

Economically neutral

All three taxes are indirect (that is, not adjusted for individual circumstances). Indirect taxes tend to be economically neutral, that is, they affect all factors of production in the same way. They do not, like income tax, tend to redistribute buying power from the wealthy to the less well off.

As CBT is implemented, it now appears that the Margo Commission wants GST not only to be reduced but phased out entirely. That much is not in the Margo report.

At the summit it was claimed that:

☐ "Visibility" of taxes is not as important as some critics, such as the *FM*, have been at pains to argue, as all taxes have an element of invisibility about them; and

☐ CBT, counter to criticism, does in fact have a "pedigree" for it is based on the VAT implemented some time ago in Europe.

So, the argument continues, the invisibility of CBT should not preclude its implementation. The pro-Margo people argue, furthermore, that as CBT is nothing more than an AVAT (VAT calculated on financial accounts, rather than the much more common IVAT, calculated on invoices), it has a substantial pedigree, with a wealth of literature behind it.

What is puzzling, in that event, is why the commission did not call a spade a spade. If CBT is indeed AVAT, it should have been called that. It could also have been called "business" VAT.

The precise details of how CBT would work (draft legislation) are not contained in Margo. We understand that *after* the report was signed in November 1986, a task force comprising Margo commissioners and Treasury officials visited Michigan and compiled a report.

The CBT formula taxes value added on the accounts basis: salaries + wages + interest + royalties + rent + profit + depreciation - gross investment. The nearest thing in the world to it is Michigan's Single Business Tax (SBT).

No other tax jurisdiction in the world uses the SBT-type impost, and in Michigan it has presented lots of practical problems. When SBT was introduced in Michigan, five taxes were repealed (including corporate income tax), one tax modified, and a tax credit added. The idea was that SBT would be a simplified, fair tax. It was introduced, and has remained, below Margo's 5% recommended rate.

One of Michigan's major practical and theoretical problems was deciding what addbacks to have in calculating the base. Another was the substantial political lobbying that preceded introduction of the tax. Result: immediate relief for the car, construction and retail food industries.

CBT is, as Assocom argued, counter to Pretoria's official policy of deregulation.

The difference between CBT and VAT is that with VAT a taxpayer only pays a net amount of VAT: the VAT recovered by it from its buyers, less VAT paid by it to its suppliers.

Since the CBT formula does not allow CBT paid to be deducted from the base, so it gathers more tax on tax until it reaches the final consumer.

The commission's claim that CBT is nothing more than AVAT (and the Federated Chamber of Industries agrees) does not tally with the opening statements in Margo in the CBT chapter. We are told that CBT is broad-based (true), and indirect, which is also true.

Then we are told that it is a tax on incomes: "It would be an income tax because it would be a tax levied on the incomes generated by business activity." But from elsewhere in Margo: "Technically, the CBT is an origin-based fiscal value-added tax of the consumption type."

So: is CBT an income tax, a form of VAT, a species of consumption tax, or a bit of all of these? If CBT is indeed an income tax, it would overcome one of the main possible problems with CBT — the granting of foreign tax credits. Most double tax treaties give credits for taxes paid in foreign jurisdictions if they are income, or similar taxes.

If CBT is an income tax, it has the vast pedigree of the kind of tax that the world is moving away from. Nobody has ever really known how to compute income: economists, accountants and taxmen have vastly different, and in some respects mutually exclusive, formulas.

Labour intensive

CBT, says Margo, is "calculated by subtracting *all* purchases from *all* sales." At this stage, to the extent that some things are left out of the CBT formula (advertising, for instance), it is artificial. It is also uncertain (being invisible); inequitable (it discriminates against loss-making, labour intensive and start-up companies); and inconvenient.

CBT, like VAT in whatever form, is an expensive and difficult tax to administer. Moreover, the CBT proposals suggest that it would be difficult to exempt exports. So if CBT is accepted, the chances are that SA, which depends so heavily on exports, will be the only country in the world taxing exports.

The commission's answer to that is to view their proposals as a package which, the inference is, favours exporters. That has still to be spelled out in more detail.

Labour intensive industries, like mining and farming, have still to be convinced that CBT will not impose more heavily on them than capital-intensive industries.

The commission's dislike of GST is that evasion by disreputable small shopkeepers leads to a high level of evasion. But no study has been done contrasting the increased cost of policing GST collection with the administrative cost of implementing either a conventional VAT or CBT.

With improved collection methods and administration (areas admirably addressed by Margo), the re-inclusion of exempted foodstuffs, and the inclusion of services, the GST rate can be substantially reduced.

Margo, it should be remembered, did not provide anywhere near an acceptable schedule for phasing in and out the various taxes. So it's foreseeable that a company could be paying as many as four mainstream taxes — CBT; GST (on behalf of customers); income tax; and two RSC levies — for a considerable period if government has difficulty curbing its spending.

There is nothing in the commission's report nor was anything said at the summit to suggest that government spending will be curbed in the foreseeable future. ■

Tax sleuths will make life tough for defaulters

Special sleuths are expected to add more than R770 million to the Government's coffers during the current tax year, said Internal Revenue's chief director of operations Mr Schalk Albertyn today.

He said 130 investigators, mostly young chartered accountants on four-year contracts with his department, were expected to recover about R170 million in unpaid taxes from the business and farming sectors alone.

"This estimate does not include salaried taxpayers," said Mr Albertyn.

And a further R600 m was anticipated from general sales tax not handed over to Internal Revenue, including penalties.

Mr Albertyn said the audit teams had already retrieved more than R900 million in unpaid taxes since 1984 and were "doing great work — earning their keep".

● Another spokesman for Internal Revenue in Pretoria said it was "impossible" to estimate how much the current crash on the Johannesburg Stock Exchange could cost the department in income taxes derived from capital gains profits.

He said income from selling shares at a profit could not be isolated from other methods of investment, such as those from dealing in property.

By last weekend, R80 million was estimated to have been wiped off the value of equities on the JSE.

Mr Albertyn said 20 percent of Johannesburg taxpayers had not yet submitted their 1987 returns, compared to 10 percent nationally. About 40 percent of Johannesburg businesses had not yet filed, contrasted with a national figure of 35 percent.

Many of the businesses had requested extensions, but the department had summonsed hundreds of defaulters, both private and commercial.

Sparks for family health chair

Professor Bruce Sparks has been appointed Kenneth S Birch professor of family health and chief family health practitioner at the University of the Witwatersrand Medical School.

The chair of family health was established at Wits in 1985. Its focus is on equipping the medical practitioner for primary care in the community.

Health for all by the year 2000 is the ultimate aim of all primary care workers, said Professor Sparks.

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TAX REFORM

More incentives?

One result of the Margo Commission could be that all business taxpayers may have to file a reconciliation statement, explaining why they're not paying the full rate of tax.

This, yet another administrative burden for business, would give tax authorities an early warning system. Thanks to dozens of incentives, exemptions and deductions added to the Income Tax Act over the decades, very few business taxpayers pay the official tax rate — quite legitimately.

Somehow, Margo seems to think that such a reconciliation statement would check erosion of the tax base. In other words, if too many companies use legitimate tax deductions and avoid too much tax, the deduction should be reconsidered. Margo's idea of an early warning system is closely linked to overwhelming evidence that, over the years, companies have indeed paid substantially less than the official tax rate.

Quoting Central Statistical Service, Margo notes that during the past 27 years, the manufacturing sector has never paid an effective tax rate over 35%; and the commercial sector never more than 40%. In 1985 for example, the "loss of revenue" from the non-primary corporate sector was R3,7 billion, equal to the amount actually collected; an effective rate of 25% against an official 50%.

The philosophy behind giving tax incentives is that somebody (government) has reason to believe that someone else (commerce and industry) could do more in the national interest if encouraged to go into a particular field of activity. Without tax incentives, the argument goes, the taxpayer would not have gone into the activity.

Instead of incentives, reducing the overall tax burden is a more effective way of promoting development. In Utopian tax systems, the principle of neutrality ensures that whether an individual goes into growing cabbages, mining platinum, carving voodoos, or making supersonic jets, he is subject to the same tax burden. In SA, muddled policies have produced a hodge-podge of tax incentives, cash grants, and other devices that act as drains on the exchequer.

Result: in 1987, a record tax burden and record unemployment; and entities that can be classed as truly competitive internationally, woefully lacking.

Margo did not give a blanket recommendation; it suggested, rather, that as many hand-outs as possible should be by way of cash, rather than in the more invisible way of tax inventives.

For example:

- ☐ Allowances for export marketing, training, and security for national key points should be taken out of tax law. Incentives should be by cash grants;
- ☐ R & D of a revenue, but not capital, nature, should be an allowable deduction;
- ☐ Housing allowances should be retained for developments close to mining and farming activities only; and
- ☐ Sponsorship allowances are "not recommended."

To comply — partially at least — with the principle of neutrality, Margo recommended a three-year write-off (50%-30%-20%) for plant and machinery; hotel equipment; ships, and aircraft. New hotels should be depreciated at 10% a year. It is interesting to note that all these categories would only be useful to "big business."

Finally, Margo recommended the "early warning" system, so the authorities could quickly establish debasing of the tax system. What they should do then is not discussed.

Certainly, the question of incentives, tax and otherwise, is serious. The amounts lost to the exchequer are material. And, increasingly, the evidence is that tax incentives in the end do more harm than good.

In passing, Margo noted that: "The provision of allowances through the tax system to achieve decentralisation objectives is considered inappropriate as it places an undue burden on an agency which is not accountable in any manner whatsoever for the administration of the incentive."

What about commerce and industry? Judging by the R3,7 billion it "cost" in 1985, the individual taxpayer — at least in the sense that he paid a higher rate than he would have — has subsidised commerce and industry to the tune of tens of billions of rands over the past few decades.

Until 1985, manufacturers were able to claim 130% of the cost of plant and machinery against tax (this included initial, investment and wear-and-tear allowances, the latter over time). Provided the manufacturer was in profit (or someone else could account for the tax allowances), it paid for only 35% of the cost of such plant and machinery.

Yet, despite this incentive, incredible even by international standards (Japan gives its industrialists nothing), hardly a single manufacturer has risen unscathed, never mind victorious, from the ashes of the latest recession. This is the kind of thing the Margo Commission did not explore. ■

TAX REFORM

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The CBT scorecard

If the opinion of organised business is given the weight it should have in Pretoria's White Paper on the Margo Commission, due for release in the first quarter of next year, then the Comprehensive Business Tax (CBT) is not going to be a winner.

A straw poll by the *FM* indicates that every major representative of commerce, industry and mining has either rejected CBT, or approved it with severe qualifications.

CBT has been rejected out of hand by, among others, heavyweights Assocom (representing 99 chambers of commerce and 24 776 individuals), the Chamber of Mines (89 mines), Safto (1 500 businesses), and the SA Agricultural Union (60 000 farmers).

It has been given "qualified" support — subject to further details being supplied — by the SA Institute of Chartered Accountants, the Life Offices' Association and the Afrikaanse Handelsinstituut.

And the *FM* understands that CBT has been met with very little enthusiasm in the Union Buildings.

Even the powerful chairman of Sanlam, Fred du Plessis, is against it. And that, if nothing else, is likely to sway the State President's Economic Advisory Council.

The one exception — in a sense — is the Federated Chamber of Industries (FCI), which issued a "head office" pro-CBT statement that has been unequivocally rejected by its largest member, the Natal chamber.

THE GREAT CBT COMPROMISE

The very nature of the Margo Commission's recommendations suggest that the influences on the commission's thinking must have been many and varied.

The commissioners themselves — all 19 of them — vary from the expert to the interested novice.

What their recommendations lack in originality they make up for in variety.

Even the most cursory scrutiny suggests that different chapters of the report were written by different people. The longest chapter by far, on separate taxation of marrieds, is 49 pages; out of 29 chapters, only one other is longer than 30 pages. Our guess is that the big chapter was written (some would say composed) by Wits University's feminist campaigner June Sinclair, who is not a commissioner.

What's of interest is that while Margo recommended separate taxation for the married unit, practically all countries that have tried the system have reverted back to a form of joint taxation; though highly modified in some cases.

Few would argue, either, that the need for most of Margo's 271 recommendations was not painfully obvious even before the commission sat.

Some of the recommendations were *ex cathedra* — their infallibility to most taxpayers was assumed rather than argued.

At least one local tax expert claims he shudders to think what intellectual credibility the report would have abroad where the same ground has been turned often enough.

Moreover, it is true that public finance is exceptionally complicated in modern economies and views on it vary widely.

So it would be surprising if personalities with divergent views did not become an important factor in the formulation of Margo's findings.

Behind Margo, it seems to us, lay what may be described as three schools. The first represented the status quo and was led by former Commissioner for Inland Revenue Mickey van der Walt.

The second was led by UCT's John Morris and represented what it believed to be the interests of the mythical "man in the street." Commonly this faction sees a supreme virtue in putting equity ahead of economic efficacy.

The third, or intellectual school, was led, we guess, by Jan de Villers Graaff and represented the expenditure tax school. Every molecule of the expenditure tax was thoroughly examined by the UK's Meade Committee, led by Nobel economics prizewinner James Meade.

The "universal expenditure tax" (UET) is accepted as the world's purest, fairest and most simple tax. It taxes people (or business and industry) on what they spend, and exempts what they save. The yardstick used is the cash flow. The UET is a direct tax, so individual circumstances can be accounted for.

Graaff, being a clever Cambridge economist, is considered a bit of a *slim Jannie* who doesn't have to run anything. So his influence on the pragmatists and populists was probably limited.

Our guess is that Van der Walt's pragmatic conservatism forced a substantial compromise.

That much is evident in the minority Margo reports. It is also evident in recommendations to cut visible taxes, GST and income tax, and substitute the invisible Comprehensive Business Tax (CBT), and if need be, VAT as well.

In the end, as the *FM* understands it, Graaff was given something of a free hand in designing a new tax to plug the revenue gap left by tax reductions and those taxes to be abolished.

But he had to accept some substantial compromises — and the CBT was the outcome.

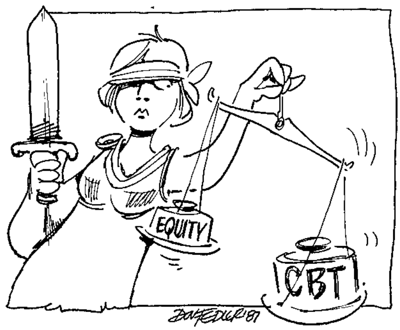
Indeed, "compromise" is the only word for it.

Its base is salaries + wages + interest + royalties + rent + profit + depreciation - gross investment. CBT takes the world's pedigreed taxes (however flawed) and rolls them into one:

- ☐ CBT on profits is an income tax;
- ☐ Deduction of gross investment is a reward for saving, from the expenditure tax;
- ☐ Inclusion of salaries and wages is a payroll tax;
- ☐ The general formula comes from the value added tax system; and
- ☐ The add back of depreciation is a form of capital tax.

The result is a proposed tax without sufficient details. Much of the reaction to the Margo Commission been "qualified" acceptance of the CBT, but subject to further details.

We're not surprised. ■



Chances are that the Cape Town chamber could follow suit. If that happens, the FCI will probably have imploded before its Bloemfontein congress is over this week.

The FCI's "head office" response epitomises the sentiment of many individual businessmen and some business sectors to CBT: it's OK as long as we're not included, or we're given special treatment.

But CBT does have one strong factor going for it. Economically blacks need to be drawn into the tax net. But politically this is a hot potato as blacks, quite rightly, are likely to argue "no taxation without representation."

So it would be convenient for government to have an invisible indirect tax that will draw them at least partially in without giving the game away. In that respect CBT fits the bill.

Even if there is little evidence that government spending will slow down, the fundamental reorientation of the political economy requires a wider tax base. This implies either higher tax rates or taxing more people at lower rates. The latter, in turn, implies taxing more blacks.

In this context, CBT makes a lot more sense than, for example, a purified income tax.

From representative bodies, two objections to CBT tower above all others:

- ☐ It will be no good for exports; and
- ☐ It will be no good for employment.

It will also, as leading tax expert Eddie Broomberg points out, do nothing to simplify the tax system — one of the very things Margo so overtly set out to do. "In 1962," says Broomberg, "when tax rates were also relatively high, companies only had to file one tax return a year.

"If CBT comes in companies will have to file more than 50 tax returns a year." Some kind of simplification.

Broomberg also throws some light on what kind of tax CBT really is: a mongrelised form of all known taxes (see feature in this section). In other words, it is all taxes in one tax.

But Pretoria's White Paper on Margo — due in February/March next year — could propose the controversial CBT, retain regional services council (RSC) levies, and cut GST.

As the *FM* understands it, the main preoccupation in official circles regarding tax is abuse of the GST system. Margo and pro-Margo taxpayers are convinced that GST evasion is massive. In its report, Margo noted on many pages that there was a high level of "resentment" towards GST.

CBT, being calculated on financial accounts, is much more difficult to evade. But it does carry a cost which needs to be contrasted with the costs of improving GST collection.

But, above all else, CBT is invisible where GST is visible. That, in the final analysis, could be what swings Nat politicians. But opposition parties are not likely to agree.

Casper Uys (CP finance spokesman) says: "The proposed CBT will hit small businesses, and wipe out enterprises that are struggling. It's totally unacceptable to farmers and labour-intensive businesses.

"It's a mystery why it was recommended."

Harry Schwarz (PFP finance spokesman) says: "CBT will hit exports and unemployment and increase costs. If you put another tax gun into the hands of *any* government, the tendency is for the rate to go up — look at GST. With Margo, there's no guarantee that other taxes will go down.

"I fear for a multiplicity of taxes, which is implied by the Margo Commission."

The telling arguments against CBT, however, are economic. They have largely to do with exports, which comprise more than a third of GDP, and on which this country is critically dependent.

The SA Agricultural Union says: "Our main reasons for rejecting CBT are that:

- ☐ It would make farmers less competitive in international markets — an objection also voiced against the proposed levying of GST on exports;
- ☐ Under present circumstances farmers' incomes cannot support another tax;
- ☐ It was doubtful whether CBT would remain at the relatively low values proposed by Margo since it was also proposed that GST rates should be lowered; and
- ☐ Its cost implications are undesirable, given the already high inflation rate."

Safto says: "We feel that Margo did not, generally, address exports well. The report does not indicate that even the workings of the export market were sufficiently studied.

"In taxing exports, the CBT would be going totally against international trade practice. The CBT is nothing but an accounts VAT (AVAT). In all our major trading partners, where VATs exist, exports are either exempt or zero-rated.

"An anomaly in Margo is that it came out against double taxation; whereas what it's doing by including exports in CBT is straight double taxation." ■

SHORT-TERM INSURANCE

Treaty dilemma

Insurers, squaring up for year-end treaty negotiations, are heading for an interesting dilemma. On the one hand, they will be anxious not to upset local reinsurance loyalties, given the persistent spectre of sanctions; on the other, they could find softening overseas markets so irresistible they will press existing reinsurers for improved terms and conditions or go elsewhere.

What hangs in the balance is whether both private and commercial insureds can look forward to lower premiums next year.

Reinsurers acknowledge they've had two "reasonably profitable years." Swiss Re, for example, enjoyed an underwriting profit for the year ended December 31 1986 for the first time in 15 years (*FM* June 12).

But that was before the Natal floods, which will cost reinsurers both here and overseas at least R375m, according to pre-

DUNN AND DICKMAN FOR *FM* CONFERENCE

Sharing a double header at the annual *FM* investment conference next week in attempting to plot the future course of interest rates will be Colin Dunn, executive chairman, and Aubrey Dickman, director, of Discount House of SA.

This will not be the first time that delegates have had the benefit of hearing Dunn and Dickman on interest rates. Well known in Johannesburg's financial district, they need little introduction. Both have been associated with Discount House of SA virtually since inception. Dunn joined Union Acceptances in 1958, transferred to Discount House when it was hived off, was appointed MD in 1969, deputy chairman in 1982 and chairman a year later. Dickman's association with Union Acceptances and Discount House goes back to 1959, when he joined as an economist. He is now Anglo's top economist.


Dunn


Dickman

Interest rates have ridden the roller-coaster over the past few years. Since prime touched its high point of 25% in January 1985, the rate has halved.

The dislocatory effect on business has been profound. Note the high level of business liquidations and the reluctance of investors to take on new risks.

The multimillion dollar question — especially after the harsh lessons of the past — is: where are rates headed?

Some argue that as long as the demand for credit remains slack, interest rates will stay low. Others claim there is evidence of a firmer trend and that rates are poised to go higher next year — especially since the upset on the stock exchange. Now let's hear it from the experts.

It's still not too late for conference reservations. Call TML's promotions manager, Yvonne Courtney, on (011) 710-2134/5, or write to Box 9959, Johannesburg 2000.

Cape Times 10/11/87

Coal boss calls for separate mine-tax study

Own Correspondent

JOHANNESBURG. — Rand Mines coal division chairman Allen Sealey has called for a separate and detailed study of mining taxation before any Margo Commission-proposed tax changes are introduced.

He says the mining industry has been integral to the economic development of SA and as a major source of foreign earnings it is vital to encourage continued investment in mining.

"The (Margo-recommended) removal of the GST exemption on exports would prejudice the exports of the mining industry in (SA)," he says

Referring to the Commission's proposal that capital expenditure by mines should not be written off immediately, as is now the case, but over three years, Sealey says: "The immediate write-off enables the mines to meet the risks involved in marketing minerals in volatile markets."

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REVENUE

Record taxes of R3,8-bn help keep down deficit

By DEREK TOMMEY, Finance Editor

THE flow of taxes to the Treasury soared in September to a record R3,88-billion, Central Statistical Services reports.

However, the increase was not directly the result of the hoped for upturn in the economy, or of more efficient tax collections, a Revenue official said today.

It stemmed mainly from provisional tax payers with incomes greater than R50 000 a year now having to pay their taxes in three instead of two instalments and, at the same time, having to make good any shortfalls in their 1986-87 payments.

The result was that tax payments were abnormally high, but this was a once and for all effect and would not happen next year, he said.

The deadline for the new tax payments was August 31, but the rush of payments towards the end of the month led to the Department of Inland Revenue being able to bank the money only in September.

Both August and September were good months for the Treasury, the CSS's figures show.

In these two months, it collected R7,73-billion in taxes — R1,5-billion or 24 percent more than in the same two months last year.

This big increase in the flow of funds to the Treasury could possibly account for the quieter conditions in business that some traders experienced towards the end of September and early October.

These huge tax payments drained a substantial amount of money from the economy.

However, the position should have returned to normal by now.

Government spending has been heavy this year, mainly in a bid to get the economy going.

But the large inflow of tax revenues in August and September has helped to keep the budget deficit to resonable proportions.

In the first nine months of this year the Government spent R35,9-billion.

INCREASE

This was an increase of 25 percent on the R28,6-billion spent in the same period last year.

However, the large tax receipts kept down the deficit for the nine months' period to R6,8-billion — only R800-million more than in the same period last year.

The revenue official said that tax collections were good and the budget forecast should be met.

BUSINESS TAX 320

CBT countdown

FM

31/1/87

Before the end of this month Pretoria will decide on the contents of its White Paper (WP) on tax reform, to be released in the first quarter of 1988. The big question is whether it will contain the controversial Comprehensive Business Tax (CBT).

Well-placed observers feel that the WP will plump for CBT — but in modified form. The main criticisms, that CBT will hurt employment, exports and start-up businesses, have boomed from virtually every critic.

Pretoria has felt the pressure.

Even the Margo Report, with alternative packages and minority views, recognised the diverse reactions tax reform recommendations can elicit. Finance Minister Barend du Plessis has said tax reform cannot be by consensus.

But it looks as if we'll get a CBT.

In government circles, GST is in serious trouble, with fears of widespread evasion. Some Margo commissioners have said, since the report was published, that CBT would enable the abolition of GST. This is a new ballgame.

Extra weapon

The argument hinges on what will make the books balance. One particular problem — whether food can be brought back into the GST net — is rattling government minds.

A modified CBT (MCBT) would please Margo, as its hallmark tax reform. It would please government as an extra weapon of revenue collection, albeit for only a few years as GST is phased out.

But it might not please anyone else. It will make the tax system even more complicated. Companies will still have to file more than 50 tax returns a year.

Assocom has done a rough calculation indicating that if GST is abolished, MCBT, excluding only exports, would have to be about 15%.

Margo recommended 5%, before the idea of abolishing GST took over. ■

TAX REFORM 320

Accountants' view

The SA Institute of Chartered Accountants (Saica) has accepted virtually all the recommendations of the Margo Commission, with qualified acceptance of the controversial Comprehensive Business Tax (CBT) — subject to further details being supplied.

Saica has however rejected half a dozen

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Margo recommendations. Coming from a technical body that generally does not get involved in policy, the rejections should be taken seriously.

The main objection perhaps is to Margo's handling of inflation. Saica feels that Margo was unable to make a "meaningful recommendation" to alleviate the major problems inflation imposes on the tax system. Examples were taxing unrealised inflationary profits and the effects of fiscal drag.

Margo's only recommendations were for the faster write-off of certain assets for tax purposes (which Saica approves); lowering of tax rates and spreading of tax bands. Saica argues: "This does not solve the problem of the average rate of tax increasing in times of inflation" (fiscal drag).

Saica also objects to Margo's recommendation supported by a majority that group taxation of companies should not be adopted.

Saica believes there should be some relief to alleviate the problem of companies within groups being unable to set off losses of one against profits of another — at least where subsidiaries are wholly owned.

Saica also does not agree with Margo's recommendation that interest be charged retroactively on tax payable as a result of a successful attack by Revenue in terms of the general tax avoidance provision, Section 103 of Income Tax Act.

Margo's reason for the recommendation is to deter tax avoidance schemes.

In Saica's opinion the courts have made it clear that every taxpayer is entitled to arrange his affairs to minimise his tax liability. "There should be no penalty if a scheme of arrangement is deemed by Revenue or the courts to fall foul of Section 103."

Saica feels Margo's recommendation to tax perks at "full value" — except for share incentive schemes — is acceptable in principle: "It should mean equality of tax burden whether payment is in cash or kind.

"But," says Saica, "this presupposes that it is possible to value fringe benefits objectively and that the employee, if he feels the tax value of the benefit in kind to be too high, is always free to insist that his employer pays him in cash. We submit that this is not so."

Another objection is to Margo's implicit approval of tax on interest at rates lower than inflation. On top of this, tax must be paid on interest income, which decreases returns even further. A person who needs his full income to live on will have to use capital to pay tax. Says Saica: "This is unfair and it is unfortunate that no solution could be found." Saica points out that pensioners in particular suffer from this.

Saica's final objection is that Margo recommends no change to the alimony position. Saica considers that, "especially if a system of separate taxation is introduced, but even if it is not, it would be more equitable for the paying spouse's taxable income to be reduced and the recipient to bear the tax.

"It is understood that this would be similar to the positions in the UK, the US and Canada. Tax law should recognise this as it did prior to 1962." ■

NEW PRO MARKET

Attorneys Edward Nathan & Friedland have taken the most firms to the stock exchange this year, according to McGregor Research Services, compiler of *Who Owns Whom.*

Of 119 listings between January 1-September 30, Edward Nathan was associated with 28, followed by stockbroker Davis Borkum & Hare with 21.

McGregor's Outline says Kessel Feinstein, South African member of Horwath & Horwath International, was top accountant, acting as reporting accountant to 13 companies, followed by Fisher Hoffman Stride and Aiken & Peat, each with 10.

Of merchant banks, Central Merchant Bank and First National Bank each handled 13 listings, followed by Rand Merchant Bank, with 11.

Among stockbrokers, Max Pollak & Freemantle came a close second to Davis Borkum with 20, followed by Martin & Co with 19. Among attorneys, Werksmans came second, with 17. Fluxman Rabinowitz & Rubenstein handled 12.

KATZ ON MARGO

The rationale of the CBT

320

Before agreeing to write this article I hesitated a great deal.

The *Financial Mail* has been a consistent critic of the Report of the Margo Commission, particularly of its recommendations relating to the Comprehensive Business Tax (CBT).

As a Commissioner and as one who has participated after the release of the Report in the task force which was charged with the function of further research into CBT, I am clearly only concerned with one issue — namely the well-being of SA. The formulation of an optimum tax system that is most appropriate to the needs of SA is still what counts. If the Commission has erred in its recommendations relating to tax reform, the country must not be burdened by its errors. The stakes are too important. Thus constructive debate which is designed to facilitate the attainment of the optimum solution is to be welcomed. Thus it seems to me that a dignified informative response to certain of the criticism may serve as a contribution to the debate and make for a more balanced evaluation of the points in issue. It is in this spirit that I have set out hereunder certain views. In doing so, I concentrate on CBT, but one or two initial observations of a more general nature may be useful.

Michael Katz is a prominent attorney, a Professor of Law at Wits, and a leading light of the Margo Commission into tax reform. Here he defends Margo against its critics — including the *FM*.

Much has been said about the Commission's plea for the adoption as a cohesive whole of its main "package." Obviously this is not imperative from a technical point of view. However, its cohesive adoption is desirable in that the main package represents an optimum balance between various issues — direct and indirect tax, the tax burden between big business and small business, incidence between rich and poor, neutrality between debt and equity, and a sensible reconciliation beteween domestic and international interests.

Undue tapering or surgery could do violence to the optimum balance between one or more of the aforegoing. For example, the elimination of tax on dividends, the elimination of estate duty and its substitution with a capital transfer tax, and a new maximum marginal rate of individual tax are all relevant in the balance between rich and poor and thus there is a sensible interrelationship between those recommendations.

Turning to CBT questions faced by the Commission. First, should there be a movement towards indirect taxes and away from income tax. The Commission answered this question in the affirmative basically for two reasons. A tax on profits is unsatisfactory since the measurement of profits is problematic, particularly in a country that has a high rate of inflation. Secondly, a large proportion of the country's population is outside of the income tax net. Having decided to move in the direction of indirect taxes, there was essentially a choice between a multi-staged value added tax (VAT) and a single stage retail sales tax such as GST. The Commission preferred the multi-staged VAT since, *inter alia*, the consequence of avoidance and evasion, being limited to the relevant stage in the distribution process, is much less significant than the once and for all avoidance or evasion in a single stage sales tax. Thus VAT imposed at a lower rate than GST would ordinarily be expected to produce the same yield. Finally, having decided upon VAT, the Commission faced a choice between invoice VAT (IVAT), which is common the EEC, or an accounting VAT (AVAT). For the reasons that appear hereunder, the Commission selected AVAT and called it CBT.

It should be stressed that CBT is nothing more than a value added tax, which is perhaps the oldest of all taxes. In this regard a leading firm of chartered accountants in Canada issued a circular dealing with the possible enactment of BTT (which is essentially CBT) in Canada, which included a statement to the effect that "the BTT would be a broadly based tax charged on virtually all domestic consumption (This presupposes the exclusion of exports and the inclusion of imports).

"Although similar to provincial retail sales taxes, it would be collected in stages and apply to all goods and all services. BTT would likely be imposed at a single rate on the value added by business at each stage of the production and marketing chain during a given reporting period." This should put paid to the contention that AVAT is unique and lacks any pedigree save for the lone State of Michigan.

There are certain features which are peculiar to AVAT in contradistinction to IVAT. First it is based on business activity and not on transactions or commodities. Second, it is accounting and not invoice driven. It may also be argued that it is less visible than IVAT, but there are techniques to enhance its visibility if that is considered desirable. Almost all other considerations are neutral in the choice between AVAT and IVAT.

For example, the decision as whether CBT should be origin based (that is inclusion of exports and exclusion of imports) or destination-based (that is exclusion of exports and inclusion of imports) is more a question of policy than of technique. From a policy point of view I would respectfully submit that exports should be included in the base since, being approximately 46% of the base, the base would be broader thereby allowing for lower rates. Exports should not be too adversely affected when regard is had to the benefits of the introduction of the total Margo package — that is lower income tax and GST rates and the elimination of capital and intermediate goods from the GST base. All of these reforms should result in a reduction of SA's cost structure which should ensure for the benefit of exporters. This is of course

Margo Commissioner Katz ... looking for the best way

apart from other arguments which may be raised in justification of the adoption of an origin-based system of CBT. If, however, despite these arguments, it should be considered desirable from a policy point of view to exclude exports, then from a technical point of view this could be done as it could in the case of GST and IVAT. It is difficult (but far from impossible) to apply AVAT on a destination basis. In this regard Jack M Mintz of Queens University states that "under a destination-based BTT border adjustments are required. Revenues earned on the export of goods and services are exempt from tax and imported goods and services are not deducted from the firm's base. Individuals who purchase goods and services from abroad pay taxes on imported commodities and non-residents are exempt from paying taxes on goods purchased from domestic sources."

This would likely be difficult to monitor in all cases. The subtraction method is ideal for a destination-based tax ... Almost all countries imposing sales taxes use the destination principle, although it is not uncommon to find other "origin-based taxes" such as the payroll taxes and the corporate income tax. These "origin-based" taxes could be designed so that they are equivalent to an income-based sales tax on consumer and/or investment goods. For example, a payroll tax on wages and a cash-flow tax on economic rents can accomplish an origin-based BTT.

Some businesses, particularly retail distributors having a labour intensive high volume low profit margin business have done calculations showing how much more tax they will pay post-Margo as compared with pre-Margo. These calculations have been done on the basis that these businesses pass on 100% of their GST liability to purchasers pre-Margo while at the same time no allowance is made for any passing on of CBT

WILLIAMS' AWARD

Senior Editor David Williams has won the 1987 Thomas Pringle Award of the English Academy of Southern Africa, in Category 1 — reviews. The award is essentially for excellence in arts journalism, and his portfolio included book, theatre and television reviews.

A former schoolmaster, Williams joined the *FM* in September 1984 as *Timeout* editor, and his duties have subsequently been extended to include editing the *Books* and *People* pages. His witty television column is widely read, and is possibly the most influential of its kind in SA. Williams is also known as a freelance sports journalist for Radio 702.

The prizegiving has provisionally been set for January 29 1988.

post-Margo. This is surely an unfair and unrealistic basis of calculation; why is it assumed that all GST can be passed on and no CBT can be passed on? Clearly CBT will be passed on but in a manner that will result in a much more efficient incidence than applies in the case of either GST or IVAT. In this regard attention is drawn to the following passage which appeared in the Minnesota Tax Journal 1985:

"The business firm is the organisational vehicle through which individuals in their roles as consumers of goods and services or suppliers of the factors of production derive the benefits of economic activity. As an intermediary in the economic process, the business enterprise becomes a convenient and efficient instrument for collecting taxes. This practical fact, however, does not override the elementary principle that all taxes imposed on business (or, for that matter, on such bases as real estate, motor fuel, and the like) are ultimately paid by individuals in their roles as customers (in higher prices), resource suppliers (in lower factor returns) or firm owners (in reduced equity)."

The advantages of AVAT over IVAT are manifold, including the following:

☐ AVAT is comprehensive and is resistant to any exemptions for commodities. Thus it is likely to be broad based;

☐ It is cheap and easy to administer, both from the point of view of the fiscus and the taxpayer. All records which would be required for the calculation of the income tax liability would be the only records needed for the calculation of the CBT liability. Thus it would not add a new tier of taxes in SA; in fact, on the contrary, it would reduce the number of tax structures since, for example, regional service council (RSC) taxes could take the form of a surcharge on the CBT base and the existing method of taxing to provide RSCs with finance could be eliminated. If CBT eventually replaced GST, another tier would be dismantled;

☐ Its comprehensive coverage makes it resistant to legal avoidance activities as compared with retail sales taxes and IVAT;

☐ Since the base includes payments to all the factors of production, it is neutral in its application to all the factors of production. There is no bias in favour of labour as against capital. In any event any encouragement in favour of capital also produces jobs;

☐ Its net yield should be greater than invoice VAT in that CBT's operating costs should fall well short of those needed for an invoice VAT;

☐ It is resistant to the trade cycle and thus yields a steady dependable revenue;

☐ It is an efficient tax in the sense, for example, that the incurring of wasteful expenditure will not give rise to a reduction of the base as would be the case in income tax;

☐ It reaches all levels of society;

☐ It has certain advantages which, in the context of SA, are particularly significant, for example:

☐ It is not vulnerable to inflation, particularly if it is calculated on the cash and not the accrual method;

☐ It avoids the "paper-chase" that comes inevitably with IVAT. This is important in a country which has such a significant Third World component;

☐ It copes well with fiscally open borders. This is a great advantage since there are eight political units neighbouring SA;

☐ It could fund the RSCs;

☐ It could ameliorate the erosion to the tax base if the existing vast amount of assessed losses (approximately R6 billion) is disregarded in the calculation of CBT; and

☐ It has no cascading effect and thus its contribution to inflation shold be once-off at the time of tis introduction. ■

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Brewers mobilise for attack on tax

By Ian Smith

THE brewing industry, which has 80% of South Africa's liquor market by volume and 57% by value, is mounting a campaign to fight what it sees as official discrimination against beer.

Brewers, who spend R180-million a year on agricultural products, are trying to mobilise the powerful farmers' lobby to support their claim for equal treatment with the wine industry.

Traditionally dominated by South African Breweries, the industry has long complained that it carries an unfairly high excise duty while natural wines are exempt from it.

In addition, the Government has allowed wine to be sold by supermarkets, but beer is still banned from their shelves. SAB has been forced to sell its liquor retail outlets and wine interests have been allowed to keep theirs.

So far low-key attempts to change the legislation governing beer sales have failed.

"Now the gloves are off," says Bern Pienaar, executive director of the Brewing Industry Association of SA (BIASA).

At a meeting this week the three other breweries serving the SA market, South West Breweries in Windhoek, Mitchells Knysna Brewery and Our Brewery in Ophirton, agreed in principle to join BIASA.

The association has started negotiations with the influential National Association of Maize Producers (Nampo) to form an agricultural chamber in BIASA. Other organisations, such as the hop and barley growers and the Sugar Association have been approached.

A third chamber could be formed by packaging suppliers, which earn R285-million a year from the industry.

Same boat

Mr Pienaar says: "We are all in the same boat. If our industry prospers, we all benefit. We can only grow to our full potential if we are treated equally with other sectors of the liquor industry.

"One of our main objectives is to create a realisation that solutions to the problems of particularly the wine and spirits industry do not lie in restricting the brewing industry.

"Our industry must not have its freedom to market and to compete restricted or artificially restrained."

He says that last year beer sales contributed R580-million to the fiscus from excise duty and another R384-million from GST.

SAB's beer division alone employs 8 750 people and has an annual wage bill of R152,5-million.

Mr Pienaar says there are signs of an increasing appreciation of the beer industry's importance.

"Excise duty on beer has not been badly hit in recent Budgets. But there is still a long way to go before the balance is redressed."

So far much of BIASA's effort has been directed at farmers, making them aware of the importance of the brewing industry. "Now we must look further afield."

Last year the industry bought 110 000 tons of SA malt for R71-million and 65 000 tons costing R45-million was imported. SA purchases of 607 tons of hops were worth R5,5-million and 815 tons costing R26,8-million was imported.

SAB alone bought 75 000 tons of maize for R28,2-million and 4 000 tons of sugar for R3,1-million.

Mr Pienaar says: "The brewing industry is a major contributor to the national and provincial economies, and we must be allowed to compete on an equal basis with the other sectors of the liquor industry."

B/day.

(320)

Direct tax up by R3bn from 1988

GERALD REILLY

PRETORIA — Direct taxation collected in the 1988 financial year would exceed 1987 collections by more than R3bn, Inland Revenue Department projections show.

The department's Bulletin of Statistics estimates collections from direct taxes will reach R22,37bn compared with R19,13bn in the 1987 tax year.

Gold mine taxation is expected to fall marginally from R2,52bn to R2,50bn, but diamond mining tax will rise from R27,59m to R200m.

Individual tax is expected to yield R12,56bn — up by nearly R2,5bn on 1987. Income tax collections are expected to total R21,88bn compared with R18,68bn in 1987.

Tax revenue from companies will rise by nearly R800m to R5,80bn.

Non-resident shareholders tax is expected to yield R450m — up by nearly R50m.

Total collections from all sources for the 1987 tax year are expected to to reach R34,84bn.

The bulletin shows, too, that the 888 644 Transvaal taxpayers paid the lion's share 53,92% of the total collected in 1986 tax year.

320 Bday 17/11/87

Taxing profits from shares

By JARI CERNY, CA (SA), who has made a special study of the taxation of listed equities

OF GREAT concern to investors on the Johannesburg Stock Exchange is the possibility of being labelled a share dealer, for tax purposes.

There are various factors which a court of law and the Revenue authorities will consider when deciding whether a gain on the sale of shares is taxable or not.

When a taxpayer buys shares he will generally be looking to either a dividend income or a profitable resale of the shares.

In general, if a taxpayer buys shares in order to resell them at a profit, any gain will be taxable and any loss tax-deductible.

Intention looked at

To avoid being taxed on such a gain, a taxpayer may be required to prove the shares were not purchased for resale but for long-term investment purposes.

Factors to be considered before the court or the Receiver decides whether shares were bought with a speculative intention or with an income earning intention include:

□ The holding period: The longer the shares are held, the greater the chance of proving they were held for long-term investment purposes. The more changes made to a share portfolio, the more difficult it is for a person to prove he was investing in long-term assets;

□ The method of financing: Shares purchased on credit or with loans are more indicative of a speculative intention, since the purchaser might not be able to keep the shares for a long time and his interest payments might exceed his dividends from the shares;

□ The ease with which the shares are sold: If a small price rise caused a sale of the shares, such an action could indicate a speculative intention. But evidence that the shareholder had previously turned down an offer to sell his shares at a profit would strengthen his long-term investment argument;

□ What the taxpayer did with the proceeds: If the taxpayer used the proceeds of a sale of shares to fund further investment in shares, this might weaken his argument that he had a long-term investment policy, unless he had a good reason for selling;

□ The use of the shares: If the shares are used as security for a loan or overdraft, this might show the taxpayer wished to keep the shares and raise funds through an overdraft rather than to sell the shares;

□ How the shares wer acquired: If the shares were inherited, their sale will generally give rise to a tax-free gain on their disposal;

□ The type of shares invested in: Marginal gold mines and mining exploration shares are inherently speculative in nature as they do not provide a steady dividend flow;

□ The nature of the investor's employment: Almost all of the Johannesburg Stock Exchange employees are regarded as share dealers in terms of Revenue practice.

The overall activity in the share market is generally the most important factor in deciding whether a taxpayer has started dealing in shares. Several ratios and rough guidelines can be used to measure this activity:

1 Profits on sales of shares divided by total dividend income;

2 Sales proceeds divided by the value of the taxpayer's total portfolio; and

3 The number of different securities sold divided by the total number of securities in the taxpayer's portfolio.

Activities that are almost always taxable include the stagging of new share issues, buying options to purchase or sell shares and shares received in terms of a share incentive scheme, unless the employee had the funds to buy those shares outright at the date when they were offered to him.

In any event, once the Revenue authorities deem a share profit to be a taxable gain, then the onus of proof falls upon the taxpayer. He must prove the share transaction was of a long-term nature.

Once a taxpayer is classified as a share dealer, it appears to be Revenue practice to treat him as a land dealer as well.

It is possible for a share dealer to make a tax-free profit on a sale of shares in exceptional circumstances.

Post-crash valuing

A share dealer is allowed to write down his shares to market value at the end of his financial year.

An interesting possibility might now exist in that if a share dealing company changed its fiscal year, for instance from ending in August to ending in October, this could materially affect its taxes because it could be valuing its trading stock in post-crash prices instead of using the higher August prices.

Effects of cutting GST spelled out

Warning by Assocom of a 13% CBT

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B'day 19/11/87

GERALD PROSALENDIS
Financial Editor

COMPREHENSIVE business tax (CBT) would have to be implemented at a rate of 13% if GST was to be reduced to 4% as envisaged by the Margo commission, according to research by Assocom.

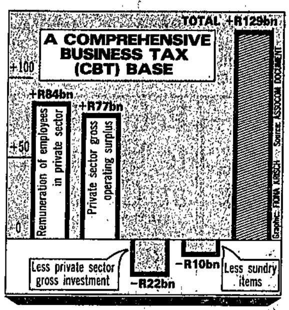
These figures emerge from an Assocom document, widely distributed this week to its members and chambers, which examines various combinations of rates of GST and CBT in order to prevent a net loss of revenue to the fiscus.

The 13% projection is based on the assumption that exports be excluded from the CBT tax base, a distinct possibility. The net effect would be two taxes, one of 13% and one of 4%, in place of GST at 12%. If on the other hand exports are not excluded, CBT will fall to 8,5%, says Assocom.

● See Page 11

In subsequent discussions, certain members of the Margo commission have indicated their belief that GST should ultimately be abolished and replaced entirely by CBT. If this occurs Assocom estimates that CBT would run at about 16,5% with exports excluded and 11% if they are included.

"If exports were excluded from CBT the rate would be 16% or more, which would be absolutely unacceptable; and it



might be just as high if GST were retained but foods and inputs were exempted.

"There would be pressure for the exclusion of small business — as occurred in Michigan where the tax had its genesis — and labour-intensive industries from CBT.

"The country might well find itself with a CBT at 20% or more, which would spell intolerable damage to the economy.

"Rates of around 9% or 10% or even higher would exert a very marked upward influence upon prices and the cost structure," the document says.

This might be accentuated if CBT were to apply to exports, and exporters,

● To Page 2

Assocom document warns of a 13% CBT

● From Page 1

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who, driven by competition in overseas markets, could raise prices in SA to avoid an upward price shift in export markets.

"The effect on our export trade and internal SA costs might be disastrous."

Also, the existence of both a CBT and a GST w 'd mean a proliferation of taxes, with hig collection and compliance costs, and tax structure even more complex than the present.

"It is essential, therefore, to avoid CBT altogether, and if income tax changes cannot be made self-financing it would be necessary to expand the base of GST."

Assocom says one possibility would be to include additional services in the GST base. It estimates that consumer expenditures on services such as transport, communication, recreation, entertainment and education will be almost R9bn in 1988.

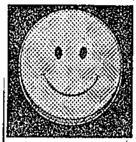
"A 9% GST on various services could produce at least R0,8bn. These figures do not include financial services, which could also be brought into the GST field."

Assocom also points to the possibility of reducing government spending and of running a temporary budget deficit before borrowing which could be regarded as an investment in tax reform.

"If the correct permutation and phasing-in of decisions on the Margo recommendations can be attained, a CBT or VAT may be unnecessary."

Meanwhile, the merits and de-merits of the new tax are being widely discussed in both the private and public sectors.

The State President's Economic Advisory Council is set to meet today to discuss, among other things, the Margo proposals as the country enters the final stages for the views of the private sector to be heard.



All good boys go to heaven, is the saying. Part of being good is paying tax, when due. Another part of being good is paying the correct amount of tax.

On the face of it, one of our readers is not a good boy.

Sometime in 1982 he underpaid GST owing by 1c. Five years later he was sent a form VB 39 demanding the 1c and adding a penalty of R2,41.

For those who believe that measurements in percentages above 100 have any significance, the fine is 24 100%.

The reader claims that he never heard a word about the 1c in question between February 1982 and November 4 1987.

What is surprising is that, according to the form, the penalty was calculated as at April 29 1982.

And it's no mistake. Revenue has dutifully added the items together to show a total of R2,42 now owing.

Furthermore, unless this is paid within 14 days the matter will be filed with the Clerk of the Magistrate's Court.

Meneer/Mevrou/Mejuffrou

1. Volgens my registers is die belastings hieronder gemeld, deur u verskuldig en betaalbaar:

(a) Verkoopsbelasting ten opsigte van die belastingtydperk:

Feb ... 1982 verskuldig en betaalbaar op laat betaal R ...... 0-01 ....

Boete bereken tot .... 29-04-82 ... R ...... 2-41 ....

20\11\87 (320) FM

The extrapolation tallies with Geldenhuys' estimate, and also that of Colin Dunn of the Discount House of SA, at last week's *FM* Investment Conference.

Dunn assumed an increase of 15% in government spending, "a rate that has not been achieved in any of the years reviewed from 1982-1983." The deficit projected for 1988-1989 was R13,9 billion.

Dunn also noted that in none of the years reviewed did revenue receipts rise faster than expenditure increases. To him government spending and deficits showed "alarming, if not potentially catastrophic, trends."

The trends may be so if viewed analytically. But to Pretoria the solution to chronic social problems — education, housing backlogs and unemployment — is money. Realistic people expect nothing less than swelling deficits and continuing growth in the overall tax burden, if with a new slant after Margo.

Margo report on CBT finished

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27/11/87

Daily Dispatch Correspondent

JOHANNESBURG — A task-force headed by Mr Justice Cecil Margo has completed a special report on the proposed comprehensive business tax (CBT) and will present it to the Minister of Finance, Mr Barend du Plessis, this week.

The existence of the report, which was confirmed this weekend by Mr Justice Margo, has been the subject of intense speculation in the business community.

"We keep hearing about this report. It is obviously an essential part of the decision-making process and ought to be revealed. It may well alter perceptions about CBT either way," one business leader said.

The report, drafted in terms of Section 22 of the Margo report which recommended that CBT be further investigated, follows a visit to Michigan in May by a team of former Margo commissioners and government officials to conduct a first-hand assessment.

The team consisted of, among others: the Treasury's Mr Peter Wronsley, the Deputy Director-General of Public Finance, Mr Gerhard Croeser, the Registrar of Financial Institutions, Mr Theo van Wyk, a former Margo commissioner, Mr Michael Katz and Mr Justice Margo.

The private sector is sceptical about whether the supplementary report will be made public.

"We have heard that the group was unable to reach consensus," one businessman said.

Mr Justice Margo disagreed: "It is not correct to say we could not reach consensus. There are differing views on how the tax should be accommodated, but no serious dissent.

"It is up to the Minister of Finance to release this report, and not us. I cannot see why it should not be. We are not a public body but a team constituted to do research in terms of Section 22 of the commission's report."

Mr Jusice Margo said [illegible] detailed report in[illegible]d [illegible] "authoritative sources from the literature we reviewed and people we interviewed."

Mr Wronsley said the reports would be released "at the discretion of the minister".

Cape Times 23/11/87 320

CBT report completed

From GERALD PROSALENDIS

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Dissent

"We have heard that the group was unable to reach consensus," says one businessman.

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An earlier report, based on the same visit, was drafted by Treasury officials and forwarded to Director General of Finance Chris Stals before his final meetings with select private-sector representatives between October 14 and October 17.

"In substance our report is the same, but it is more detailed. In it we have produced authoritative sources from the literature we reviewed and people we interviewed," says Margo.

"It is entirely at the discretion of the Minister of Finance whether either of these two reports are released," says Wronsley.

Price rises

'Essential' CBT report is complete

GERALD PROSALENDIS
Financial Editor

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B/day

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CBT report is complete

businessman.

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● From Page 1

Meanwhile, the clamour for clarity from sections for the business community on CBT continues to grow. In particular, they question whether a tax levied on 40% of registered business in Michigan, which is largely capital-intensive, can be tranplanted into the labour-intensive SA economy.

A private document commissioned by Assocom has pointed out that small business in Michigan is largely exempt from its equivalent of CBT with 127 000 companies out of 214 000 paying no tax under this system. The tax contributes about 15% of Michigan's tax revenue and, as a result of a number of tax credits, the effective rate is 1,39% opposed to a nominal rate of 2,35%.

Assocom has suggested CBT would have to be levied at between 9% and 13% in SA to compensate for a shortfall in revenue should GST be significantly lowered.

Rising tax hits Dorbyl

320
BDay
25/11/87

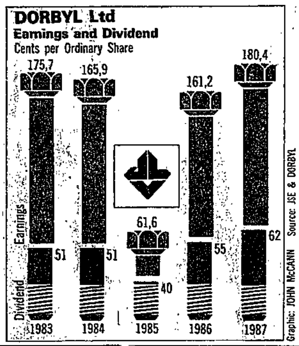
DAVID FURLONGER
Industrial Editor

A DIFFICULT year for its heavy manufacturing operations, combined with a near-doubling of the tax bill, has resulted in a real decline in earnings for the Dorbyl group.

Turnover and after-tax income both rose well below the inflation rate last year. Preliminary results show the group increased turnover by 11,8% to R1,725bn in the year to September 30, and after-tax income by 11,5% to R62,5m.

Despite the limited turnover increase, pre-tax income rose 21,4% to R77,9m before tax took its toll. The tax bill rose 90% to R15m and officials say it is likely to rise further this year. They blame the 1986-87 pay-out on a reduction in assessed losses.

Attributable group earnings rose 12% to R57,5m, while a final dividend of 46c took the total for the year to 62c, compared to the previous 55c.



Dorbyl directors blame the limited improvement in results on losses in the heavy engineering division. Capital investment around the country remains low, and mining houses in particular have failed to push ahead with expected projects, says chairman Floors Kotzee.

"How soon heavy engineering comes out of a loss situation depends on fixed investment and how the mining industry sees the future. It's hard to tell when things will pick up, but I would definitely expect it in the next 18 months or so."

Part of the confidence stems from the fact that Dorbyl expects good news soon when contracts for the Mossel Bay synthetic fuel project are announced. The group expects to receive a major portion of the contracts it has tendered for, but group CE Dawid Mostert warns the benefits will not be felt this year.

"If we are successful, there will be no profits brought to account in the next financial year because of the long-term nature of the projects."

While losses continue on the heavy engineering side, "we are quite satisfied with our other operations", says Kotzee. Transport products and structural engineering continued to make money last year.

A CBT rejoinder

3.20

Ben van Rensburg is professor of Economics at Unisa. As the representative of Assocom, he visited areas in the world that use taxes which inspired Margo's CBT.

Michael Katz's opening remark about his hesitation to write his article defending Comprehensive Business Tax (CBT) aptly illustrates two important points.

Firstly, it is an extraordinary step for a commissioner to join in public debate after publication of his commission's report; and, secondly, that such a step may be an indication of a hasty decision which led to the recommendation to introduce a new tax.

As it is this new tax may have so many disadvantages compared to the one it is supposed to replace (GST) that it may be necessary to seriously reconsider Margo's proposal to introduce CBT.

Allow me to take a brief look at some of the arguments used by Professor Katz in his somewhat belated defence of CBT — which, to my mind, creates the impression that the commission did not consider all the arguments pertaining to this recommendation.

He says: "A tax on profits is unsatisfactory since the measurement of profits is problematic, particularly in a country that has a high rate of inflation." Yet, if I remember correctly, the abolition of a tax on profits was never suggested by the commission. As a matter of fact, profit is a very important element in the calculation of the CBT base.

It is also argued by Katz that accounting value added tax (AVAT), in contrast to the invoice value added tax (IVAT) used in Europe, is accounting driven and that it has the advantage of having no cascading effect.

I think this misconception is based on the experience in Michigan where it is said that the price level did not rise beyond the level of prices in neighbouring states after the introduction of CBT. It would be erroneous to apply the Michigan experience directly to the South African economy for various reasons, one being the lack of competition in our economy versus the presence of very strong competition in the economy of the US.

Furthermore, in Michigan the effective tax rate is only 1,35%, making the argument of non-cascading almost irrelevant. Lastly, because of the very fact that AVAT is accounting and not invoice driven, which does not make allowance for credits for tax paid in previous stages of the distribution column, one would expect the CBT to be included in prices and thus passed on to subsequent stages.

Professor Katz himself argues that CBT would reach all levels of society. The tax would, therefore, have a cascade effect very similar to that of the very inefficient, multistaged, sales duty which was the predecessor of our present GST. If CBT is intended to replace the present GST, a rate of more than 15% would probably be necessary — which may have, through cascading, a disastrous effect on an existing high rate of inflation.

Katz also said: "... AVAT is resistant to exemptions for commodities." It is, however, not resistant to special pleading from different types of organisations who may perceive that the tax discriminates against them. Examples from Michigan are numerous where special allowances with respect to small businesses, labour intensive businesses, and exporters to other states are made with very serious consequences for the revenue capacity of the tax.

All three categories of potential special pleaders are very important in the South African economy because we are experiencing unemployment problems related to a lack of development and growth. Also bear in mind that the tax is levied in Michigan at only 2,32%. The effective rate after allowance is made for special pleading is only 1,35%.

"It (CBT) is resistant to the trade cycle which can also be interpreted to mean that the tax does not satisfy the ability-to-pay criterion because the tax liability is only partially affected by trade losses, that is the base is calculated by the addition of factor incomes in which case a loss would be subtracted," Katz goes on, and adds: "... it is neutral in its application to all factors of production. There is no bias in favour of labour as against capital ..."

Because net investment is allowed as a deduction from the base, there is unfortunately a bias in favour of capital, (which SA can ill-afford at this stage), especially in the case where internal finance is available at no interest cost. This could also be the case in periods of relatively low interest rates.

The South African policymakers have often used various methods to hold interest rates lower than the level dictated by economic fundamentals for various reasons, *inter alia*, political reasons.

Exemption of exports

The exemption of exports cannot be considered under an AVAT because exports form a large proportion of the base. Ironically the other side of the picture is never mentioned by Katz, namely that both IVAT and GST make it possible to include imports, which on average, equals exports in the case of the Republic. Both IVAT and GST therefore provide almost automatic favourable treatment for local producers who are competing on the export market as well as those who have to compete with imported produce.

It is interesting to note that the advantage listed by Katz stems from a comparison between CBT and invoice VAT. One wonders why the comparison was not drawn between CBT and GST, the tax which is to be phased out from the present system, according to Margo.

Inevitably one has to conclude that GST is a very efficient form of taxation once all consumer expenditure is brought back under its net, indeed the fiscal authorities may do well to investigate the possibility of including even more of the services element in the base. Such a step would broaden the tax base and allow for a substantial rate reduction to well below 10%. ▣

Old-type GST certificates lose validity

BDay KAY TURVEY 30/11/87

GST old-format registration certificates will not be valid from tomorrow.

Those who do not use the new computerised sales tax registration certificates by December 1 will commit an offence if the intent is to avoid bearing tax payable on purchases or imports.

Assocom has warned anybody who does not have the new certificates, issued after June 1, 1987, will not be exempt from GST when acquiring stock for trading.

Inland Revenue has said many vendors did not furnish information for the new certificates.

New-format-GST worry for traders

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JENNY BOBERG B/day 1/2/87

FROM today traders are allowed to sell goods free of sales tax only to buyers who produce new-format GST exemption certificates.

This has caused traders to fear loss of business to competitors who might still accept the now invalid old-format certificates.

"This fear is acute among the large cash-and-carry wholesalers," says Fisher Hoffman Stride partner Anthony Chait.

Many of their customers who are still armed with old certificates will either have to be charged GST or be turned away.

And there is a real danger these customers will approach a competitor who will be prepared to sell goods free of GST to buyers who hold the old-format certificate.

Sellers are obliged to satisfy themselves that a buyer holds a valid certificate. However, says Chait, they can be reasonably sure that where a buyer uses an old one to get an exemption for which he does not qualify, it will be the buyer from whom Revenue will claim the GST.

SALES TAX

Warnings issued

Computerised sales tax certificates became compulsory on December 1, replacing certificates issued in the old format before June 1. Bodies such as Assocom and the SA Agricultural Union (SAAU) fear that some members are unaware of the change, and have issued special warning notices.

SAAU's Kobus Jooste points out that farmers should have re-registered for sales tax purposes before December 1 — if they want to qualify for certain discounts on purchases. He says it appears many did not.

He adds that without a certificate, farmers will have to pay sales tax on some goods that would otherwise be exempt. Assocom warns that using an invalid registration certificate to avoid tax is an offence.

This is only one development in sales tax that may have passed unnoticed. The 1987 Sales Tax Amendment Act increased the criminal penalties for seven transgressions. The maximum fine was raised to R2 000 for, among other offences:

- ☐ Failure to furnish a return or pay tax;
- ☐ Failure to keep books of account, records and other documents, under Section 40; and
- ☐ Failure to furnish information or produce records in terms of Section 41.

It is also worth noting that, before, vendors with gross turnover of goods and taxable services under R50 000 a year were automatically deregistered. They had to pay sales tax as if they were consumers.

The Taxation Laws Amendment Act, 1987, gives the commissioner discretion retroactive to July 4 1986 whether sub-R50 000 a year turnover vendors will be deregistered. This change could be important for some smaller traders' cash flows. ■

FINANCIAL MAIL DECEMBER 4 1987

Vendors told to trade in old GST form for new one

Pren 6/12/87

THE Commissioner for Inland Revenue has declared that sales tax registration certificates issued to any vendors in terms of Section 12 of the Sales Tax Act, 1978, in a form prescribed prior to June 1, this year will no longer be valid with effect from December 1.

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Vendors or hawkers and importers not in possesion of the new computerised sales tax registration certificates, will not be in a position to claim exemption from sales tax when buying stock for trading purposes.

A warning to retailers and importers was issued this week by the Associated Chambers of Commerce of South Africa advising them about the validity of sales tax registration certificates.

It states that they will not from December 1, this year be in a position to claim exemption until they are in possession of a new certificate.

Furthermore, in terms of Section 15 (3) (e) of the Sales Tax Act, any person who, with a wrongful intent to avoid bearing tax payable on purchases or imports, makes use of a registration certificate which is no longer valid, commits an offence.

Vendors who have not yet obtained their new certificates are urged immediately to call personally at the offices of their nearest Receiver of Revenue, with their old certificates, or possibly VB1, and possibly obtain their new computer printed certificates while they wait.

Suppliers to such vendors are urged to ensure that their staff are acquainted with the new requirements, so that sales tax is charged on sales to customers not holding the new registration certificates.

320 B/day 10/12/87

Festive spending fills GST purse

PRETORIA — The expected increased consumer spending during November and December this year could send GST collections for the financial year soaring above R10bn, economists say.

GERALD REILLY

Last November-December, the office of the Commissioner for Inland Revenue says, collections amounted to R1,564bn. With the 18% increase in consumer spending expected by Assocom this November-December, this could rise to near R1,9bn.

The substantial increase expected in GST collections during the two months is also supported by the 23% increase in bank notes in circulation.

In the seven months of the financial year to October, GST collections amounted to R5,713bn. The budget estimate for the whole of the financial year was R9,954bn. Stellenbosch economic bureau chief Ockie Stuart said the omens were good for a relatively high-spending Christmas and New Year season.

Data collected by the bureau showed brisk consumer spending which the bureau believed would continue through December and into, and possibly beyond, the first quarter of the new year.

It was certain, therefore, GST collections would rise sharply during the last two months of the year.

A major reason for the expected increased consumer spending were the 12,5% increases earlier in the year for more than a million public sector workers, and the anticipation of further increases from April.

Pay rises in the private sector had also been higher than a year ago — matching or exceeding inflation. It could be expected, too, against a background of solid performances by companies, that staff bonuses would also be bigger.

FM 11/12/87

THE PUBLIC SERVICE

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Catch-R1 billion

Johannesburg formed the focus of the Margo Commission's extensive ideas on how to beef up Inland Revenue. Will the findings provide any basis for changes in other parts of the public service, with the drives for deregulation and privatisation?

It's doubtful. Inland Revenue is a strange creature, measured by either private or public sector standards. For one thing, a huge jackpot sits in the middle of the PWV.

Commissioner for Inland Revenue Clive Kingon tells the *FM* that Johannesburg collects about R1 billion a month, or about a third of all tax, making Johannesburg by far the most important of Revenue's 31 offices.

It is also the only office conducting what Margo called the "productivity bonus system." The most important effect, says Margo, is that staff turnover there is only about a tenth the national average.

Beyond saying that the system hinges on an employee doing the work "of more than one person," Kingon will not give details.

"If, say, two employees leave a section, other employees in that section will take on part of their work. They will then be paid part of the salaries of those who have left."

In other words, the productivity system works on set amounts, rather than a sliding scale, as usually used for salesmen. It has the strange characteristic that you hope that the chap next to you will leave tomorrow.

Employees leave the directorate for a clear reason, according to Margo: "In today's economic society the qualifications required for Inland Revenue work command a high price outside the civil service."

In 1980-1981, when the directorate employed 3 629, the Margo report says it "lost" 14 993 personnel, but gained 15 087. This gave a ratio of loss to total of 4,1, which improved steadily to 1,2 in 1984-1985 and 1985-1986. By private sector standards, these turnover figures are astounding.

The directorate's ratio of collection costs to net overall collections rose from 0,28% to 0,305% in the 11 years to 1985-1986. According to Margo, this is low compared to countries for which figures were available.

Computerisation has played a "major" role in keeping costs down, despite the increasing complexity of tax work. In the 11 years to 1985-1986 the directorate's staff increased from 0,69% to 0,89% of the civil service. Of those employed in 1985, the bulk had matriculation only. Some 19% had a standard eight certificate or lower, while 4% had university degrees.

Other vital stats to emerge from Margo are that in 1985-1986, the directorate had on its register 231 000 companies, 2,2m individuals, 154 000 PAYE employers, and 261 000 vendors for sales tax.

Margo's remedies for the staff situation at Inland Revenue rest on the premise that it occupies a "unique position in the array of public service departments because of the technical knowledge and training required." Cynics may say that any commission focusing on a particular government department may find reasons to show that it is important.

Margo felt that management systems, to the extent that they can be applied to a creature like Inland Revenue, should be given priority. And it said that the productivity bonus system used in Johannesburg should be extended to other offices, subject to a "value for money" test.

New taxes inequitable, says Assocom review

11/12/87

JENNY BOBERG

THE proposed Comprehensive Business Tax (CBT) and the Regional Services Council (RSC) levies suggest that an inequitable new principle is being insinuated into SA tax law, Assocom says in its latest review. Both overlook the taxpayer's ability to pay.

"In the case of the regional services council levies, based as they are on turnover and the payroll, payment must be made irrespective of whether profits are earned or not. An enterprise could be in a condition of heavy losses, but it would have to meet its RSC dues without any relief."

And the CBT falls broadly into the same category. It is an impost which ignores the crucial factor of profitability, Assocom says.

"One cannot but question why the unique Michigan value-added tax (VAT) was preferred above the more generally accepted VAT applied elsewhere."

The situation in SA was not comparable to Michigan. In SA, where mass unemployment is endemic, the economic thrust must be to encourage labour-intensive industries.

"But both the CBT and the RSC levies are weighted against the use of labour and tacitly encourage the development of capital intensive enterprises. Not only is the use of labour taxed, the employment of capital is actually rewarded".

"It is to be hoped that, as the government studies the Margo report, it will bear in mind that the critical comment it has received has been raised with one objective in mind: to give the country a tax charter that upholds the canons of equity, economy, certainty and simplicity."

NATIONAL/INTERNATIONAL

ARGUS 15/12/87

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Racing 'doomed' if tax plan accepted

Racing Staff

THE multi-million rand horse-racing industry would be dealt a serious blow if the Government accepted a Margo Commission recommendation and withdrew tax concessions for investors in racing bloodstock according to racing experts.

One predicted that the industry could even be "doomed" because it would lose its chief backers — professional people who invest up to R70-million a year in racehorses because of tax incentives for breeders.

At present investors in racehorses can write off losses incurred in breeding against income from any other sources in any one tax year, but the Margo Commission has recommended losses on the livestock account should be set off only against farming income.

The chairman of the Western Cape Breeders Association, Mr Hymie Maisels, said the recommended tax reforms in the Margo Commission report made it difficult for racehorse breeders and owners to plan investment strategies.

"Ignorance"

Mr Kevin Mitchell, a Maritzburg accountant and expert on financial investment, said he believed the racing industry would be doomed if the Margo proposals were accepted.

He said the recommendation showed ignorance of an industry now reputed to be one of the largest contributors to the economy.

Mr Mitchell estimated owners annually invested a minimum of R40-million in bloodstock and at least a further R30-million on training.

Mr Mick Goss, a thoroughbred breeder of Summerhill Stud and legal adviser to the Thoroughbred Breeders Association and the Equine Veterinary Practitioners Association, said: "If the Government withdraws concessions available to investors other than farmers, it will deter further investment with a drop in the standards of horses being bred."

He forecast it would cause a drop in attendance at race meetings and in tote turnovers and a loss in revenue.

Delay on Margo 'hits business'

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BDay 17/12/87

GERALD REILLY

PRETORIA — Business planning for the 1988/89 financial year will be severely prejudiced if government delays publication of the White Paper on the Margo commission report, says PFP finance spokesman Harry Schwarz.

That there would be changes in the tax system in the new financial year was certain, he said.

But whether the private sector would agree with all of them was another matter.

Finance Minister Barend du Plessis should make government's intentions clear as soon as possible.

By not knowing what the changes were to be, companies would be seriously hampered in their forward planning.

370 B/day 18/12/87

BUSINESS DAY

Share plan avoids tax

JENNY BOBERG

A SHARE incentive scheme which sidesteps a tax liability to which ordinary incentive schemes could fall prey has recently been devised by tax experts.

In a recent tax court judgment a listed company's trust administering a share incentive scheme was ordered to pay tax on a profit it made unintentionally.

"That profits unwittingly made can be taxed is somewhat anomalous," says Aiken and Peat partner Hendrik Coetzee. Usually the intention to make a profit is central to deciding whether a gain is taxable, he says.

The trust in question earned a profit because, under the scheme, employees who resigned were obliged to sell their shares back to the trust at the price they had been when originally allocated.

The shares had often increased in value between the time of allotment and the time of resale to the trust. The tax court ruled these profits were taxable.

The recently devised "phantom share scheme" sidesteps this problem, says Fisher Hoffman Stride partner Anthony Chait. In this scheme, the listed company does not establish a trust. Rather, it creates a trust company.

Unlike the trust used in ordinary schemes, the trust company does not issue shares in the listed company. Instead, the trust company issues to employees shares in itself, which, in a sense, only represent the shares in the listed company.

Yet by buying these "phantom shares", employees still participate in any rise in price of the underlying listed shares. But, by alloting shares in itself, the trust company avoids making a profit by virtue of the increased value of the listed shares.

US firms in SA are dealt big tax blow

9/12/87 ALAN DUNN

WASHINGTON — Anti-apartheid lawmakers on Capitol Hill have dealt American companies operating in South Africa a powerful blow, which is sure to drive many more out of the country, by repealing their tax credits.

The move poses severe setbacks for American businesses in South Africa. Analysts here expect it to be the "last straw" for those of the 168 or so firms still in South Africa which were on the verge of disinvesting.

The Bill, which must still be approved by President Reagan, emerged after tough bargaining between the US Senate and House of Representatives at midnight on Thursday.

The clause affecting South Africa axed a tax credit US companies have enjoyed, where the taxes they paid the South African Government were deducted from those due in the US. Behind the move was Congressman Charles

TO PAGE 2.

US turns tax screw

FROM PAGE 1.

Rangel of New York, a black member of the House and staunch opponent of apartheid.

Pro-disinvestment and sanctions legislators and anti-apartheid groups, who backed his clause, were ecstatic yesterday: "This is the biggest tightening of the sanctions we have seen," said one church activist in New York.

One widely-respected analyst said: "It adds considerable weight to the scale on the side of leaving South Africa. It will be the final straw for marginal companies down there."

US Treasury estimates show that it will probably cost American companies $20 million in the first year, and $23 million in the second.

"It just makes it more expensive for them," said Mr Michael Christie, director of the South African Foundation office in Washington DC. But he did not share the bleak, damaging forecasts of other analysts.

"I would think it is not going to mean the end of US business in South Africa by any means," he said, noting that 160 or more companies paying the estimated $43 million over the next two years did not constitute that much of an individual burden.

The tax credit repeal emerged in an larger omnibus tax Bill intended to reduce America's massive budget deficit. Lawmakers forged a Bill raising $23 Billion in revenues through taxes over the next two years.

The Bill was the result of a mini "econoic summit" in Washington recently following the October 29 Wall Street slump which shocked America when when the Dow Jones industrial average dropped more than 500 points.

The Bill emerged after Senate and House conferees bargained behind closed doors on Thursday, to marry their differing versions of the $23 Billion tax Bill — the Senate's version did not contain the South Africa clause, and the House's did.

Senate's double tax bill still undecided

320 DD 21/12/87

From SIMON BARBER

WASHINGTON. — The fate of the US Congress' decision to impose double taxation on American firms in South Africa remained undecided yesterday, though the chances of its becoming law appeared to be lengthening.

The measure, authored by Congressman Charles Rangel, is a tiny fraction of the massive omnibus Budget Reconciliation Act of 1987 that would help put into effect the $30-billion deficit reduction agreement worked out between Capitol Hill and the White House after the October stock market crash.

There was still some hope that the South Africa provision could be knocked from the bill before the house and Senate both voted on the final version, perhaps as early as today.

The house-initiated measure, which industry sources said could force a stampede of the remaining US firms from South Africa, major oil companies like Mobil included, was accepted by Senate negotiators late on Thursday night.

Sources said that the Secretary of State, Mr George Shultz, personally intervened on Saturday to urge reconsideration of the South Africa measure.

President Reagan is threatening to veto this and another budget bill, the "Continuing Resolution" which authorises federal spending but, he says, does not contain sufficient aid to the Nicaraguan Contras.

Observers believed that if he could be satisfied on that point he would drop his veto threat against both bills.

Editorial opinion P12

Lawmakers debate tax credits

Bill poised to force US firms out of SA

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CM 31/12/87

By Alan Dunn, The Star Bureau

Washington

United States lawmakers will continue bargaining today after an extraordinary weekend of negotiations over a Bill containing a clause eliminating tax credits for American companies operating in South Africa.

By last night, there were no signs of relief for the more than 160 businesses which, in terms of the Bill, will have to pay taxes at home from next year regardless of those they pay in South Africa. American firms have, until now, had taxes they paid the South African Government deducted from their dues in America.

The future of the clause, whether it remains in the Bill presently being debated on Capitol Hill, was undecided last night. It could go either way: "All we can do is breathe tonight and wait for tomorrow," said a South African official anxiously watching the Bill's passage last night.

If the clause survives a powerful, pro-investment counter-charge by President Reagan's top lieutenants and some influential members of Congress, it is expected to drive many more US corporations out of the Republic.

Reagan 'would veto legislation'

The clause is contained in a $23 billion (about R44,6 billion) omnibus deficit-reduction Bill. Mr Reagan has signalled he will veto this and other domestic finance legislation currently being finalised on Capitol Hill, because he finds several provisions in it unacceptable.

His Treasury Secretary, Mr James Baker, apparently telephoned lawmakers on Friday, telling them Mr Reagan would veto the deficit Bill on four grounds — the fourth was the South Africa tax credit clause.

His last-minute efforts to kill the clause came as Senate and House of Representatives members were still negotiating the Bill. They decided to include the South African clause at midnight on Thursday but, because their dealings on the Bill are unfinished, they can still go back on that provision. The conferees met again yesterday behind closed doors, trying to finish as early as possible for the Christmas recess. But no word was mentioned about the South African clause.

The main focus of lawmakers and the Reagan administration is largely other issues, such as the controversial debate on funds for the Central American Contra rebels fighting a Marxist government in Nicargua.

A Senate Foreign Relations Committee member, Senator Richard Lugar, has written to the main Senate conferee, Senator Lloyd Bentsen of Texas, pressing him to reject the clause.

Not considered

He said the tax credit repeal had been proffered by the House. It had never been discussed in the Senate. It was not considered last year during the sanctions debate, led by Senator Lugar, and had not been proposed this year.

Anti-apartheid lawmakers are expected to announce some form of retaliation tomorrow for the US Treasury allowing the Ford Motor Company to wire $61 million (about R118 million) to South Africa as part of it's withdrawal from Samcor and the country.

At least four Democrats and anti-apartheid groups opposed the move, urging the Treasury to stop the money transfer because they felt it constituted new investment in the Republic.

A Christmas present of double taxation

520 DD 22/12/87

SIMON BARBER writes from Washington

Eugene Terreblanche, and possibly even P W Botha, will be happy to know the great American campaign to deny black South Africans economic power and preserve them in social, intellectual and political servility proceeds apace.

1987 has been a good year for those South Africans who wish to maintain, albeit in some superficially beautified form, the status quo. If the double taxation of American subsidiaries in SA becomes law, it may even go down as a great year.

Talk about a Christmas present! The US Congress may just have handed white SA business the plant and other assets of nearly every US company still in SA. Any US firm that pays serious taxes to Pretoria, in other words the large ones with real capital investment, could now be up for grabs. Anyone for an oil refinery?

As with with all the best Christmas presents, this one was a complete surprise, even to most of the givers. Congressman William Gray, chairman of the House budget committee, and a leading if unwitting proponent of all such gifts, did not appear to know what I was talking about when I raised it with him last week.

He was, and is, not alone. I doubt that there were more than 50 people in Washington — yes, Washington, not just on Capitol Hill — who had the foggiest idea that the double taxation proposal was lurking on page 1 172 in the 2 047-page House Omnibus Budget Reconciliation Act of 1987.

The tax-writing House ways and means committee held one 20 minute fraction of one hearing on the thing last July (consisting of a piece of incomprehensible waffle from the Washington office on Africa) before slapping it into the bill. From that point on, including and beyond the House debate on the full bill, not a peep of debate was heard.

As of this writing, with the provision a presidential signature stroke away from law, there has been precisely one passing reference to it in the Washington Post, tucked away in a lone paragraph at the bottom of Saturday's business section. That is how blithe the process of swatting SA has become.

A number of affected corporations did know about it in advance, for that is why they spend millions on Washington lobbyists, but chose to remain silent, believing that to sound worried would only encourage Congress. I was specifically asked by one executive not to make a big deal of it for that very reason.

The White House either was ignorant or took a similar line. The former is more likely.

Now that push has come to proverbial shove, and despite the best efforts of Secretary of State George Shultz and Treasury Secretary James Baker to light the dim bulb above its head, it does not seem to care. South Africa, and you would do well to recite this to yourself at least 100 times before breakfast each morning, is now the least of Ronald Reagan's concerns.

But back to the Christmas present, for such it most assuredly is. If it becomes law, most of the US companies still left in SA will in all probability come at even better than firesale prices. Indeed, if the recent Ford debacle is anything to go by, SA beneficiaries will be able to demand payment for taking the stuff off the donors' hands.

Let's look at the price Ford paid for the privilege of escape. First, it had to give away its 42 per cent stake in Samcor, 24 per cent to the unions, 18 per cent to Anglo. On paper, at any rate, that's a $50 million gift or thereabouts.

The company also agreed to pump an additional $10 million into community development trusts in Pretoria and Port Elizabeth. And then, to top it all off, it had to ante up $61 million in debt liquidation to keep Anglo from shutting Samcor down. That, at least, is what it told both the Administration and Congress, and there's no reason to doubt it.

In essence, Ford has had to shell out a cool $121 million to leave a country in which it has been trading for nearly half a century. Samcor is going to have to sell a lot of cars with Ford logos on them for such an investment to pay off, especially if the Reserve Bank continues to limit royalty payments in real money to a small percentage of revenues.

And, the $61 million injection notwithstanding, there isn't much guarantee how long Samcor will continue competing against the Japanese in the heavily overtraded SA car market, or, if the company does remain viable, how long Ford will continue to want its products being sold in SA in any form.

Increasingly, local governments are defining the kind of relationship Ford hopes to maintain with Samcor as doing business in SA. Licensing and royalty agreements, technology transfers, even permitting a trademark to be used, all qualify as tainted transactions in Los Angeles, San Francisco and a growing number other major US cities. Is a toehold in a stagnant SA really worth not selling fleets to some of the richest cities in the world?

Whether or not Anglo intends to keep Samcor going, and it would seem a pity to close that splendid new facility, it had Ford over a barrel. Ford had to agree to pay off a large chunk of Samcor's debts and endow a fund that would keep the workforce happy, or at least committed to keeping the concern going. In return, the Detroit car maker stands to get nothing, not even the hope of an African production base, if and when the millennium dawns in SA.

Anglo's balance sheets will not be ruined if Samcor closes. Ford will lose whatever return it hoped for, and 4 900 workers, 70 per cent of whom are black, will lose their jobs and their suddenly valueless trust fund. Whatever clout the National Union of Metalworkers of SA had managed to accrue will be smashed.

That seems a ghastly hole for a well-intentioned American company to have to throw its money down, but it can hardly be said to take any skin off Pretoria's, or Anglo's, nose.

Except, and here is one bad piece of news for those who would profit from US corporate withdrawal, it may become increasingly difficult for companies to pay their purchasers, especially if such payments can be interpreted by the scorched-earth boys in Congress as "new investment".

It remains to be seen precisely what Congressmen William Gray and Howard Wolpe will do following Ford's decision to transfer the $61 million without waiting for the treasury to rule that it did not violate the Comprehensive Anti-apartheid Act's new investment ban. But do something they will, encouraged by treasury's pusillanimousness in coming to a decision.

Steps will be taken that will force US companies to find other avenues of paying their buyers or that will end such payments altogether. This means that some US concerns may simply be liquidated outright, though, thanks to the two tiered rand, most of the proceeds will stay in SA. As for the rest, well, SA investors will no doubt learn to live with the intolerable burden of getting something for nothing.

The American Santa Claus is bringing no gifts for black South Africa. But for Pretoria and the business sector, it should be a Merry Christmas and a profitable New Year.

320 B/day 22/12/87

Margo proposals 'will hit gold mines'

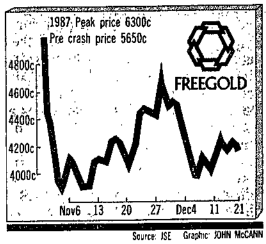
THE Margo Commission tax package would have a significantly negative impact on the mining industry, says Freegold chairman Peter Gush in his annual review.

An already heavy burden will be increased, and the recommended changes to the fabric of mining tax will affect the critical risk-to-reward relationship in the industry.

Gush also voiced strong objections to the tentative Margo proposal to impose a flat-rate corporate tax structure in place of the existing formula tax system.

"This would mean, quite simply, that high (profit) margin mines would bear a lower tax burden and low margin mines a higher burden, and this in turn would make low margin mines less viable. With South African mines exploiting lower grade ore to an increasing extent this could have a most serious impact now and in the future.

"Unfortunately it appears that the



Source: JSE Graphic: JOHN McCANN

PETER STACEY
Mining Editor

Margo proposals, far from creating a positive environment for new mining investment, will positively discourage it and, in addition, the proposals will have a negative impact on current operations."

Freegold, the merged operation of Anglo American Corporation's four Welkom mines, suffered major labour disruptions in the year under review, but the impact was lessened by flexibility in plant operations and the ability to substitute surface material.

Milled tonnage was increased by 5% to 22,87-million tons in the year to September, but, at a lower yield of 4,35 g/t (1986 — 4,96g/t), overall gold produced fell to 99,5 tons (107,83 tons). Turnover improved marginally on a higher gold price but increasing costs meant taxed profit was down 1% on the year to R872,3m.

Objectives for the future include an intensive drilling programme east of Free State Geduld and north of Erfdeel, where encouraging results have been obtained.

Gush also announced that Freegold had reached formal agreement with JCI's Free State Development and Investment Corporation on the exploitation of the Jonkers Rust and Du Preez Leger area south-east of President Brand Mine, and is now awaiting the granting of a lease and its incorporation in the Freegold lease area.

panies.

"There are some who predict this

Exxon and General Motors.

About 160 US firms remain, many

US firms have nine days to act

Double tax Bill passed by Congress

320

B/day 23/12/87

SIMON BARBER

MOST of the largest US companies still in SA have nine days to restructure their corporate finances or face severe US tax penalties.

That, according to well-placed industry sources, is the effect of the SA double taxation provision enacted by Congress early yesterday morning and certain to be signed by President Reagan.

The measure is also likely to have profound consequences in SA because it says that Washington now equates Pretoria with a list of "terrorist" and other pariah states, including Libya, Iran, North Korea, Cuba and South Yemen.

The law was passed without public debate as part of a giant deficit reduction package which Reagan believes he must sign to restore international confidence in the US economy. It takes hold on January 1, with no grace period.

By an extraordinary irony, the final voting showed that deal under which the Senate was forced unwillingly to accept the house-endorsed SA provision was unneccessary. The overall legislation could have passed without it.

"Those hurt the most will be those with the largest exposures in SA in terms of employment and investment," said Steve Cooney, director of international investment and finance for the National Asso-

To Page 2

Profitability could be cut

From Page 1

ciation of Manufacturers.

Topping the list of potential victims are oil giants like Mobil which has taken the lead in black advancement and social responsibility programmes.

An executive with a pharmaceutical company chiefly involved in retailing said his and similiar firms would be affected only marginally, if at all.

"The companies most heavily impacted will be those who are consolidated in SA rather than, say, Europe, and, primarily those involved in primary resources — refining, processing and providing equipment," Cooney predicted.

Because these firms will no longer be permitted to subtract taxes paid or accrued to SA against their US tax bills, their profitability and competitiveness could be severely reduced.

Even if they are not directly damaged many US companies will likely conclude that the Reagan administration can afford them no further protection against the sanctions lobby.

Cooney pointed out that the Comprehensive Anti-Apartheid Act had specifically praised US firms for their "positive involvement". The CAAA deliberately avoided mandating, or even encouraging, disinvestment, partly to ensure sufficient congressional support to beat a presidential veto.

Congress had now taken a dramatic step further, Cooney noted, and the administration was powerless to stop it.

Senate negotiators on the the budget package, most of whom strongly opposed the measure which was not part of the Senate Bill, may have been hoodwinked into accepting it by the house.

Congressman Dan Rostenkowski, chairman of the tax-writing House ways and means committee, insisted that the package could not be passed without the support of the Congressional black caucus.

In the end, however, the caucus all voted against the overall package because of language maintaining aid to the Nicaraguan contras.

As a result, the key final vote in the house was a razor-thin 209-208. Because of black caucus opposition, one vote would have killed the entire package.

23/12

ACCUSED of massacres and mutilations, denounced by East and West, rebels in

There is no disagreement on the war's consequences — one-third of Mozmabi-

from Tanzania and Malawi and Cuban and Soviet advisers.

520

Cost of a US company doing business in SA has just gone up

☐ REAGAN ... expected to sign the legislation

WASHINGTON — The US Senate voted early yesterday to end foreign tax credits for US firms doing business in SA.

The move, seen as a way of increasing pressure on SA to end its apartheid policies, was included in a Bill to cut the massive US budget deficit by US$76bn over two years.

Dealers in currencies and stocks say the cuts are needed to help restore confidence in financial markets, still jittery after the mid-October global stock market crash.

President Ronald Reagan was expected to sign the legislation, which was passed late on Monday by the House.

Backers of the South African sanction claim that it will generate about US$20m in additional tax revenue for the US in the next three years.

Congressman Charles Rangel, a New York Democrat who led the fight to include the provision in the Budget Bill, said it "makes an extraordinarily important moral statement about the pernicious evil of apartheid".

Under the legislation, any company operating in SA after January 1 would not be able to count taxes collected by SA as a credit toward its US tax bill.

SA currently imposes a 50% tax on the profits of foreign firms operating there.

There are 163 US firms that now have direct investments in SA, according to the Investment Research Responsibility (IRR) centre, a consulting firm that provides information to institutional investors.

But firms are pulling out of SA. In 1984, only seven US firms left. In 1985 that total jumped to 40, while last year 50 firms left and 51 others have pulled out this year, the IRR said.

"It means that the cost of doing business in SA has just gone up," said David Hauck, a senior IRR analyst, of the Bill.

"The more costs go up, the more companies leave," he said.

The Bill itself says foreign tax credits for US firms in SA should be ended because "it is not clear that any positive ends to be served by US-owned businesses working within SA continue to outweigh the positive effects of adverse tax treatment. — Reuter.

Tax bill result of US politics — Pik

320
24/12/87

PRETORIA — The livelihood of thousands of black South Africans was being unscrupulously sacrificed because of United States domestic political considerations, the Minister of Foreign Affairs, Mr Pik Botha, said last night.

This demonstrated once again that "economic advancement and peaceful reform are not among the objectives of the protagonists of sanctions".

Mr Botha was reacting to the passing of the Rangel amendment which will force US companies in South Africa to pay double taxation to the US Treasury.

"The acceptance by the US Congress of the Rangel amendment over the objection of the US administration amounts to a deliberate effort to destabilise South Africa economically," he said.

Mr Botha said sanctions served nobody's interests, "least of all the interests of the United States".

"This latest action by the advocates of sanctions will further reduce the dwindling influence of the US in South and Southern Africa, particulary if US companies are forced, as a result, to withdraw from South Africa," he said.

The president of the Association of Chambers of Commerce (Assocom), Mr Alec Rogoff, said in Durban yesterday that the US move was motivated more by domestic politics than by the situation in South Africa.

Commenting on the provision which forms part of the fiscal measures approved by Congress to cut the huge US budget deficit, Mr Rogoff said the measure was part of the US political scene prior to next year's presidential election.

The measure would not do anything to assist the reform process in South Africa, he said.

"It is counter-productive. It will not create jobs, it will destroy them."

He added that the move would increase the pressure on many of the American companies operating in South Africa to disinvest.

However, many of the major US-owned companies in South Africa say they remain dedicated to staying as long as they can make a positive contribution.

South African subsidiaries said that while the measure had caused their US parents some concern, it had not generated the frenzied reaction with which it was greeted in South Africa.

The Colgate-Palmolive managing director, Mr Gerry Nocker, said Colgate's American parent was scrutinising the legislation to establish the extent to which profits would be affected. But the option of disinvesting had not been canvassed, he said.

The managing director of Unisys, Mr Jack Horton, said the provision was extremely harsh and contrary to a "capitalist business context". However, he said, the impact was not great enough to force strong and viable business entities to disinvest.

The US State Department said yesterday that the move may facilitate the takeover of US businesses in South Africa at bargain prices by local companies.

It also indicated that the Reagan administration might seek reversal of the action.

● A call for an investigation into how US subsidiaries in South Africa can be assisted to overcome the problem of double-taxation has been made by the Progressive Federal Party spokesman on finance, Mr Harry Schwarz.

Editorial Opinion, p10

TAXATION (220)

Some kind ~~of year~~

When the report of the Margo Commission on tax was released on August 20, Assocom called it "the most important economic report of the decade." It aimed at revenue neutrality; whatever tax reform took place, government would raise as much as before.

FM 25/12/87

Some commentators were bitter that government spending had been excluded from Margo's mandate. For tax is a two-edged sword, confiscating cash on the sharp edge and spending it on the blunt.

Margo recommended the abolition of many minor taxes, and rate reductions in mainstream income and sales tax. To avoid leaving government with light tills, Margo had either to increase other existing taxes, or invent a new one. It opted for the latter, recommending the Comprehensive Business Tax (CBT). However, the CBT chapter in the report is one of the shortest.

Many-horned creature

Margo pointed out that CBT is invisible. So it will not meet as much resistance as income and, particularly, sales tax. This will move the frontiers of the tax war: the burden will remain obscure but for those qualified to distinguish the wood from the trees.

Margo-watchers were a little disturbed to learn that Michigan in the US, which uses the single business tax that was CBT's progenitor, was visited only after the main report was filed. A report compiled after this visit has not been released.

Margo's CBT was attacked as "unwanted, unloved and untested." As criticism mounted, various commissioners started to change tack. No, they said, CBT is not a new tax. It is really just a form of value added tax, calculated on the accounting, rather than the invoice, method.

CBT's base shows it to be a many-horned creature, taxing profits (income), value-added, payroll (labour), and exempting "gross investment." CBT relies on the "benefit" rather than the ability-to-pay principle.

As Assocom, Safto, organised agriculture and many others vehemently point out, CBT especially hits exports, which are a large proportion of the CBT base.

Other perceptions are that CBT will hit hard many struggling, labour-intensive, and start-up businesses. Still others, aware of the past, argue that CBT will lead to special pleading, and that its proposed 5% rate will be a minimum soon to be raised.

An issue of credibility arose when some Margo commissioners said that as CBT is phased in, sales tax will eventually be scrapped. That was not in the report. The claim made many wonder how much of Margo was in its report, and how much would be added by "extra-Margo" statements.

A few months after Margo was released, the honeymoon is over. State President P W Botha has had an economic summit with Margo as the main issue, representations have been heard, and Pretoria is preparing a White Paper (many suspect it's already complete) for release in the first quarter of 1988.

There is said to be some resistance to CBT in official circles, too. "It will be fought all the way to Cabinet," one official has said.

Meanwhile the world went on. Evidence of the enormous strain that will continue to be placed on the exchequer came in from all quarters. Disparities in education (the single biggest item in the national Budget) still need substantial attention.

Defence, police, prisons and justice will cost more in real terms. Budgetary and other aid to TBVC and the six self-governing territories will take billions. The number of public "servants" continues to grow.

All of which gives the taxpayer little reason for sound sleep. Cynics argue that SA's tax burden — historically high in overall terms — is the price paid for the maintenance of white privilege.

Business Report

Cape Times 21/8/87

Closing gold prices

(In $ an ounce)

LONDON:
455,00/458,00
Fixing am: 457,40
Fixing pm: 456,10

ZURICH:
455,00/458,00
— Reuter

Commodity Index	1673,2
Platinum	$598,50
Palladium	$138,60
Raw Sugar	£95,40

Merger boosts Lib Life assets by 51,5%

From HELENA PATTEN

JOHANNESBURG. — Liberty Life Association's asset base has been boosted by a massive 51,5% in the six months to end June 1987, largely owing to the company's merger with Prudential, which was effective from January 1, 1987.

Attributable profits increased 36,7% to R43,6 billion from R31,9 billion, raising earnings 23,2% to 250,3c a share from 203,2c in the first six months of last year.

The interim dividend has been raised to 180c a share from last year's 150c.

The weighted number of ordinary and preferred shares on which net taxed surplus per share is based, rose 11% to 17 398 000 as a result of the acquisition of Prudential.

The life company's unaudited interim report shows Liberty's total assets growing from R7,6 billion at December 31, 1986 to R11,6 billion at June 30, 1987.

The Prudential Assurance Co had R2,4 billion in assets at the end of last year, while the joint company grew a further R1,6 billion in the first six months of 1987.

Farrell Sher, director of Liberty, said yesterday if one included assets of the overseas companies and funds managed such as Guardbank, the group probably controlled funds of around R16 billion.

He said the group was safely capitalized and the spread of investments "nicely balanced."

Also reflecting the Prudential purchase, life funds jumped 65,8% to R9,1 billion at June 30, 1987 from R5,5 billion at December 31, 1986.

The leap in the company's asset base means Liberty is probably gaining ground on Sanlam's number two position in the industry.

Net premium income was 37% up at R590,4m, while net income from investments leapt 65,7% to R361m from R217,9m.

New annualised premiums, excluding single premiums and annuity considerations, rose to R82,8m from R77,1m, while total new business premium income amounted to R274,9m reflecting an increase of 15%.

Sher attributed the tremendous surge in new business for life companies in general to a return of consumer confidence and the investment products the insurance industry had to offer the man-in-the-street.

□ Holding company, Liberty Holdings, reported earnings a share of 69,6c for the first six months of 1987 — 27% up from the 54,8c in the comparable period last year.

An interim dividend of 38c a share, up from last year's 30,0c, has been declared.

Profit attributable to ordinary shareholders grew 28,3% from R24,7m for the 1986 period to R31,7m.

Lifegro lifts earnings 40%

Own Correspondent

JOHANNESBURG. — Lifegro's excellent mid-year results show it identifying closely with the trend established by its competitors.

Earnings per share are up 40% to 13,1c compared with 9,3c a share for the same period last year.

Net taxed surplus grew from R4,4m to R6,8m, growth of 54% when compared with the same period for 1986.

Recurring premium new business grew 60%, while recurring premium income rose 27%, comparing the first six months of this year with the same period in 1986.

The directors say single premium sales grew even faster but half-year comparisons are not meaningful, while the recurring premium sales performance will be reflected to a greater degree in premium income in the second half year.

Lifegro's total assets, currently at R3 587m, have grown by 67% over the past year and by 30% in the past six-month period.

An interim dividend of 7c a share (6c in 1986) has been declared and is payable on September 25, 1987.

MD Tony Laubscher said Lifegro's performance was a clear reflection of a continuing commitment to policyholders, shareholders and intermediaries, while "exceptional investment performance" had played a major role in the success story.

10th consecutive year of growth

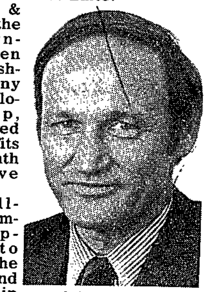
I & J nets record profits

Cape Times 21/8/87

By AUDREY D'ANGELO
Financial Editor

IRVIN & JOHNSON, the Cape Town-based frozen food and fishing company in the Anglovaal group, has achieved record profits for the tenth consecutive year.

This well-managed company appeared to shrug off the recession and the 70% rise in attributable profit for the year to June 30 was not from a low base, as many of the spectacular improvements reported recently.



J J Williams

But MD J J Williams admitted in the worst of the downturn profit margins were squeezed.

Now the directors say that growing demand has made "a partial recovery in margins possible", and this is shown by a rise in net operating profit to R58,4m (R37,2m).

Consolidated earnings have soared to R34,2m (R20,2m), equivalent to 122c (72c) a share and the dividend is 46% higher at 38c (26c) a share.

Turnover rose by 20% to R736,9m (R612,1m) and pre-tax profit to R55,2m (R34,3m).

The interest bill was higher at R4,6m (R3,6m), and tax rose to R21m (R14,1m). But I & J's share of associated companies' earnings rose by R10 000 to R67 000.

The dividend cover has risen to 3,1 times (2,8 times). The directors explain that this is to ensure that I & J can meet the high cost of future asset replacement.

This, they say, is "a source of concern for, with the current high level of inflation, such costs are expected to be substantial".

Capital expenditure in the year fell to R10,9m (R43,2m). Commitments at the year-end for future capital expenditure totalled R5,2.

Net current assets on June 30 had risen to R72,8m (R56,5m), and net asset value to 460c (387c) a share.

The directors say that the continuing improvement in the economy will benefit the group and, "providing the current relatively stable business, political and exchange rate conditions are maintained, further profit growth is expected in the current financial year."

Gold steady at $456,75

LONDON. — Gold was supported during routine late trading by stable Comex levels, although the metal showed no sign of breaking out of a narrow $2 range.

Bullion closed at $456,50/$457,00, compared with opening and previous closing levels of $456,30/$456,80 and $455,50/$456,00, respectively.

Dealers reported a quiet session throughout, with little in the way of fresh news to stimulate interest. Early steadiness yesterday was tied to a decline in the dollar.

Platinum closed at $596/$598, up $4 from Wednesday night's close.

□ In Zurich, gold ended at $455,90/$456,40, $0,40 below the opening and $1 under the previous close.

□ In New York, gold closed at $453,50/$454,00. — Reuter

Rand steady

JOHANNESBURG — The rand closed unchanged from Wednesday's $0,4833/40 finish here, having failed to build on its early gain to about $0,4860 as the gold price continued to languish below $460, dealers said.

Although the rand has improved against the weaker dollar recently, its performance is lagging well behind that of

	Notes				
Preference dividends		(7,7)	(3,…)		
Net taxed surplus attributable to ordinary and preferred ordinary shareholders	1	**43,6**	31,9	+36,7	82,6
Weighted number of ordinary and preferred ordinary shares on which net taxed surplus per share is based ('000)	2	**17 398**	15 680	+11,0	16 521
Net taxed surplus per share (cents)	1 & 2	**250,3**	203,2	+23,2	500,6
Dividends per ordinary share (cents)					
– Interim (declared 20 August 1987)	3	**180,0**	150,0	+20,0	150,0
– Final (declared 11 March 1987)		**–**	–	–	210,0
Total dividends per ordinary share (cents)		**180,0**	150,0	+20,0	360,0

	11 238,0	7 453,7
Represented by		
Investments	11 141,7	7 272,8
Fixed assets	47,6	40,7
Current assets	388,7	324,3
Total assets	11 578,0	7 637,8
Current liabilities	340,0	184,1
	11 238,0	7 453,7

NOTES

1. **Life insurance operations**

Due to the general impracticability of undertaking full actuarial valuations other than at the end of the financial year, no valuations of the life funds of Liberty Life, and its subsidiaries, Charter Life Insurance Company Limited and The Prudential Assurance Company of South Africa Limited ("the Prudential"), are conducted at the half-year stage. For the purpose of this interim report and following the company's established practice, the net taxed surplus has been included on the basis of an estimate which results in the net taxed surplus per share being shown at half the level achieved for the previous full financial year ended 31 December 1986.

2. **Issued share capital**

2.1 **Ordinary shares**

During the six months ended 30 June 1987 the issued share capital of the company increased by 200 shares as a result of the implementation of various options in terms of the Senior Executive Share Option Scheme.

2.2 **Convertible redeemable non-cumulative preference shares**

The Scheme of Arrangement whereby the Prudential became a wholly owned subsidiary of Liberty Life with effect from 1 January 1987 was sanctioned by the Supreme Court of South Africa on 23 March 1987. In terms of the Scheme of Arrangement, Liberty Life issued 1 609 461 new convertible non-cumulative preference shares – Series G of R1 each at an issue price of R140,00 per share to the members of the Prudential registered at the close of business on 20 March 1987. Accordingly the results of the Prudential have been included in the financial statements for the six months ended 30 June 1987 for the first time.

The issued share capital of the company following the abovementioned allotments of shares is presently as follows:

14 930 615	ordinary shares of R1 each
2 467 804	preferred ordinary shares of R1 each
1 521 923	convertible redeemable cumulative preference shares of R1 each
1 609 461	convertible redeemable non-cumulative preference shares of R1 each
20 529 803	

3. **Interim ordinary dividend**

In accordance with the company's dividend policy of declaring interim ordinary dividends at a level of one half of the total ordinary dividend for the immediately preceding financial year, the directors have resolved to declare an interim ordinary dividend of 180 cents per ordinary share in respect of the year ending 31 December 1987.

4. **New business**

During the 6 months ended 30 June 1987 new annualised premiums (which exclude single premiums and annuity considerations) rose to R82,8 million from R77,1 million in the corresponding period of 1986. Total new business premium income including single premiums and annuity considerations for the first half of 1987 amounted to a record R274,9 million representing an increase of 15% over the amount of R238,7 million recorded during the same period of 1986.

5. **Comment**

Subject to no unforeseen factors arising during the remaining months of the financial year the net taxed surplus per share and dividends per ordinary share for 1987 are expected to show a satisfactory increase over the level attained in 1986.

Declaration of interim dividends in respect of the year ending 31 December 1987

Notice is hereby given that the following interim dividends have been declared in respect of the year ending 31 December 1987 payable to shareholders registered in the books of the company at the close of business on Friday, 18 September 1987.

	Amount per share
Ordinary dividend No 39	180 cents
Preferred ordinary dividend No 3	300 cents
Convertible preference – Series G dividend No 1	250 cents

The abovementioned dividends have been declared in the currency of the Republic of South Africa and cheques in payment thereof will be posted from the offices of the South African and United Kingdom transfer secretaries on or about 2 October 1987.

Cheques in respect of dividends issued by the United Kingdom transfer secretaries will be drawn in United Kingdom currency equivalent on 25 September 1987. Non-resident shareholders' tax at the rate of 15% will be deducted from dividends where applicable.

On behalf of the board

D Gordon *(Chairman)*
P D Wharton-Hood *(Joint Managing Director)*
M Winterton *(Joint Managing Director)*

Johannesburg
20 August 1987

South African transfer secretaries
Central Registrars Limited
4th Floor, 154 Market Street
Johannesburg, 2001
PO Box 4844
Johannesburg, 2000

United Kingdom transfer secretaries
Hill Samuel Registrars Limited
6 Greencoat Place
London SW1P 1PL

A3520

Own Correspondent

JOHANNESBURG. — The Aberdare group continued its growth pattern with a 33,3% rise in profits, in spite of a decline in turnover.

Interim results for the year to end-June show profits at R5,1m boosting earnings to 35,8c a share (26,8c).

The interim dividend has been increased by 20% to 15c a share (12,5c previous year).

The Powertech cable subsidiary's turnover fell 2,1% from R122,2m last June to R119,7m but reports that rationalization within the group has improved margins considerably.

Pre-tax profits were up 52,2% while the tax rate changed from 38,8% to 46,3%.

SA Bias plans rights offer

Own Correspondent

JOHANNESBURG. — SA Bias has announced plans of its long awaited rights issue, to raise around R10m to finance acquisitions.

cient support, they noted.

Consequently the rand has depreciated against leading currencies like sterling, the D-mark and the yen.

The financial rand ended easier at $0,2813/63 after closing higher at $0,2888/2938 on Wednesday.

Against other currencies, the rand closed at:

USA: 0,4833/40.
UK: 3,3425/55.
Germany: 0,8870/85.
Switzerland: 0,7350/65.
France: 2,9600/50.
Netherlands: 1,0000/20.
Japan: 70,00/10.
— Reuter

Kruger rands

JSE Closing

	Buyers	Sellers	Sales
1 oz	—	1220	1220
1/2 oz	570	580	570
1/4 oz	—	—	28500
1/10 oz	12200	12500	12500

Cape Gold Coin Exchange

	Buyers	Sellers
1 oz	1227	1228
1/2 oz	560	570
1/4 oz	280	285
1/10 oz	115	120

LSE average prices

Prices at 5pm yesterday:

Mining

Afex Corp	120	Chrtr Cn	446
Cor Syn	88	Cons Gld	1344
Falcon	300	Cons Mch	1 1/4
Glb Phnx	58	De Brs D	15 3/16
Lonrho	290	Doorn	17 5/8
MTD (M)	16	Drieftn	26
Nchart	18	Durban	15 1/4
Wankie	16	E Daggas	838
ZCI	14	ER Prop	13 3/4
Am Gld	118 3/4	ER Gld	7 15/16
AA Crp	25 9/16	Elsburg	338
Ang Vl A	28	Freddies	494
Barlow	478	Freegld	16 5/8
Bracken	238	Grootvl	327
Blyvrs	756	Harmny	15 1/8
Buffels	22 1/8	Harties	932
Kinross	23 3/8	Gldfd P	103
Kloof	1494	Vaal Rfs	134 3/4
Leslie	220	Venters	15 7/8
Libanon	25 1/4	Ang Am	6 1/2
Loraine	894	Vogels	50
N Cnt Wt	8 1/2	GFSA	27 1/8
Ofsil	41		
Rndftn	130	Wlkom	11 3/16
R Plats	1681	W Areas	513
Southvl	63 1/4	W Deep	60 3/4
St Helna	17	Rnd Mns P	600
Stilfont	7 5/8	Winkels	27 1/4

Industrials

Abercom	52	Sasol Npv	266
N Eng	115	Stancha	801
R Mines	20	Un Stl Cr	22 15/16
SA Brws	423	Unisel	10 3/8

INDUSTRIAL SELECTIONS LIMITED

(Reg. No. 62/03461/06)

Directors: Mr M T de Waal (Chairman); Dr F P Jacobsz; Mr J M Kahn; Dr P G S Neethling; Dr A P Scholtz; Mr P J van Rooy; Dr L P McCrystal; Dr C J van Wyk; Adv. C H Wiese

NOTICE TO SHAREHOLDERS
SUB-DIVISION OF ORDINARY SHARES

At the Annual General Meeting of the company held on 19 August 1987, the special resolution proposed for the conversion and sub-division of the ordinary share capital of the company from par value of 25 cents to no par value and sub-division of these shares on the basis of ten new shares of no par value for every existing share held was passed.

In accordance with section 78 (1) (b) of the Companies Act, 1973 the authorised share capital of the company changed to 280 000 000 shares of no par value and the stated capital to R11 123 414 comprising of 273 800 600 shares of no par value.

The Johannesburg Stock Exchange has agreed to amend the listing of the company's shares to reflect the conversion and sub-division with effect from Monday 7 September 1987. This results in the need for all shareholders to exchange their existing share certificates for new share certificates reflecting the sub-division of shares.

A circular to ordinary shareholders making provision for the recall of existing share certificates and the issue of new share certificates reflecting the sub-division and conversion of the share capital of the company will be mailed to shareholders today.

By order of the Board
INDUSTRIAL DEVELOPMENT CORPORATION OF
SOUTH AFRICA LIMITED: SECRETARIES
per: P N TRUTER

Registered Office
19 Fredman Drive
Sandton 2199
PO Box 784055
Sandton 2146

Transfer Secretaries:
Consolidated Share Registrars Limited
40 Commissioner Street
Johannesburg 2001
PO Box 61051
Marshalltown
2107

21 August 1987

Tax cuts remain key to revival

320

BusPost 22/8/87

By Bob Kernohan

Business Editor

THE key to maintaining the current "moderate" economic improvement continues to lie with overtaxed individuals — and unless they are granted swift relief the chances of the upswing accelerating are remote.

This is the blunt message from a top economist who was in Port Elizabeth when the Margo Report was released.

Mr Johan Louw, of Sanlam, was trying hard to be enthusiastic about the report, but could not hide his concern as to just how long it would take the commission's findings to get the go-ahead from the Government.

"Three main steps have to be taken to get the economy moving along more swiftly and to push the growth rate above 2,5%, or at best 3%, level," he said in an interview.

"First is to decrease taxes, especially personal taxes, so that the man in the street has more money in his pocket because he is responsible for more than 60% of gross domestic spending.

"The next step is deregulation. The Government has the power to achieve this, but is doing nothing about it.

"Third is to lower inflation, again so that the man in the street will have greater spending power."

Mr Louw predicted that the next Budget may bring lower taxes, but was unwilling to give any forecast as to when any of the other Margo Commission recommendations were likely to be implemented.

On the the current economic revival, the economist traced its beginnings back to the middle of last year, with it having faltered during the second quarter of this year.

But he added that there were several factors which should bring about "stronger growth" in the second half of the year.

One was the effect of salary increases for civil servants, both in terms of their spending power and the rub-off on influencing rises in the private sector.

Another was the good profits major companies were announcing and a third a general improvement in consumer confidence.

"Add to these the fact that inventories are very low — meaning companies will urgently need to step up manufacture to re-stock — and we have a scenario for a continuing improvement.

"The stock exchange should also hold — despite some people having doubts about it — and we are also optimistic that the gold price will average $460 to $470 and go up to $500.

"These all indicate that the improvement will continue until the middle of next year, albeit at a moderate pace, and possibly into 1989."

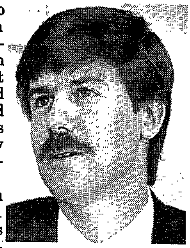
Describing this upswing as being "fragile", Mr Louw said the Government was in a position to hold the rise, bearing in mind that "as long as law and order are maintained, the socio-economic situation will have a neutral effect on the economy".

Citing the Mercedes-Benz strike in East London and the massive miners' strike, he said: "This is having a negative effect, both in terms of curtailing production and in undermining confidence, but we believe it can be sorted out in time."

Broad based tax, sales tax acceptable

Cape Times 22/8/87 320

This is the second part of an analysis of the Margo Commission of Inquiry into the tax structure of SA, and its implications by GRAHAM COCHRANE of Arthur Andersen & Co. It will be continued in the Cape Times on Monday.



Graham Cochrane

THE Margo Commission was, in principle, in agreement with a broad based tax and sales tax was viewed by them as acceptable.

It has been recommended that the sales tax rate be reduced from its 12% level ultimately to 4%. As an interim measure, it was recommended that the rate be reduced to 7,5%. This reduction is to be funded out of proceeds of CBT.

The commission recommended that the exemption on foodstuffs be eliminated in order to simplify the collection of the tax.

However, they recommended that capital goods be excluded for sales tax purposes. It would appear that this exclusion would require exceedingly complex legislation to define the term "capital".

The difficulties faced from an income tax perspective on the capital or revenue nature of an asset would be amplified by bringing this concept into the Sales Tax Act.

Sales tax is a tax collected by a seller of goods. The term "capital" is difficult to define and is currently defined with reference to the intention of the purchaser; certain goods are capital assets in one person's hands but are trading stock in another's.

To expect the seller to accurately ascertain the intention with which a purchaser acquires an asset would appear onerous.

The alternative would be for a comprehensive, and thus complicated, definition of "capital" or schedule listing exemptions, in the Sales Tax Act.

Either alternative will add to the complexity of an already complex statute.

In addition to suggesting the exemption of capital goods, the commission also suggested that certain services (such as advertising services) be exempt from sales tax.

Income tax

Income tax, and the Income Tax Act, received most of the commission's attention. Discussed below are some of the more pertinent recommendations.

The commission acknowledged the effects of long-term inflation on the viability of business and considered various ways to overcome it.

A principal recommendation is that further recommendations be made should the inflation rate increase.

Under existing circumstances, it was felt appropriate that increased wear and tear rates should be permitted to alleviate the impacts of inflation on capital investment. It was recommended that assets be written off over a three-year period, in the following ratio: 50%, 30%, 20%. This rate of wear and tear would apply to all forms of assets, including aircraft, hotel equipment, and farming equipment.

It has frequently been suggested to the Minister of Finance that the cost of capital assets be written off in full in the year they are acquired.

This practise is followed, for example, in Namibia. Although the above recommendation achieves an improved capital allowance basis, it appears to ignore the underlining nature of the asset.

Where, for example, a capital asset of insignificant cost, or with a lifespan of less than three years is acquired, it would appear to be subject to the same write-off rate.

On the other hand, a multi-million rand investment in plant and machinery with an anticipated life in excess of three years would, likewise, qualify for the identical allowances.

Tax report favours 'man in street'

THE Margo Commission yesterday tabled before Parliament a complex 515 page report on tax reform proposals which, if accepted by government, will have far-reaching effects on the South African taxpayer – both individual and corporate.

Initial reaction was that the report favoured "the man in the street".

In its own summing up at a briefing to discuss the report, the commission said the strong underlying emphasis of its base recommendations was on "low rates of tax on broad bases applied naturally to avoid distortion".

The major proposals centre on the change from joint husband and wife taxation to separate taxation of individuals.

Further major relief would be suggested in a lowering of the General Sales Tax from the present 12 percent to four percent in two stages.

At present, there is an undisputed need for black participation in communicationg with and educating black taxpayers and with normal development there will be a growing need for black administrators in Internal Revenue.

A proposal was put forward for the introduction of a new comprehensive business tax.

The bad news is that taxpayers' culpable failure to render a return timeoulsly – it is recommended – should attract interest from the date on which tax would have been payable.

The chairman of the comission, Judge Cecil Margo, was appointed by the State President in November 1984.

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BDay 24/8/87

(320)

Margo's RSC levy criticism is 'valid in theory'

● MARGO

GRETA STEYN

MARGO's criticism of regional services councils levies were in theory valid, Witwatersrand RSC chairman Gerrit Bornman said at the weekend.

But Bornman said in practice criticism did not apply because of the low rate of the levies.

However, tax experts have little doubt that RSC levy rates will rise soon.

The RSC Act makes provision for a maximum RSC turnover levy of 0,1% and 0,25% for payroll. So far, the maximum levy has been imposed by all operating RSCs, and while the Act stipulates that this rate may not be increased in the first year of operation, some tax consultants believe increases will follow rapidly on the expiry of the period.

Margo criticised the fact that through the RSC levies on turnover, certain sales are taxed more than once — the "cascade effect" — which, experts say, creates distortions.

In Bornman's view, low rates ensure that the effect is minimal.

Says Deloittes Haskins & Sells partner Willem Cronje: "When tax on turnover reaches 1%, we will feel the distortions".

Cronje said the cascade effect could eventually "cause the whole system to collapse".

Margo also said the sales levy provided an incentive for firms to integrate (to avoid levies on inter-company transactions), which, he says, is "contrary to policy". Bornman's response, again, is that the rate would have to be much higher before vertical integration would take place.

Bornman welcomed the fact that Margo supported the principle of regional taxation. Margo recommended that a regional comprehensive business tax (CBT) be implemented, even if government did not accept a national CBT.

"Margo's criticism of the RSC system is certainly not as strong as people would like to believe. The CBT is, in effect, also based on turnover — so the report actually vindicates the present system."

Again tax experts disagree — saying the proposed CBT would eliminate the burdensome cascade effect, because it would take into account the cost of sales by being based on sales less purchases.

24/8/87

onal taxation. Margo recommended by being based on sales less purchases.

Customs duty on chemicals is 'adequate'

24/8/87 DAVID FURLONGER 18/Day

CUSTOMS duties on most agricultural chemicals are adequate and should not be increased, the Board of Trade and Industries (BTI) has decided.

Dawie de Villiers, then Trade and Industry Minister, asked the BTI last March to examine input costs for the agricultural sector, and to revise customs duties on all these inputs.

"From information gathered during the course of the investigation, the BTI came to the conclusion that customs duties ... do not have any significant cost-raising effects on the production cost of agricultural produce," says BTI chairman Lawrence McCrystal.

He says the BTI looked at chemicals separately from other inputs such as tractors and farming implements.

Calculations showed customs duty on fungicides and herbicides for maize cultivation accounted for no more than 3% of crop value.

Margo, Durr to give talks

24/8/87 (320) B/Day

TAX COMMISSION chairman Mr Justice Margo and Deputy Finance Minister Kent Durr will be among the speakers at a symposium on the Margo Commission report, organised by Assocom.

It will be held at the Sandton Holiday Inn on Wednesday starting at 8.30am.

Mr Justice Margo will open the seminar with an introductory talk. Brian Kantor, director of the school of economics at the University of Cape Town, will then present a paper on the economic perspective.

Tax expert Michael Stein will deal with the impact of the report on direct corporate and personal taxation.

During lunch Pierre du Toit, international tax partner at Arthur Andersen and Company, will deal with tax enforcement.

Former Inland Revenue Commissioner Mickey van der Walt will deal with indirect taxation, and proposals affecting regional and local taxes will be discucssed by tax consultant Charles McKenzie of Arthur Young and Company.

Negative real growth from big 5

Racehorse owners could feel lash of Margo whip

3/20 25/8/87 B/Day

PROPOSED tax measures to protect farmers could have an inadvertent backlash on the horse racing and bloodstock industry.

HELOISE HENNING

Having just weathered the equine flu outbreak, the industry has emerged with a marketing campaign heavily dependent on the considerable tax concessions for investors — which could be done away with if the Margo Commission recommendations are put into use.

This is the view of Aiken & Peat panelist Kevin Mitchell, who says it is "interesting" the Commission was unable to move away from the traditional livestock values regulated in 1955, because these values fixed any livestock-owner to a tax loss.

The recommended restriction allows losses on livestock to be set off only against farming income and not against other income. The effect is that a bloodstock investor cannot write off against other income a loss of, for instance, R99 960 on a thoroughbred costing R100 000, because its value for tax purposes is set at the 1955 price of R40.

Coopers & Lybrand auditor Eric Louw believes it will prevent non-farmers from seeking a tax-dodge by buying part of a herd. Farmers are being advantaged by further tax deferral if the traditional prices are not changed, he says.

The recommendation providing for writing-off of assets over a three-year period would benefit farmers who are running at a loss, Louw says. At present, a farmer showing a loss in income is unable to deduct this from capital costs; only the income loss can be offset against other income.

The recommendation that a sliding scale be introduced of write-offs for capital improvements and expenditure over three years of 50%, 30% and 20% would, however, disadvantage farmers showing a profit.

Mitchell believes this recommendation brings farming in line with other industries as far as capital expenditure is concerned.

University of Pretoria agriculture professor Jan van Zyl says the measure would be costly to agriculture but would prevent farmers "saving 50c by spending a rand".

"The present concessions on 100% write-offs in the year of acquisition have encouraged purchases. They're saving themselves into bankruptcy."

Van Zyl also believes it has led to over-mechanisation.

A problem the Commission could not surmount was the "tax-haven" of untaxed capitalisation on land prices that have accrued from pre-taxed income spent on improvements, Mitchell says.

He also believes the "objective test" of profitability to prove bona fide farming operations is not sufficient, and could be abused if written into law.

The measure to prevent non-farmers from deducting farming losses from other income if, after a certain number of years, taxable income from farming has not been derived, could create new problems, he says.

Margo: now it's up to the Govt

26/8/87 S POST 320

JOHANNESBURG — The 19 members of the Margo Commission believed they had found good solutions to the country's tax problems but it was ultimately the task of the Government to implement their suggestions wisely, Mr Justice Cecil Margo said yesterday.

At a seminar on the Margo Commission in Johannesburg yesterday afternoon, he said tax reform was vital in South Africa for a number of reasons.

Not the least important of these was the high population growth figure. The commission regarded future economic growth as a high priority, so that long-term planning of job creations could be realised.

A commission member, Dr Jannie Graaf, said tax rates should be kept low, bases should be broadened and taxation should be neutral. Government expenditure should reflect "real burden" if any taxation system was to work to everybody's benefit.

General sales tax, he said, was too visible to be popular. It also had a number of technical drawbacks which had a cascading effect, specially in businesses.

The "Margo Commission Package" intended to reform the GST system, personal income tax unit and various aspects of company and business taxation.

The commission recommended the continuation of "perks tax", but Dr Graaf added that the State should set a good example in regard to this issue. The surcharge which it suggested should replace the Regional Services Council levies was "much more simple".

Professor Michael Katz, a commission member and senior lecturer at the University of the Witwatersrand, said the commission strived to create a climate in which businesses could flourish, because ultimately it was companies and not governments which created jobs.

The present business income base was artificial, he said. It was based "a bit on tax, a bit on profit and a bit on cash-flow".

The commission's attempt to bring accounting income into line with taxable income would make the tax system more compatible with development.

Deadlines set for comments on Margo tax plan

27/8/87 320 Star

By Michael Chester

The Government has laid down an October deadline for the end of the public debate on the Margo recommendations on tax reform and the start of preparations for a new tax system.

Mr Kent Durr, Deputy Minister of Finance, announced yesterday that all written submissions from taxpayers in reaction to the Margo plan must be lodged by September 30.

In turn, Mr Chris Stals, director-general of finance, will listen to final oral submissions at special hearings to be held in Pretoria between October 20 and 23.

Mr Durr announced the deadlines when he addressed a seminar held in Sandton by the Association of Chambers of Commerce to put the Margo proposals under the business microscope.

He said the Department of Finance was likely to complete a White Paper on tax reform by January in readiness for parliamentary debate on any necessary new tax legislation next year.

While any new total tax package was unlikely to emerge until 1989, it was probable the first moves on the Margo recommendations would be contained in the 1988 Budget to be presented next March.

Peculiar situation

Mr Durr cautioned that tax reform in South Africa, because of its peculiar situation, needed to be located squarely within a matrix that considered socio-political factors as well as purely economic analyses.

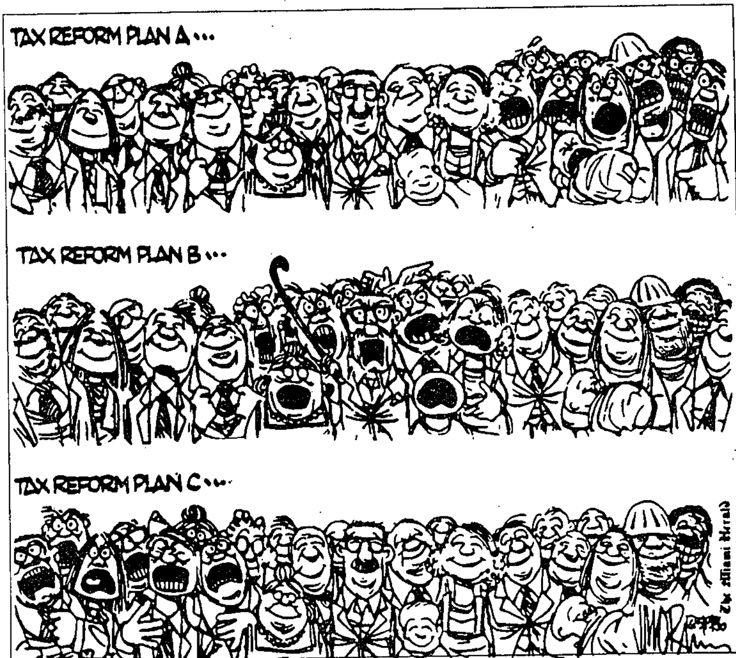
Meanwhile, the Government appealed to the private sector to take an objective and broad approach to tax reform, taking into account long-term as well as short-term aims.

"The debate needs to stay aloof from the party politics arena and avoid a series of dog-fights between vested sectoral interests," he said.

"We need economic statesmanship from both the Government and the business sector.

"The time for basic tax reform is now. It would be unwise simply to make amendments to the existing system. We need to go back to the drawing board with the Margo report to tackle the inequities that must be removed. There are no quick fixes.

"If the present tax system contains obstacles to the generation of wealth and economic growth, they must be removed now."



Professor M G Loubser, deputy chairman of the Margo commission, said it would be disastrous if only a few of the proposals were selected for action rather than the tax reform package as a whole.

In particular, all of the main tax reforms measures — from reductions in general sales tax to lower income-tax rates and separate taxation of married couples — hinged on acceptance of recommendations on the introduction of the comprehensive business tax that went in tandem with lower corporate taxes.

Professor Brian Kantor, director of the School of Economics at the University of Cape Town, congratulated the commission on its skill in aiming in the right direction.

Unfortunately, he said, the proposals on tax reform had not gone far enough.

"The real emphasis should be on targets to eliminate tax on income and shift the burden to tax on expenditure — away from direct tax and to more reliance on indirect taxation," he argued."

He urged the Government to accept the challenge to take the lead in economic reform. Referring to the arguments that were expected from vested interests, he added: "If you wait for consensus, there will never be reform."

Mr Micky van der Walt, a former Commissioner of Inland Revenue, had reservations about the proposed new comprehensive business tax that had been based on a similar system put into operation in the American state of Michigan.

Why, he wondered, was Michigan the only one among 50 states in the US that had adopted the system. And why had the system been ignored by at least 12 other overseas countries which had tackled tax reform?

Mr B C Robinson, of Anglovaal, favoured stress on lowering individual income-tax levels.

Margo's fatal error

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Richard Grant is a lecturer in Wits University's department of business economics.

Some years ago, while riding a train in Italy, a fellow passenger warned me of a danger.

It seemed that a band of train-robbers had elevated their business to new levels of sophistication. On long, overnight journeys they would find compartments in which passengers were asleep. After deepening their sleep by pumping chloroform under the door, the robbers would enter, relieve the passengers of valuables and slip away without even the slightest protest.

Whether or not the story is true, governments learned this technique long ago and applied it to taxation. With the release of the Margo Commission recommendations it would appear that we are being prepared for yet another round of sedation and fleecing.

Dutifully, the commission worked with conventional public finance theory to assemble a system of broad-based, widely distributed, low-rate, high-yield taxes.

Regrettably, the commission failed to notice that the conventional theory assumes that taxation and spending decisions are made by an all-knowing benevolent despot, who cares only for his subjects' welfare. In the real world we have elected representatives.

Just as socialism destroys the business economy, institutions that permit broad-based taxes can also destroy the political economy. In both cases the problem lies with the transmission of information. Markets are actually communication systems through which people make trading decisions.

Socialism makes economic calculation impossible for businessmen and consumers. Broad-based taxes have an effect on communications between politicians, voters and the economy that is like putting a scrambler on a telephone. The result is that consumers and voters can't get what they want.

Whether they know it or not, people pay taxes. But what is more important is that only people vote. If government can make voters believe that companies or other voters are bearing the tax burden, then voters are not likely to resist a tax increase.

Similarly, they will accept a tax increase if they believe government is supplying a service to them more cheaply than private business could. This is the problem. Voters cannot calculate costs without correct information.

This explains why Margo has recommended lowering the income tax rate and GST rates. It also explains why Margo is wrong. Taxpayers know that through the income tax and GST they are "buying" government services.

Considering the price, they would prefer to buy less. Margo is wrong in trying to deceive taxpayers with devices such as the Comprehensive Business Tax. Such deceptions are no less harmful than news censorship.

In a free democracy, voters are the ultimate political decision-makers and must not be sheltered from the costs of their decisions. Companies do not vote and should not pay taxes or have anything to do with taxes, except as collectors of highly visible taxes such as GST.

Elimination of company-based taxes would allow businessmen to work for consumers instead of Inland Revenue bureaucrats. It would also free company tax accountants to more productive endeavours.

Forget about the new 50, 30 and 20 depreciation rule. There is no need artificially to stimulate business. Simply remove the cause of stagnation.

Companies cannot defend themselves from governmental interference without expensive lobbying and bribery. But voters can. Ideally, a constitutional rule would deny government access to many forms of hidden tax, thereby keeping the tax base narrow and visible.

Better-informed taxpayers will give government leaders better counsel as to appropriate tax rates. A search for "less painful taxes" is like a search for a local anaesthetic that would allow one to leave one's hand on a hot stove. ■

MARGO COMMISSION

Ducking the real issue

320 FM 28/8/87

What South African taxpayers ought not to forget is that the Margo report rejected out of hand any fundamental reform. Should its central recommendations be implemented, we will still have a largely hybrid tax system that will entrench obscurity and place a larger tax burden on a wealth-creating sector that cannot fight back through the ballot box.

Taxation can be based on one or more of three sources — wealth, income, and consumption. A tax system showing a marked bias towards one, or using only one, would comply more readily with the central tenets of taxation — simplicity, equity and neutrality.

Wealth (including rights to pensions and future earnings) is extremely difficult to measure; and, from the taxman's viewpoint, there is the problem of erratic cash flows.

The major flaws in the income tax base are *measuring* income, and the controversial issue of how income tax adversely affects everyone's incentive to produce more wealth.

The third base — consumption — is founded on the idea that people should be taxed on what they take out of an economic system. They are penalised for spending and rewarded for saving. The advantage of consumption taxes is that their yardstick, cash flows, is easy to measure and understand.

The most articulate study of the pure consumption tax, dubbed the Universal Expenditure Tax (UET), was overseen by Nobel economics prizewinner James Meade in the UK. The Meade Committee showed how the UET could be used as a direct tax (like our income tax), impinging on the rich at higher rates than the poor (unlike an indirect consumption tax, such as GST).

Moreover, Meade illustrated how the UET could be applied to an individual, a family, and all types of business activity — ranging from pawnshops to multinational financial institutions. Businesses would be taxed on the difference between cash in and cash out. The net amount after all cash flows — assuming a surplus — would go in determined proportions to shareholders and the taxman.

Margo devotes just over two pages of the 516-page report to the UET; and we find unconvincing the reasons for its finding that "the time is not ripe to abandon income as the basis for taxation." In a discussion on owner-occupied housing, Margo argues that consumption, like income, is difficult to delineate clearly. That is certainly not what Meade found or what we believe to be the case.

Instead Margo has recommended the Comprehensive Business Tax, which is complicated — a direct income tax calculated on the value-added concept — and of doubtful pedigree. But, in addition, it is a tax much less visible than GST and one paid by a voteless sector. In the hands of a government that has the spending record of the present administration, Margo's recommendations are more likely to be used to despoil the community than enrich it.

Aside from which base a country chooses for its taxes, an issue central to economic wellbeing must be the level of tax rates. In SA, the tax burden continues to increase as an ever higher percentage of GNP, hindering both development and the attainment of national objectives.

In the *FM*'s view, the reference in Margo's brief to the "optimal attainment of SA's economic objectives" did not preclude it from making a finding on tax reduction. At least Margo could have recommended a constitutional limit on the amount of tax a person should pay. In 1945, John Maynard Keynes said: "Twenty-five percent taxation is about the limit of what is easily borne." How is that for a precedent? It deserves consideration.

Of course, the integrity of the tax system needs to be restored by the removal of the many anomalies that have crept in — largely to meet government's short-term expediencies over many years — and the tax burden spread more equitably. But tax reform will be manifestly incomplete until Pretoria accepts a limit on tax as a percentage of GNP. ■

Warning on inequities in benefits tax

3/2/87

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KAY TURVEY

UNAPPROVED funds would emerge if the inequities between the tax treatment of pension and provident funds was not addressed.

It was important these inequities were resolved in light of the encouraged public debate following the Meiring Commission, Barrie Horlock, personnel director of C G Smith Sugar, said at a conference on Employee Benefits in Johannesburg yesterday.

Horlock said existing tax laws marginally favoured pension funds as tax relief was upfront, whereas in the case of provident funds it was granted on retirement.

Further, there was different tax legislation for civil servants and the private sector.

The big benefit to civil servants was that they did not have to commute a third of their pension to obtain a lump sum benefit.

Tax concessions for past service contributions were limited in the private sector whereas they were not in public service.

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Tax analyst Walton ... the CBT has no pedigree

advisers will have a field day.

Americans have for years been accustomed to such entities as "safe harbour leasing," "abusive tax shelters," "negative pick-up partnerships," and so on. Is Margo setting us on these paths of syntactical obscurity as the tax avoidance industry rises inevitably to the challenge of obscurity?

Surely it is self-evident that the language of tax reform needs to be plain and unequivocal. Tax reform commissions should not have a licence to expect the taxpayers they're serving to learn a whole new variation on their home languages.

Margo advanced two main reasons for the introduction of CBT:

- ☐ Taxes on business are more readily shifted (forward on to consumers and backward to suppliers of capital and other factors of production) than most other forms of taxation; and
- ☐ The existing tax on business income is not well designed, particularly in inflationary conditions, and is imposed at a nominal rate high enough to cause significant distortion.

CBT seeks to achieve a low rate by encompassing more than just the profit element in income generated. How would it work technically?

Walton argues that, as it stands, the tax appears to be based largely on the Michigan Single Business Tax (SBT). This is levied at the rate of 2,35% on taxable income for US Federal Tax purposes, plus salaries paid; dividends, interest and royalties; wear-and-tear allowances; assessed losses; proceeds from sale of tangible assets; income and SBT taxes, and special deductions.

The SBT allows deductions of: dividends, interest or royalties received; capital losses not deducted in arriving at Federal taxable income; acquisition costs of tangible assets; and business losses.

The South African version, the CBT, appears to be simpler. It amounts to taxable income added to:

- ☐ Salaries and wages paid;
- ☐ Net rents paid;
- ☐ Net interest paid; and
- ☐ Net royalties paid and depreciation;

less

- ☐ An allowance for "gross investment" in real fixed assets or inventories (but not in financial assets).

While some of the terms used are relatively clear, *gross investment* has not been defined. Walton says it will require explicit definition if serious problems are to be avoided. "It's probably meant to include — like the Michigan SBT — the cost of machinery and plant," he adds.

It's clear that one of the results of the deduction would in some cases be a *negative* taxable amount. But the proposal is that the taxpayer would not claim a refund; instead the credit would be carried forward.

Because profits form only part of the CBT base, some unprofitable businesses will be liable for the tax. The philosophy behind any value-added tax (which is what CBT is) is that it is a payment to the State for the use of infrastructure. It is a tax based on the *benefit* principle, rather than on ability *to pay*. The underlying premise is that there is a connection between income generated by a business, and its use of infrastructure.

Walton says that in principle the CBT would not be easy to manipulate. If, for example, excessive depreciation is claimed in order to reduce profits there is no effect on the base — made up as it is in part of profits and depreciation.

Similarly, if inventories are undervalued to reduce profits, the deduction for gross investment would reduce by a like amount.

The problem is whether in practice sufficiently crisp definition is possible.

The commission had doubts about whether CBT should be deductible for income tax purposes. Clearly, its deductibility would reduce the net revenue accruing to the State — the CBT rate would have to be increased, partially negating its declared purpose.

However, the commission suggests that CBT *should* be regarded as an income tax, subject to Section 23 of the Income Tax Act — and this precludes any deduction.

Walton's studies of the Michigan SBT make it clear that CBT would weigh heavily on service industries, flowing from the add-back of salaries for the purposes of the tax. And such businesses generally do not have large expenditures for machinery and equipment that can be accounted for as expenses.

Moreover, unprofitable industries would be hit badly. The auto makers would have had a greater tax liability in aggregate under SBT but for special relief granted to the industry. Any special relief granted in SA would violate Margo's desire for neutrality, which in simple terms is that business decisions should not be influenced by tax considerations.

And, Walton notes, the US steel industry, which has been incurring net operating losses for many years, would pay more in SBT than before because of reduced expenditure on machinery and plant.

In the chapter on CBT, Margo argues: "The theory is that if (taxes) are well designed, their incidence tends to be widely and thinly spread, creating minimal distortion." With roughly 4m personal taxpayers and about 300 000 business taxpayers in SA, it's difficult to see how the introduction of a CBT would *not* create distortions.

Finally, Margo's claim that "taxes should be certain and simple in concept and in collection" does not square with the character of CBT. For each element of the tax must still be defined.

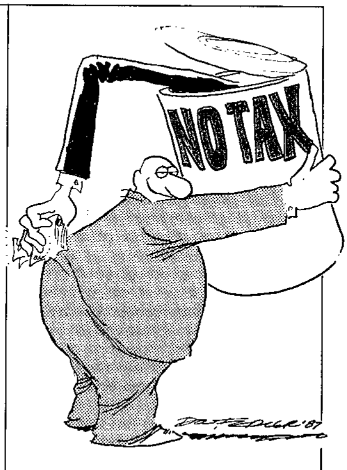
What's certain is that if CBT as defined in the commission's report is implemented, the happiest people will be those legions of highly-skilled professionals in the tax avoidance industry. Margo, surely, would not want that. ■

THAT BUSINESS TAX

A guide to jargon

Origin-based taxes:	Taxes levied at the point of manufacture rather than sale.		
Destination-based taxes:	Taxes — GST is an example — levied where the product is ultimately sold.		
Value added:	In the simplest example:		
	Sales		R1 000
	(Purchases)		300
	Value added		700
	(Salaries, wages depreciation, etc)		400
	Profit		300
Additive method:	Simply:		
	Profit		R300
	Own inputs		400
	Value added		R700
Subtractive method:	Simply:		
	Sales		R1 000
	(Purchases)		300
	Value added		R700

Numerically, the value added base is identical whether the additive or subtractive method is used.



Unloved, unwanted, untested

The Margo report focuses on a new tax for business. Its scope, elements and jargon are foreign to most businessmen. It violates two of Margo's central themes: simplicity and neutrality. And it could be a scourge in the hands of a profligate government.

At the heart of the Margo report lies a grey and menacing recommendation — the "revolutionary" Comprehensive Business Tax (CBT). If introduced at 5% to raise R5 billion a year, it would be used to finance some tax reductions and the abolition of certain other taxes.

Apart from the impact it will have on job creation, CBT has other flaws that need to be given far greater scrutiny and careful thought than is evident from the commission's report.

In our view, taxpayers have a right to expect that an important new tax — arising out of such a large and long-sitting commission — should have an impeccable pedigree and bring with it greater certainty.

Yet it's fair to say that few — if any — taxpayers can be reasonably certain of what their tax liability would be under a CBT.

Margo describes CBT as the "key to tax reform." Yet as Ernst & Whinney's Ken Walton notes, apart from a single state in the US, CBT-type systems are not in operation anywhere in the world, which says little for its pedigree.

The Michigan Single Business Tax (*FM* May 29) was introduced on January 1 1976 — and no other taxing jurisdiction has thought it appropriate to copy it. In fact CBT violates the principle of equity, on which Margo lays such stress. Service industries, whose principal expense is salaries, would be unfairly hit; they would be among the first to argue that CBT is nothing more than a payroll tax.

The plan appears to be that CBT would be a low-rate, broad-based tax. That was precisely the case with GST — until government demands for ever more revenue escalated. Take another example. According to the Finance Department's submission to the commission, while the initial rates for the establishments levy and services levy would be 0,1% and 0,25% respectively, the actual rates needed to meet the RSCs' requirements would have to be 0,45% (or 350% more) and 1,5% (or 500% more). This is in Chapter 24.55 and .56.

According to Arthur Andersen's Pierre du Toit the fact that business learns of this perspective only through a submission to the commission is a sobering thought in the context of a prognosis for a CBT rate.

The commission notes that: "A complex tax system generates uncertainty, which may in turn entail costs of consultation with tax advisers." But along with CBT come strange and new phrases like "additive method" and "destination based" (see table), and here the

P.T.O.

Justic Margo ... unveiling too many perplexities

(320)

The central pillar of the Margo Commission recommendations is the implementation of a comprehensive business tax on business. But the impact of this tax on service businesses could be crippling, and even swing some firms into after-tax losses, warns LARRY KRITZINGER, partner in the Sandton branch of accounting firm Deloitte Haskins & Sells

Bad for banks

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THE MAIN thrust of the Margo proposals is that a Comprehensive Business Tax (CBT) of 5% initially be applied to the accounting value added by business concerns.

In a sales organisation, the taxpayer will have the benefit of the deduction of purchases, but in a service business the impact of the tax could be very dramatic.

The CBT is payable on the sum of profits and depreciation, salaries and wages, interest, rents, royalties, less investment in new plant and equipment and less net increase in inventory.

In a sales organisation, using a simple example, the following result could be obtained:

SALES	1 000
Purchases	800
Salaries	100
PROFIT	100
Add salaries	100
Amount subject to CBT	200
CBT @ 5%	10
i.e., 10% of profit	

In a service organisation, such as a legal or accounting firm, which is more labour-intensive, the following could, however, result:

SALES (fees)	1 000
Purchases	100
Salaries	800
PROFIT	100
Add salaries	800
Amount subject to CBT	900
CBT @ 5%	45
i.e,45% of profit	

In the service industries the CBT would turn out to be nothing other than a tax on turnover. Whilst one may support the concept of a CBT, the implications for service industries will have to be carefully watched with a view to placing it on a comparable footing with their counterparts in commerce and industry. One possibility would be to equate labour input costs in defined service industries with purchases.

B/Day 28/8/87

Serious

For a financial services company, such as a bank, the results are even more serious. In its simplest form a bank makes a turn by borrowing money at one rate and lending it out at a higher rate. The Commission makes the point that the rate which the bank pays to its clients is lower than market rates, because the bank renders a free or subsidised service to the client — i.e., by providing a cheque account facility.

It therefore recommends that a certain amount be regarded as inputed interest in respect of the value of such a service, so that the results would reflect the same position which would have pertained if the bank had paid a market-related interest rate for the funds borrowed and charged separately for the service rendered.

An example serves to illustrate:

Interest received	1 000
Interest paid	700
Turn	300
Salaries	150
Other expenses	50
PROFIT	100
Income tax at 50%	50
COMPUTATION of CBT:	
Profit	100
Interest paid	700
Salaries	150
IMPUTED INTEREST (Service charges)	90
Amount subject to CBT	1 040
CBT @ 5%	52

The effect of the above would therefore be to put the bank into an after-tax loss of 2 (100-50-52). The Commission could not have intended this result, but nowhere in the report does one find a suggested solution.

New Zealand has exempted all banks from their recently-introduced value added tax (VAT). Israel levies VAT on the sum of profits and payroll only.

Another suggestion would be for the interest paid to be exempted from the CBT. Clearly, banks and other financial institutions will face difficulties in applying the CBT.

It would be advisable for European and other precedents to be investigated to gain from their experience in applying VAT to financial institutions, and to ensure that the final application of CBT to banks is fair and reasonable.

LIFE ASSURERS

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Life after Margo

Despite a "degree of vagueness in some of the verbiage," life assurers generally seem mildly positive towards the recommendations in the Margo report.

No sweeping changes are suggested. But some principles put forward depend on recommendations outside the ambit of the life industry: this makes it difficult for assurers to assess the full implications.

As Life Offices Association (LOA) chairman Dorian Wharton-Hood puts it: "We find it difficult to discuss in detail until we have had a chance to do our sums as regards both the majority and minority views. And the report is not clear on a number of points, including the treatment of dividends in the hands of life offices and capital gains."

The consensus is that "dividends seem untaxable."

Wharton-Hood supports a broadening of the tax base, as the commission recommends, but is a "little concerned over the proposed reduction in GST given that, down the road, an awful lot of purchasing will be done by people not paying income tax."

Comments another assurer: "Having looked at other countries and the way they tax, the commission has basically come up with the belief that our current method of taxing life assurers — the so-called pragmatic approach — is the best of a bad bunch. This makes sense."

However, there is some fine-tuning in the majority proposals, which amounts to an "improved pragmatic approach" whereby:

☐ Allowable expenses should be "expenditure actually incurred" on administration, investment and management. Sales expenses and benefits paid should be excluded;

☐ Life assurers' income for tax purposes should be defined as interest, rent, dividends in full, fees from subsidiaries and such gains on investments as would be taxable as income (see below);

☐ If tax on dividends in the hands of individuals is abolished then the same should hold for life assurers; and

☐ Tax rebates on premiums paid should be abolished.

"Gains" mentioned above refer to capital gains. The commission recommends that a statutory definition should *not* be attempted, and they should remain untaxable.

As one assurer notes: "Large institutions could continue to benefit since they usually purchase long-term strategic holdings, so any gains on eventual sale will still be classified as capital. On the other hand, short-term capital gains will continue to be classified as income. This will mostly affect smaller offices, which tend to trade shares more actively."

There are other problems, too.

Smaller companies still have to maintain a sales force, whose cost will not be deductible.

"This favours profitable companies and acting on it may encourage concentration of power," says the report. It adds that it might make it difficult for small, growing companies which are not yet profitable to compete with larger rivals. It recommends further investigation of this aspect.

Arnold Basserabie, MD of Federated Life, says, on the other hand, it also depends on the nature and size of the taxed portfolio (that is, endowment and non-retirement annuity business), whatever size the company.

"For a younger, faster growing portfolio investment income won't be so high relative to tax-deductible expenses, so it could pay proportionally less tax than an older fund."

On quick calculations, and assuming no capital gains tax and no tax on dividends, Basserabie reckons his company would have paid less tax in 1986 on the improved pragmatic approach basis. Under the "trustee approach," suggested by the minority, it would have paid more tax.

It is understood that this approach was in fact preferred in an earlier draft of the report. Here, the assurer is viewed as trustee for the policyholder, and so taxed on his behalf.

LOA's Wharthon-Hood . . . concerned over GST proposals

A tax rate of, say, 30% might be applied to assurers' net investment income as an approximation of policyholders' aggregate tax rates were they to be taxed directly on such income. This would tend to favour higher income earners, and so raises the question, what rate should be chosen?

Basserabie says a number of areas need clarification. "For one thing, what do they mean by sales expenses? And how do they define other expenses?"

Says Wharton-Hood: "Though outside the commission's terms of reference, prescribed asset requirements are a significant impost on our industry and amount to a tax, because we generally earn below-market returns." ■

'Tax spending, not earnings'

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28/8/87

family

Post Correspondence

JOHANNESBURG — The Margo Commission ought to have recommended a complete shift from an income to an expenditure-based tax system, according to the director of the UCT School of Economics, Professor Brian Kantor.

Speaking at a seminar organised by Assocom in Johannesburg, Professor Kantor argued that the commission's acceptance of the importance of perceptions in regard to taxation as opposed to realities, is a reason for their reluctance to move to a wholly expenditure-based tax system.

The reality, he said, is that most taxes on businesses are passed on to consumers, and therefore do not really contain inflation.

Meanwhile, the deputy chairman of the Margo Commission, Professor M G Loubser, has appealed to the Government to implement the commission's report wholly, rather than piecemeal.

He also said the proposed Comprehensive Business Tax (CBT) would bring about a reduction in general sales tax (GST) from 12% to 7,5% and eventually to 4%. It would also broaden the tax base by reducing income tax for individuals.

Prof Kantor also welcomed the proposed move from income tax to CBT, which was a "value-added" tax and included the export sector of the economy.

Mr Michael Stein, of Divaris Stein Publishers, said South Africa's inordinately high income tax rates were eroding goodwill between tax payers and tax gatherers. Any new tax system would have to address this.

Mr Pierre du Toit, of Arthur Anderson & Co, pointed out that Government attempts to prosecute and pursue tax evaders used up large amounts of taxpayers' funds.

Jewellery renews tax plea

3/8/87 S/Times 320

By Don Robertson

THE Jewellery Council and retail jewellers have again urged the Government to reduce or abolish the 35% ad valorem tax on SA-made jewellery.

They say it has prevented South Africa from becoming the "jewellery capital of the world".

The latest plea comes from Gordon Smyth, recently appointed chief executive of the Sterns Diamond Organisation. He says a jewellery-making industry in SA could become an export business with tremendous value.

10-year plan

Mr Smyth reacted to a comment by the Minister of Economic Affairs and Technology, Danie Steyn, that the Government had a 10-year plan for beneficiation of SA's minerals.

Mr Smyth says the establishment of a jewellery industry is a natural development for SA which produces most of the world's gold, platinum and diamonds.

"Major diamond-polishing centres used to be in Amsterdam and Rotterdam, but a few years ago Israel took over the top spot. Since then, India has become a large polishing centre.

"We have had to sit and watch this happen because of the heavy ad valorem tax of jewellery manufacture.

"There is no reason why we should not be able to add gold and diamonds together."

It is vital for the jewellery industry to be relieved of its heavy tax burden.

Mr Smythe says: "When retailers' margins and GST are added to the factory price — already inflated through the discriminatory ad valorem tax — there is little hope of expanding the market for SA-made jewellery."

The manufacturing industry needs a sound SA base, whatever measures are taken to encourage exports.

Sterns sees an export potential for SA jewellery and, in the right circumstances, it would make an investment in design and manufacturing facilities.

Tim Davidson, executive director of the Jewellery Council, says that for the past 2½ years, the council has been petitioning Government organisations about the tax.

Mr Davidson gave evidence to the Margo Commission, the Standing Committee on Finance and has discussed the matter with Mr Steyn and the Minister of Finance, Barend du Plessis.

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Many hurdles for Margo

MICHAEL STEIN, of Divaris Stein Publishers
An edited extract from an address to the Assocom seminar on the Margo report on tax

WHEN the Margo Commission was appointed in 1984 the tax system was already badly in need of reform. While in 1983 companies were together still paying a little more tax than individuals, for the first time the following year collections from individuals exceeded those from all mining and non-mining companies.

Since then the problem has been aggravated to the extent that in the current fiscal year collections from companies are expected to amount to R9,3bn, while those from individuals are expected to reach the staggering sum of R12,1bn.

But most alarming is the fact that individuals earning over R20 000 a year alone pay more tax than all South African companies.

Delayed

Tax reform has been delayed while the authorities waited for the Margo Report, even though they have continued to make constant ad hoc changes to the system — for example, the introduction of the unpopular and widely criticised regional services councils (RSC) levies.

Serious problems afflicting the tax system are the effects of chronic inflation, particularly, but not only, on individual tax collections and the ever-growing array of "tax expenditures" — the special tax concessions accorded to certain groups of taxpayers.

Evidence of the effect of these tax expenditures on the corporate tax base is provided by some illuminating figures in the Commission's report, which reveals that the average effective tax rate of the non-primary corporate sector in the 1983 and 1984 tax years, when the nominal corporate rate was 46,2%, was only 20%, and that the effective rate in 1985 was 25%, when the nominal rate was increased to 50%.

STEIN . . . problem aggravated

The report quotes the Commissioner for Inland Revenue as saying that various remedial measures by the fiscal authorities have since then effectively removed many of the tax incentives available to the non-primary sector and therefore brought effective rates more in line with nominal rates.

The main proposals in the report affecting individual and corporate direct taxation are those for the reduction in the corporate rate of tax and in marginal rates for individuals, which the Commission recommends be accompanied by a reduction in the number of tax brackets and a widening of these brackets to reduce the impact of so-called bracket creep.

Because the ability of the authorities to implement these proposals and the extent of their implementation will obviously depend on the cost in revenue foregone, the Commission makes no firm proposals on what the rates should be or the nature of the tax brackets, thus leaving it to the politicians to resolve these issues.

While the proposal for the separate taxation of spouses will be welcomed by working couples, the cost will be quite staggering, according to the Commission's own estimates. The revenue lost through this significant reform would naturally have to come from other sources, and it is unlikely that the proposed comprehensive business tax (CBT), if it is implemented at a reasonable rate, could make up the lost revenue as well as pay for all the other proposed concessions, including the recommended cut in the rate of GST.

What is more likely is that the introduction of this system will have to be financed largely by individual taxpayers themselves and that it will severely limit the Government's ability to reduce tax rates. Therefore the principal beneficiaries will be certain married taxpayers, and the principal payers will be the rest of the taxpaying community.

Cash

The Commission comes out strongly in favour of cash remuneration replacing fringe benefits, both in the private and the public sectors — a sensible proposal since employees generally accept a fringe benefit instead of cash remuneration only for the tax savings.

Since public servants are among the major beneficiaries of fringe benefits, these proposals are unlikely to be accepted, because the government cannot reasonably be expected to alienate all these people. If it did scrap their fringe benefits, it would have to compensate them by increasing their cash remuneration substantially to leave their after-tax incomes intact.

Nor is the powerful motor industry likely to sit back and meekly accept realistic taxation of these benefits.

The recommendations affecting trusts are simple but very significant. Income that does not accrue to a beneficiary in a particular tax year should be taxed in the hands of the trust at the maximum marginal rate for individuals, while so-called trading or business trusts should be treated as companies for a tax purposes and their beneficiaries regarded as shareholders of a company.

The proliferation of business trusts, which the Commission says is of concern, must, be blamed on the taxing authorities, for these trusts are largely a product of the iniquitous and sorely neglected system of taxing dividends that is now in force.

A radical suggestion is that members of public-sector pension funds should be taxed in the same way as members of private-sector funds, subject to the protection of their existing rights. As equitable as this proposal may be, its political implications ensure that it has absolutely no chance of being accepted.

Regrettably, successful tax reform in South Africa must overcome formidable hurdles in the form of powerful vested interests and cost restraints. And, unfortunately, as long as governmental expenditure continues to grow apace, an aggregate reduction of taxes is impossible.

End of the bull market?

Few analysts predicted the sort of boom that leading stock markets experienced in the first half of this year. But in the light of both relative value and underlying fundamental prospects, share prices around the world are now looking distinctly uneasy.

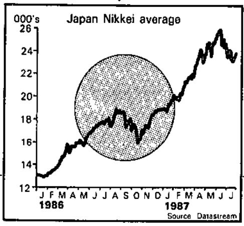
A re-run of the 1986 second-half consolidation before a New Year surge or the end of the great bull market of the Eighties? That is the question taxing global fund managers as equity indices in London and New York join Tokyo in retreating from record highs.

So far this year Germany has been alone among the four biggest markets in showing some historical perspective and awareness of economic realities. The rest have charged on with brief pauses for breath — or none in the case of Tokyo until late June — in an apparent decoupling from fundamentals which drove the Morgan Stanley world equity index up by 33% in six months after its 41% gain in the whole of last year. The movement has set a host of firsts, most notably the dethronement in dollar terms of Wall Street as the world's biggest stockmarket by Tokyo.

Money supply growth has been the fuel. The previously targeted monetary aggregates in the five major economies are showing annualised increases of between four and six times the expected growth in GNP. Since 1984 real growth in the 24 industrialised members of the Organisation for Economic Cooperation & Development (which account for nearly 70% of non-communist world GDP) has more than halved to 2,25%. The Morgan Stanley world index has risen nearly 160% in the same period in a massive rerating of equities.

Price earnings ratios have ballooned in the past three to four years — the average in Tokyo has trebled to 70, on Wall Street the Standard & Poor mean has doubled to nearly 24 and in London it has risen from under 12 to 21 on industrials. Germany again stands apart. The historic multiple has nudged up from 12 to around 15 — more than adequate for a "normal" market where expectations for average earnings growth this year range between nil and 4%.

For months now the sober-minded — and those over the age of 35 who can remember the bear markets of the Seventies — have been warning of the crash to come. Doomsters predicted the fissure would open in Kabuto-cho, the overheated home of Tokyo's stock exchange where rampant speculation by small investors and industrial companies (offsetting profit losses on exports) defied the selling of the *gaijin* (foreigners).



The rising yen may have crippled export profits but was one of the triple virtues supporting the market as investors pared back sharply on buying US bonds and equities (currency losses on dollar bond portfolios are put at a paper total of US$44 billion by the Bank of Japan). Coupled with five interest rate cuts, which took the discount rate down to 2%, and weak yen oil prices, the fever took the Nikkei Dow index to a high of 25 929 on June 16 — 40% above the January low and more than double the 1986 starting point.

Warning signs were ignored: institutions (their cash flow this year is estimated at $700 billion) were not chasing the market. Daily equity turnover fell 75% to Y400 billion as the firmer dollar and oil prices came into play — raising the spectre of inflation and making US assets with their 5-point yield differential less risky, more attractive. Benchmark domestic bond yields, down to 2,6% in March, shot up to 4,8%.

In June Japanese funds were net buyers of $8 billion US securities — against less than $3 billion in May. They also went heavily liquid. Tokkin money trusts raised their cash levels by a third in three months to $72 billion. And the rash of small-lot selling which knocked 12,5% off the Nikkei Dow in a month found no support until last week.

True to form, Japanese investors decided that 22 500 on the Nikkei Dow was a floor. Then came a hike in bank prime rates from 4,9% to 5,3% — the first for 21 months — not because of pressure of borrowing but because of poor demand for banks' latest debenture issues, whose yields are linked to the lending rate. Perversely the market decided this was bullish and when the Japanese Diet voted through a $14 billion special budget (the first tranche of the $40 billion fiscal stimulus to try to reduce Japan's unpopular trade surplus) the yen went up.

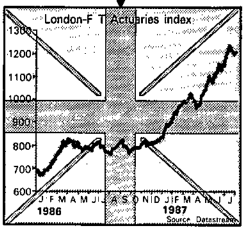
The result was a 5,4% bounce in the Nikkei Dow in two trading sessions as institutions came back as buyers.

Correction over? Analysts are divided. The enormous weight of liquidity (rather than the bleak short-term outlook for average earnings growth of 1%) dominates thinking. Some foresee a choppy outlook. More money — around $10 billion — went into the US in July, helping Wall Street to its record.

That trend could continue but there are also expectations that big investment houses will try to cheer up the market ahead of the October privatisation of more of Nippon Telephone & Telegraph (p:e 250), expected to raise US$33 billion. Against that, any sign of a pick-up in economic activity could see industrial companies pulling out cash "parked" in the market for real investment.

The Japanese factor is only one ingredient in the complex mix affecting Wall Street. Its rampage into 1987, on the back of higher earnings forecasts as the dollar slithered, was briefly interrupted by inflation and, hence, interest rate and growth worries in the spring. But after two attempts to push the Dow Jones Industrial Average below 2 220 the advance to the July 17 record 2 510 was almost unchecked.

Even after the 10% reaction from that level — fund managers were talking of increasing cash holdings by 10% for every 100-point gain above 2 500 — the Dow was sitting on a 29% lift so far this year and nearly 1 000 points over January 1986. In spite of everything — Irangate, a stubbornly high current account and Federal budget deficit and unimpressive growth — the profits outlook for corporate America is reckoned to be the best among the major markets this year.



Analysts who pencilled in estimates of 5% average earnings recovery from last year have had to revise numbers up as first- and second-quarter reports flowed in showing 15% gains. Forecasts now range in the 20%-24% area, putting prospective p:e ratios in the high teens — forcing analysts to peer into the uncertainties of a presidential election year to justify a continued bull trend.

Based on 1988 projections the longer-term prospective multiple is 15. But takeover activity has been adding both froth to equities and concern about the financing (junk bonds) of buy-outs and bids. The price of a seat on the New York Stock Exchange passed $1m for the first time. And the collective $10 billion write-offs of Third World debt by top banks earned them kudos rather than crisis ratings.

Business Week headlined its midyear review: "The good times roll on for investors," which were spelt out as "lower inflation, stable interest rates and plenty of money-

Financial Mail

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ECONOMY AND TAX

Avoiding a Margo millstone

The country's economic recovery is very delicately poised. The reluctance of businessmen to invest — despite the current account surplus, gently rising consumer demand and abundant access to capital — suggests that they could still easily retreat into a slough of despond, thereby extending a recession that technically bottomed out two years past, but which has dragged on through a lack of constructive business confidence.

Those businessmen who voted nearly three months ago for what they believed to be the security of a Nat government, have certainly not put their money where their votes went. The political and economic shocks flowing from National Party (NP) policy has not endeared them in any way towards any act of investment faith.

Nor, given the inherent uncertainty of our relationship with the Western world, will they easily be persuaded to add to present levels of under-utilised capacity. One way to radically change that attitude would be for government to cut taxes substantially.

Normally, this would need to be accompanied by a real reduction in government spending in the short term until higher tax revenues from the increase in business activity begin to flow. But Pretoria holds the view that reduced spending is not consistent with the political need to uplift black communities.

There are, however, two factors that suggest that tax cuts now — without a sharp reduction in government spending — could pay off. One is that in recent years economists have been having difficulty reconciling the relatively modest increases in national expenditure with the reported levels of government outlays.

This might mean that reported high government outlays are more a matter of switching resources from one internal fund to another, rather than actual or real expenditure.

Judge Margo

The second factor is the relatively modest level to which the official deficit before borrowing is being held. Simply put, real government spending might not be as high as expected — and, if it is, funding could be switched from taxation to loans.

It would be nice to believe that some form of tax relief could flow from the Margo Commission report, which is due to be released next month with a White Paper setting out what aspects of the commission's recommendations are acceptable to government.

But, as matters now stand, the Margo report and the White Paper could prove to be a further disincentive to investment. The chances of Finance Minister Barend du Plessis being able to pilot extremely politically sensitive taxation reforms through the Cabinet and the NP caucus within four weeks are exceedingly remote.

He will, for one thing, have his hands full shepherding his Budget in its final stages through all three Houses of Parliament — each jealous of its prerogatives.

If a White Paper is rushed out now, irrevocably binding government to an ill-conceived taxation policy, there will be little chance of gingering up investment in the foreseeable future.

There are already intimations of dismay among some Margo commissioners that junior Treasury officials are playing ideological havoc with the commission's carefully crafted proposals. Like the De Kock Commission proposals on the monetary system, these need either to be accepted in principle in full, or rejected.

A piecemeal sifting-through, subject to the special pleading of ideological or vested interests, will be an incentive only to disinvestment on more than political grounds.

The fact is that an ill-conceived White Paper now could heighten — rather than reduce — speculation, and in its own right turn out to be a political hot potato. Far better for the commission's recommendations to be revealed in all their glory now and then subjected to public debate and scrutiny.

This would give government time to assess the winds of consensus before it decides which way to commit itself. There is a very good reason for this option to be seriously considered by Pretoria.

There is simply going to be little chance of the recommendations being kept secret for long. And the more time Treasury officials have to monkey with the proposals in the preparation of a White Paper, the more those dismayed commissioners are going to seek public justification through informed leaks and inspired guesses.

That is what will fan speculation — if indeed there is anything wrong with that. It is difficult to see how the fiscus could be prejudiced.

On more than one occasion in the past the impatience of officials has aborted the passage of worthwhile legislation. The issue of pensions transferability is a case in point. We would not like to see the Margo tax proposals go the same dismal route.

To avoid that happening, there is much to be said for calm appraisal and constructive advocacy so that progress towards tax reform gathers momentum and enhances — rather than hinders — the economic wellbeing of everyone. ■

(320) B/Day 31/8/87

No change in alimony proposed

JENNY BOBERG

THE Margo commission has recommended logical, pragmatic and practical solutions to some of the most pressing problems confronting the SA economy, says the SA Institute of Chartered Accountants (Saica).

While Saica has been excited by its initial reading of the report, aspects of the report cause some concern. For one, no change in the system with regard to alimony was recommended.

"Alimony simply results in a portion of one person's income being deemed to be that of his or her former spouse. In view of the fact that a system of separate taxation for husbands and wives is proposed, it appears logical that the same principles should apply in the event of divorce."

The report also seems to fail to address the practical hardships caused by the current level of inflation, the institute says.

"Merely lowering the rates of tax and spreading the tax bands does not solve the problem of the average rate of tax increasing in times of inflation."

'Unwise for a developing country'

Margo's CB tax plan criticised

JENNY BOBERG

THE Margo Commission's proposed comprehensive business tax (CBT) will give government a licence to spend without regard to the health of the economy, says Price Waterhouse partner Chris Frame.

On the other hand, a tax on profit alone — profit is only a portion of the CBT formula — enforces some discipline on government spending. Unprofitable companies and those with assessed losses, both of which do not pay income tax, are more numerous during a recession.

Another danger, says Frame, is that a CBT will erode business capital because it is not based on the ability to pay. Rather, the State will be asking for money which business has not generated.

"To impose such a tax in a developing country, which is already short of capital, would be unwise," he says.

Hofmeyer Van der Merwe partner Henry Vorster says CBT could have a significant "disincentive effect" because it was not related to ability to pay.

"Those starting up a new business, for example, would have to increase their working capital in order to pay the CBT."

Kessel Feinstein partner Ernest Mazansky makes the point, however, that the thrust of the Margo report is a move towards indirect taxes. And these, by their very nature, are not related to the ability to pay.

Says Willem Cronje, Deloites Haskin and Sells partner and adviser to the commission, nobody had said CBT was related to ability to pay. Rather, it was based on the "benefit principle".

"Every business, even an unprofitable one, benefits from the infrastucture provided by government.

No business, profitable or not, could justify its existence unless it helped to pay for the resources it used.

the budget vote for the Improvement of Conditions of Service for 1987-88 and which still have to be finally allocated.

Annual reports

361. Mr K M ANDREW asked the Deputy Minister of Information:

(1) (a) How many annual reports were produced in 1986 by the Bureau for Information, (b) what was the cost of producing each such report, (c) how many copies of each report were printed and (d) who undertook the printing of each report;

(2) whether the printing of these reports was put out to tender; if not, why not; if so, (a) what was the (i) lowest and (ii) highest tender submitted, and (b) what was the amount of the successful tender, in each case;

(3) whether any copies of these report were sold; if so, (a) how many, (b) to whom, and (c) at what price, in respect of each report;

(4) in respect of each of the latest specified five years for which information is available, (a) what was the total cost to the Bureau of these annual reports, (b) how many copies were printed, (c) how many of these reports contained (i) full colour and (ii) black and white pictures, (d) on what quality paper were the annual reports printed and (e) (i) how many of these reports contained a photograph or drawing of the (aa) political head and (bb) top official of the Bureau and (ii) how many of these pictures were in (aa) colour and (bb) black and white in each case?

The DEPUTY MINISTER OF INFORMATION:

(1) (a) No annual report was published in 1986 by the Bureau for Information.

(b) to (d) Fall away.

(2) Falls away.

(3) Falls away.

Hansard 1/9/87

(4) The Bureau has not been in existence for 5 years. The first annual report (for the 1986 calendar year) was published in 1987.

(a) Cost of the Annual Report 1986: R10 425.

(b) 2 000 copies.

(c) (i) None.

(ii) None. The 1986 report contained three diagrams in two colours.

(d) Paper: 100 gm Dukuza matt.

(e) (i) (aa) (bb) None.

(ii) (aa) (bb) Falls away.

Amounts spent on Coloured/Indian education

392. Mr W J D VAN WYK asked the Minister of National Education:†

Whether his Department will furnish information on the amounts spent in respect of Coloured and Indian education in each financial year from 1982-83 up to and including 1986-87; if not, why not; if so, what amounts were spent in each of these financial years in respect of (a) Coloured and (b) Indian education on (i) wages and salaries, (ii) new school buildings and sports and other specified facilities, (iii) the maintenance of school buildings and sports and other specified facilities and (iv) other specified expenditure?

The MINISTER OF NATIONAL EDUCATION:

Yes, but only in as far as the information is included in the information system used by the Department for determining general education policy. For 1986/87 the following amounts were included in the budget:

(a) Coloured education: R1 173 619 000.

(b) Indian education: R525 110 000.

The information in respect of (i) to (iv) is not included in the information system referred to above.

1/9/87

WEDNESDAY, 2 SEPTEMBER 1987

Hansard

†Indicates translated version.

For written reply:

General Affairs: 2/9/87

School sport

180. Mr C J DERBY-LEWIS asked the Minister of Education and Development Aid:

What total amount was budgeted by the Department of Education and Training in the 1984-85, 1985-86 and 1986-87 financial years, respectively, in respect of school sport at (a) primary and (b) secondary schools for Blacks?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

The total expenditure in respect of sports facilities, sports apparatus, sports equipment and training of teachers as sports officials in Black schools during the respective financial years, is given below. The distribution of funds in regard to primary and secondary schools for the first two financial years, is unfortunately not readily available.

(1) Financial year: 1984-85 .. R3 522 552

(2) Financial year: 1985-86 .. R9 329 950

(3) Financial year: 1986-87 (Prim. R3 025 389; Sec. R3 565 165) R6 590 554

Total R19 443 056

Applications for admission to schools

220. Prof N J J OLIVIER asked the Minister of Education and Development Aid:

Whether, with reference to his reply to Question No 12 on 17 February 1987, any Black children applied for but were unable to gain admission to schools for the 1987 academic year; if so, how many in respect of each specified departmental region?

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The MINISTER OF EDUCATION AND DEVELOPMENT AID:

Yes, there were pupils who could not obtain admission.

(1) *Natal Region:* All pupils who applied for admission, were admitted.

(2) *Johannesburg Region:* All pupils who applied for admission, were admitted.

(3) *Cape Region:* All pupils who applied for admission, were admitted.

(4) *Orange Vaal Region:* 506 pupils did not gain admission.

(5) *Orange Free State Region:* 535 pupils did not gain admission. At Botshabelo, a total of 5 200 pupils applied for admission after the lapsing of period for registration and, consequently, could not obtain admission. The number mentioned above consists mainly of children from rural areas, who did not attend school before and have now moved in uncontrolled fashion to the more urban areas with their parents. These children could not be admitted as the existing accommodation was insufficient.

(6) *Highveld Region:* All pupils who applied for admission, were admitted.

(7) *Northern Transvaal Region:* All pupils who applied for admission, were admitted.

Cape Province: income tax Hansard

284. Mr C J DERBY-LEWIS asked the Minister of Finance:

(a) What amounts were paid in income tax by (i) Whites, (ii) Coloureds, (iii) Indians and (iv) Blacks in the Cape Province for the latest specified tax year for which information is available and (b) what were the actual amounts budgeted in respect of each such population group for that year?

The MINISTER OF FINANCE:

(a) (i) Whites......... R1 992 million

(ii) Coloureds...... R 238 million

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(iii) Indians .... R 13 million
(iv) Blacks .... R 16 million

(b) Estimates of tax collections are not budgeted for on a provincial basis or on the basis of population groups. The population groups of taxpayers are, however, recorded in the database, which makes it possible to state the amount of tax collected from each group.

OFS: income tax

285. Mr C J DERBY-LEWIS asked the Minister of Finance:

(a) What amounts were paid in income tax by (i) Whites, (ii) Coloureds, (iii) Indians and (iv) Blacks in the Orange Free State for the latest specified tax year for which information is available and (b) what were the actual amounts budgeted in respect of each such population group for that year?

The MINISTER OF FINANCE:

(a) (i) Whites.......... R500 million
(ii) Coloureds....... R 3 million
(iii) Indians .... —
(iv) Blacks .... R 12 million

(b) Estimates of tax collections are not budgeted for on a provincial basis or on the basis of population groups. The population groups of taxpayers are, however, recorded in the database, which makes it possible to state the amount of tax collected from each group.

Transvaal: income tax

286. Mr C J DERBY-LEWIS asked the Minister of Finance:

(a) What amounts were paid in income tax by (i) Whites, (ii) Coloureds, (iii) Indians and (iv) Blacks in the Transvaal for the latest specified tax year for which information is available and (b) what were the actual amounts budgeted in respect of each such population group for that year?

The MINISTER OF FINANCE:

(a) (i) Whites R5 462 million.
(ii) Coloureds R56 million.
(iii) Indians R70 million.
(iv) Blacks R130 million.

(b) Estimates of tax collections are not budgeted for on a provincial basis or on the basis of population groups. The population groups of taxpayers are, however, recorded in the database, which makes it possible to state the amount of tax collected from each group.

Natal: income tax

287. Mr C J DERBY-LEWIS asked the Minister of Finance:

(a) What amounts were paid in income tax by (i) Whites, (ii) Coloureds, (iii) Indians and (iv) Blacks in Natal for the latest specified tax year for which information is available and (b) what were the actual amounts budgeted in respect of each such population group for that year?

The MINISTER OF FINANCE:

(a) (i) Whites R1 050 million.
(ii) Coloureds R18 million.
(iii) Indians R174 million.
(iv) Blacks R13 million.

(b) Estimates of tax collections are not budgeted for on a provincial basis or on the basis of population groups. The population groups of taxpayers are, however, recorded in the database, which makes it possible to state the amount of tax collected from each group.

OFS: company tax

288. Mr C J DERBY-LEWIS asked the Minister of Finance:

What revenue was received in company tax from (a) White, (b) Coloured, (c) Indian and (d) Black-owned businesses in the Orange Free State in the latest

specified tax year for which information is available?

The MINISTER OF FINANCE:

The information is not available.

Company ownership cannot be established on racial lines since shares are held by all population groups, nor is it practical to apportion tax on a provincial basis.

Transvaal: company tax

289. Mr C J DERBY-LEWIS asked the Minister of Finance:

What revenue was received in company tax from (a) White, (b) Coloured, (c) Indian and (d) Black-owned businesses in the Transvaal in the latest specified tax year for which information is available?

The MINISTER OF FINANCE:

The information is not available.

Company ownership cannot be established on racial lines since shares are held by all population groups, nor is it practical to apportion tax on a provincial basis.

Natal: company tax

290. Mr C J DERBY-LEWIS asked the Minister of Finance:

What revenue was received in company tax from (a) White, (b) Coloured, (c) Indian and (d) Black-owned businesses in Natal in the latest specified tax year for which information is available?

The MINISTER OF FINANCE:

The information is not available.

Company ownership cannot be established on racial lines since shares are held by all population groups, nor is it practical to apportion tax on a provincial basis.

Cape Province: company tax

291. Mr C J DERBY-LEWIS asked the Minister of Finance:

What revenue was received in company tax from (a) White, (b) Coloured, (c) Indian and (d) Black-owned businesses in the Cape Province in the latest specified

tax year for which information is available?

The MINISTER OF FINANCE:

The information is not available.

Company ownership cannot be established on racial lines since shares are held by all population groups, nor is it practical to apportion tax on a provincial basis.

THURSDAY, 3 SEPTEMBER 1987

†Indicates translated version.

For written reply:

General Affairs: 3/9/87 Hansard

Text-books

182. Mr C J DERBY-LEWIS asked the Minister of Education and Development Aid:

What subsidy was paid by the Department of Education and Training in respect of the purchase of text-books for (a) primary and (b) secondary schools for Blacks in each of the latest specified three financial years for which information is available?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(a) 1984-85 .... R8 918 250,88
1985-86 .... R8 608 505,58
1986-87 .... R10 705 820,03

(b) 1984-85 .... R4 932 722,97
1985-86 .... R6 524 652,88
1986-87 .... R27 457 964,66

Note: The purchases of 1986-87 in column (b) also include prescribed books (literary texts).

Bands

308. Mr J H VAN DER MERWE asked the Minister of Defence:†

(1) Whether the South African Defence Force has any bands; if so, (a) (i) how many and (ii) what are they called, (b) how many (i) persons and

Hansard 3/9/87

CAPE TIMES 2/9/87 320

15% pay rise — 28% tax increase

PARLIAMENT. — For every 15% increase in private personal income, direct tax increased by 28%, the Central Economic Advisory Service said in its report tabled yesterday.

This increase in individual tax burdens came about through inflation and not as a result of real income growth.

"The adjustments that were made in the period 1972 to 1985 to tax scales, rebates and deductions, were therefore not sufficient to eliminate taxation through inflation."

These were the results of a study on the effects of fiscal drag on direct personal tax which the CEAS carried out for the Margo Commission.

"The average ratio between the growth in direct personal income tax and that in personal income, the fiscal drag, came to 1,87 for the period under review". — Sapa

320 2/9/87 B/Day

Government no to debate on Margo

CHRIS CAIRNCROSS in Cape Town

OPPOSITION politicians, and some segments of the private sector, are now getting the message that government is not prepared to provide any further platforms for a wide-ranging debate on the Margo Commission's tax report and recommendations.

More specifically, the Parliamentary Standing Committee on Finance is not going to be privy to what ever additional submissions are made in response to the Margo report.

As made clear by Finance Minister Barend du Plessis, any interested representative organisations wanting to react to the commission's recommendations must make their submissions in writing to his department by September 30.

Four days have been set aside in October for officials of the Department of Finance to invite further clarifying comment from some of those who have made submissions.

Immediate reaction is that Parliament is being excluded from participating in a debate on vital issues of tax reform — which are essential to the on-going broader arguments covering the economic reconstruction of SA.

Critics comment that this further demonstrates the extent to which Parliament is increasingly being distanced from the important decisions affecting the country.

PFP finance spokesman Harry Schwarz has been particularly critical at this exclusion, declaring last week that Parliament was being given no role whatsoever in reformulating SA's tax laws.

In a statement last week, Schwarz observed that all change was being effected by the executive and officials only — with the Margo Commission report being kept well to the bottom of the Order Paper in the House of Assembly and unlikely to come before Parliament for debate this session.

This, in effect, means government is not only opposed to the concept, but is also unwilling to provide time for debate.

Surprise

There appears to be no doubt government has already substantially formulated its response to Margo: it has, after all, had the report for all of seven months.

Given that time lapse, there was some surprise last week over why it was necessary to suddenly call Mr Justice Cecil Margo away from a Johannesburg seminar, where he was leading debate on the commission's report, in order to appear before the Cabinet.

The limited breathing space Du Plessis has allowed over September is being viewed as little more than an exercise aimed at gauging initial broad-based reaction to Margo's recommendations against which it can fine tune its own decisions.

Once this has been done by the Department of Finance, it will have to be ratified by the Cabinet and presented in the form of a White Paper, promised by the end of the year or the start of the next Parliamentary session in 1988.

Du Plessis and his officials are keeping their cards close to their chests, but it has become apparent there are considerable differences of opinion over several of the features raised by Margo.

These relate, among others, to the new comprehensive business tax (CBT) — the linchpin of Margo's package — the replacement of the two regional services councils levies by a single CBT-type levy, the separate taxation of married couples and the desirability of the public service setting the pace in the elimination of fringe benefits.

Margo and his fellow commissioners have, since the release of the report, regularly emphasised that their recommendations take the form of a comprehensive package — which would lose all cumulative benefits should it be accepted in piecemeal fashion.

But concern is being voiced that this is exactly the way government seems likely to respond.

Indications are that it is most unwilling to affect the necessary changes to the RSC levy structure recommended by Margo. Nor is it much taken by the recommendation that dividends be tax free in the hands of the shareholder. And there remain substantial differences over the merits of separate taxation, and not least about CBT.

Political commentators concur that concensus may probably not be possible on all the issues and points raised or proposed by Margo.

But they do believe it could be fruitful to permit the Standing Committee on Finance to freely discuss the report.

Fears of labour relations backlash as black taxes rise

2/9/87 STAR

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By Michael Chester

The number of black workers drawn into the income tax net could jump to one million this tax year, and the annual tax burden on blacks will rise above R1 000 million next year unless the Government makes tax reforms.

The Association of Chambers of Commerce has joined economists and management consultants in voicing concern over possible damage to industrial relations if tax is singled out as a new threat to black advancement.

"The basic danger to labour relations is that many black workers will feel cheated as the taxman takes a growing cut out of every pay increase they are awarded", says Miss Naomi Brehm, salaries survey manager of P-E Corporate Services.

Dr Azar Jammine, director of the Econometrix research unit, agrees the bite of income tax on pay packets threatens to throw labour relations into turmoil.

Tax consultant Mr Nic Nel says: "Many blacks will see no logic in being forced to pay income tax when they have no political voice in decisions on how the tax system should operate."

WORKERS

Dr Jammine finds that the number of black workers hit by income tax since they were brought into the pay-as-you-earn system in 1984/85 has soared from 121 000 in 1985/86 to 658 000 last year — and looks likely to swell to one million in this tax year.

The tax load carried by black workers grew from R115 million in 1985/86 to R400 million last year, and is estimated to be about R700 million for 1987/88.

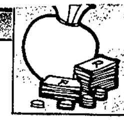
Dr Jammine lays the blame for dissatisfaction squarely on the impact of fiscal drag, which draws more and more black workers into the income tax net.

"It has become crucial that the Government accelerates the tax reform programme and takes action in the next Budget to cut income tax rates, lift the tax threshold, and reduce the sharpness of the curve in marginal tax rates," he says.

Assocom chief executive Mr Raymond Parsons says the spread of the income tax net to hundreds of thousands of black workers "adds a new dimension to the urgency of tax reform".

He adds: "Apart from obvious relevance to economic growth, productivity and the brain drain, tax policy is now also a growing factor in labour relations.

"In the past, taxation has tended to be the prerogative and concern of the white population. This is no longer so. All population groups now have a stake in a sound tax system."



Margo and tax avoidance

Pierre du Toit is a chartered accountant and advocate. He is a partner with Arthur Andersen & Co.

A new Comprehensive Business Tax (CBT), GST a real retail sales tax at only 4%, no individual tax on dividends, RSC levies replaced — these are only some of the matters of fundamental significance on which the Margo Commission made recommendations.

Some of these may never find their way to the statute book. But there were recommendations, not part of the grand debate, discussed only by the initiated and the frontline taxpayers; ones which are less dramatic, but far more likely to become law. A number are recommendations for anti-avoidance measures.

One of the most significant is for a general anti-avoidance provision to be introduced into all fiscal legislation. At present there is no such provision in the Stamp Duties Act, Transfer Duty Act, or Sales Tax Act.

Anti-avoidance provisions must be seen against the fact that no tax legislation can foresee all eventualities, and will therefore always allow some situations where the intended result of taxability is not achieved.

Typically these gaps in the law are eventually filled in one of two ways:

- The courts (as in the UK), where tax laws are interpreted in a manner which helps the legislation achieve its objective; or
- Legislation of a general anti-avoidance provision.

The taxpayer favours the legislative route. It's hard to disagree with that. On the other hand, the legislative option can introduce as much uncertainty unless it is very specifically and even narrowly worded.

After all, a general anti-avoidance provision must not become the catch all safety net for a shoddy legal draftsman. One hopes that any general anti-avoidance provisions introduced into the fiscal statutes referred to above will not lose sight of the legislator's basic responsibility in the first place to draft effective legislation.

It is also as well to remember that, as long as we talk of legal tax avoidance, it is better to let a few "get away" than to "catch all" through a system so tight that it smothers the process of wealth creation.

An example of the latter danger may be the commission's recommendation that a successful Section 103 attack should give rise to an interest charge against the taxpayer, calculated retrospectively. On the face of it, it looks very reasonable. If tax avoidance will not be allowed, why should the taxpayer have had the benefit of the funds in the interim?

Yet more is at stake. A general anti-avoidance measure is a serious deviation from the basic principle that while the legislature prescribes so the subject must adhere — but then he is also entitled to claim the protection provided by the parameters of what was prescribed.

If substantive law is no guide to a taxpayer's rights, anything beyond should be severely restrained. To charge interest on what was in accordance with that substantive prescription in the first place denies the restricted role legislation, beyond the specific, should play, and loads the dice against the taxpayer.

Ministerial announcement

The commission recommends further that, where a particular tax avoidance becomes prevalent, the Minister of Finance should be able to do something while parliament is not in session. This, it proposes, should be done through a ministerial announcement of intended counter-legislation — but that it should be done in the precise form it would take through parliament. This recommendation would be an important improvement.

Another general proposal relates to tax shelters. The commission recommends that an "at risk" rule should be added to the Income Tax Act. By such a rule, a taxpayer may deduct losses or allowances from a particular activity only to the extent that he accepted real risk.

While such legislation should be precisely worded and not affect transactions concluded before the effective date, this method of combating tax shelters is to be preferred to so-called "ring-fencing" or "quarantining."

The latter approach, which ends up in one taxpayer having several non-interchangeable trades for tax purposes, makes for great complexity. We have several examples (leasing, mining, farming and aircraft rentals, among others), which should be removed.

The chapter in the report which deals with avoidance (Chapter 27) unfortunately deals also with evasion. At times, one feels, recommendations do not distinguish sufficiently between the two — the difference after all being as large as that between a criminal and an honest man.

This is clear from some recommendations which, if restricted to evasion, would be warranted but if applied to avoidance may further undermine the rule of law in our tax system. There is, for example, a recommendation that names of "defaulting taxpayers" be published.

While this would indeed be powerful and warranted in the case of evasion, the term "defaulting" (used in the same sentence in which evasion is referred to) would have to be carefully defined and exclude avoidance.

Failure to do so would not only unjustifiably infringe the almost universal principle enshrined in the secrecy provisions of the Income Tax Act, but amount to blackmail against taxpayers who exercise their right within the law to reduce their tax burden.

It is also recommended that more use should be made of information from other sources such as payers of interest, or the exchange control authorities. Again, this suggestion, warranted in many cases, should be treated with restraint and awareness of its Orwellian potential.

For example, the reference to the passing on of evidence, at the instance of the court, in divorce cases should be considered carefully and, if implemented, restricted to clear cases of evasion. Apart from the fiscal principles, such a procedure would touch on important issues of a citizen's right of access to the courts without fear of extraneous exposures.

In addition to general anti-avoidance measures, the commission made several specific recommendations. These include that business (trading) trusts should be taxed like companies, and that partnerships must have assessment periods not exceeding 12 months.

Many of these are likely to be legislated without much delay. Taxpayers will do well to consider their practical impact even while participating in the debate on more theoretical issues arising from the Margo report.

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BUSINESS

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Deferred tax: it can't be ignored

Although many tend to ignore deferred tax in their assessment of company performance, it does have implications for calculating both net assets value and earnings a share. Here, in the last of a two-part series, analyst JOHN WIXLEY examines the issue in the light of Rusfurn's new approach.

TO THE average reader (and even the professional analyst) of financial information, deferred tax is something which cannot be understood and which is thus best avoided.

It is usually excluded from the gearing ratio calculation — which is acceptable if one takes the view that the deferred tax will never be paid. But ordinary shareholders' funds should not then be used to calculate the net asset value per share, since this implies that deferred tax is a liability.

The tables below illustrate the significance of deferred tax in calculating both net asset value and earnings per share in the furniture sector. Previously, analysts sought comfort in the fact that all companies in the sector treated it in the same way. Rusfurn's use of the "partial" method has forced them to take a stand on one or other side of the deferred tax fence, and to tackle the question of whether it really is a liability. For example, if the increase in World Furnishers' deferred tax balance over the past 25 years indicates that most of it will not become payable in the foreseeable future, then, based on net asset value, the share would seem to be underpriced.

In Rusfurn's case, the prospectus for its June listing did not disclose what the deferred tax balance would have been, had current accounting practice been complied with. This is an unfortunate omission on its part, since the conservative investor (who wants to treat the full amount as a liability) has no means of calculating an alternative net asset value per share.

Nonetheless, Rusfurn does appear to be better insulated than the other firms against imminent payment of its deferred tax. Its incorporation in November last year wiped the tax slate clean (with the exception of Dions, which had R28,2m in assessed losses at June 30) and it will take some time before the debtors book reaches maturity. "Some time" is forecast by the directors as being at least six years hence.

As the tables show, Rusfurn's earnings per share declines dramatically when deferred tax is reinstated — so it is no surprise that the other companies in the sector are up in arms. An investor may then well ask, how conservative is the prospectus forecast of 11,1c? That of course, depends on the length of his investment horizon and his views on ultimate payment of the deferred tax. If he is of the opinion that it will not be paid in the "foreseeable future", 11c is the most appropriate basis for evaluating the company's prospects over that period. Whether 11c is "conservative" or not is, thus, entirely subjective.

Zelda Zaayman, analyst for J D Anderson, feels if Rusfurn maintains the same dividend cover, immediate comparability of both dividend and earnings yields in the sector will be lost. But the contrary view is that if a company in Rusfurn's situation does not expect to pay any tax, why should a higher level of earnings not support larger dividends?

As for a removal of the Section 24 debtors allowances by the Margo Commission, the massive amounts which could become payable (Ellerine — R46m) would seem to preclude this. It would surely sound the death knell for a sector which is still trying to forget "Black Friday" after the 1984 austerity measures, and would not be consistent with the government's lip service to reform, since its customer base falls primarily in the low-income bracket.

In short, the note of warning is that while complete elimination of the deferred tax balance may be appropriate to Rusfurn's circumstances, it need not necessarily be so for the rest of the furniture sector. And whatever conclusion the market comes to, the deferred tax controversy must leave its mark.

399-CANVAS GOODS

Superceding w.d. 1

AREA A Durban, In

AREA B Bloemfontei

AREA C Klip River.

'No delay' in taking action on Margo Report

SAT Times 4/9/87 (320)

From CHRIS CAIRNCROSS

JOHANNESBURG:- Finance Minister Barend du Plessis gave strong assurances last night that the government has no intention of putting the Margo Commission's report on the shelf to gather dust.

The handling of the commission's report and its recommendations are to be treated with the utmost urgency, Du Plessis promised.

Reacting to concern expressed in the media and from the private sector that Margo could end up the same way as most other similar tax commissions, Du Plessis outlined action that will be taken in coming weeks.

He said Mr Justice Cecil Margo and certain of his fellow commissioners are alrerady conducting a series of countrywide seminars to explain the report;

A special task group from the Department of Finance, under the chairmanship of director general Chris Stals, is conducting an urgent study with the purpose of preparing proposals for the Cabinet and two further investigations proposed by the commission are to be embarked upon. The task group will be giving especial attention to any new submissions made between now and September 30 by any interested parties.

Du Plessis said it was necessary that these recommendations should be dealt with during October and November, so that the Cabinet can come to a final decision over what is acceptable to the government.

A White Paper will follow setting out the government's views, and should be published some time in February so that it can be tabled in Parliament as soon as possible.

Du Plessis said that as soon as government has reached its final conclusions in November on what tax reform proposals it is prepared to accept, his department will immediately start preparing the White Paper and any legislation which may be necessary.

He stressed that it will not be possible for any likely tax legislation flowing from Margo to be debated in Parliament before 1988.

That means it will only be discussed towards the end of the financial year, and any changes will only be introduced over the following year.

Du Plessis reiterated his assurances there will be no dragging of heels over tax reform emanating from Margo.

But, he said, every opportunity will lso be provided to allow comment on any further investigations undertaken.

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FM 4/9/87

JEWELLERY TAX

Margo opens doors

The Jewellery Council of SA (JCSA) has warmly welcomed a recommendation by the Margo Commission that the 35% *ad valorem* tax on jewellery manufactured in SA be scrapped. Jewellery manufacturers have long maintained the tax effectively hobbles the industry by making its products uncompetitive.

JCSA executive director Tim Davidson says Margo's recommendations are in the "wider interests of promoting a thriving local jewellery industry. Increased taxed profits would, in all probability, more than compensate for the loss in revenue to the State," he asserts.

While he concedes that not all Margo's recommendations will necessarily be implemented, and that even the application of those accepted is probably still years away, the fact that an independent commission has made this submission gives industry calls to scrap the tax added clout.

Council for Mineral Technology (Mintek) chairman Aidan Edwards also strongly supports the move to scrap the *ad valorem* tax. He has long argued that the jewellery manufacturing sector should be expanded so that the country could reap the benefits of adding value to its own gold and diamond resources, rather than simply exporting it in raw form.

The Margo Commission submission, coming only a week after Mineral and Energy Affairs Minister Danie Steyn announced government's 10-year plan for local beneficiation of the country's minerals, must give added momentum to moves to have the tax scrapped. This now also forms part of a separate government inquiry into the future of the jewellery industry.

While SA produces some 50% of the world's gold and, through De Beers' Central Selling Organisation, controls nearly 80% of the international diamond trade, the country accounts for a mere 0,5% of the world's massive, multi-billion dollar jewellery trade.

Apart from its huge stake in gold and diamonds, SA also controls 80% of all known platinum reserves, yet it is Japan that produces the bulk of platinum jewellery. The reason is simple enough: a Johannesburg jeweller maintains that locally made jewellery, on average, retails at 50% above overseas products once GST has been added.

Countries as diverse and far afield as India, Israel, Belgium and Italy earn billions every year from cutting and polishing diamonds and manufacturing jewellery, while the local industry languishes.

According to Edwards, the status quo is not only a historical relic, but also reflects SA's "colonialist" mentality. "We've grown too used, over the decades, to being an exporter of raw materials. It is time we followed the example of newly industrialised countries like Taiwan, South Korea, Singapore and Hong Kong and build on our strengths to create an industrial base."

Sterns Diamond CE Gordon Smyth concurs. He also welcomes the suggestion by MP Sheila Camerer that overseas investors be encouraged to make Johannesburg the jewellery capital of the world. "The financial rand should be exploited for this type of investment," he says.

"The day government abolishes the tax is the day Sterns will move into jewellery manufacture. It is absurd that an island like Hong Kong, no bigger than Johannesburg, produces as much jewellery in a week as we produce in a year — and they don't even have the raw materials. We could have a major jewellery manufacturing business here and move heavily into exports," he adds.

Using hypothetical figures, Smyth says government should appreciate that it could raise more tax off a large base of say R50m at a lower rate, rather than using a high tax rate of 35% on a narrower base of say R500 000.

The ball is now clearly in government's court. With Steyn's clear support for mineral beneficiation already on record, it would be unwise to delay the scrapping of the *ad valorem* tax much longer. ■

FM 320 4/9/87

TAXATION (320)

The package ideal

Perhaps the main issue associated with the future of the Margo report on tax is the extent to which it is inviolable. The report said that its main package, which would introduce a Comprehensive Business Tax (CBT) to enable the abolition and reduction of most other taxes, must be accepted in full or not at all.

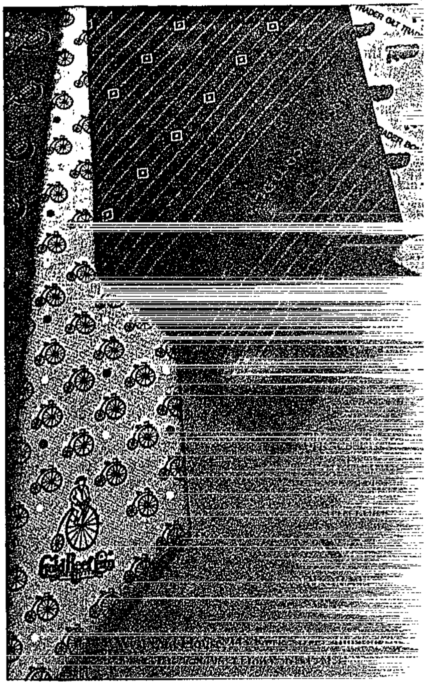
If rejected, Margo recommended an alternative package, which would replace GST with an invoice value added tax. Given that nothing in Margo is prescriptive, can its recommendations be taken out of context and implemented piecemeal or ad hoc?

The answer would appear to be "yes" in theory but there are dangers if this were to happen. Given, as Margo clearly states, that tax reform does not mean tax reduction, its recommendation to move towards broad-based low-rate taxes is politically and economically acceptable on its own.

Such taxes are intended to allow a reduction in other taxes generally regarded as a disincentive to work and productivity.

Taxes on business, such as CBT, would change the "visibility" of tax. And, as Deloitte Haskins & Sells' Trevor McGlashan notes, introducing a CBT — which would be built into the price of commodities purchased — would reduce the resentment that accompanies the "add-on" system of GST.

One possible disadvantage is that SA's many unsophisticated traders will need substantial education on how to calculate CBT, as opposed to GST. This should be seen in the light of Margo's recommendation for better communication and PR between Inland Revenue and taxpayers in general.



McGlashan raises the proviso: can Margo's package survive if tampering is allowed? A CBT would help fund the loss of revenue arising from, for example, the separation of husbands and wives for taxation purposes.

As the rate of CBT goes up, so the rate of GST is supposed to come down. And the abolition of some tax expenditures should increase the tax base and therefore allow low rates of income tax. Capital transfer tax would take over from estate duty and donations tax.

"Margo," argues McGlashan, "was intuitive in presenting recommendations in package form — but perhaps it was a little too clever. Either the package as a whole will be unacceptable, or there will be so much tampering that in the end it will no longer look as originally intended."

Simply put, this could mean the introduction of new taxes without sufficient reductions in existing ones.

If this happens, taxpayers could again find themselves in the well-known position of high tax rates and more taxes. ■

320 F/M 4/9/87

'Taxpayer milked for state pensions'

(320) BDay 4/9/87

CHRIS CAIRNCROSS

CAPE TOWN — The taxpayer was being milked to feed the civil service and there were no signs government was preparing to repay the debt, former Sanlam chairman Andreas Wassenaar told the Cape Town Press Club yesterday.

Government had failed to respond to renewed calls for an intensive investigation into the affairs of the public sector's pension funds, on which he had focused attention, said Wassenaar.

The control of these pension schemes fell under National Health and Population Development Minister Dr Willie van Niekerk, who failed this week to respond adequately to serious concern expressed during his vote in the House of Assembly.

His only reference to the issues raised was to declare there was no need for concern over the short term state of the civil service pension fund because its income easily exceeded its expenditure.

Van Niekerk said interest alone accrued by the pension fund amounted to R1,3bn, while expenditure was about R200m.

He was roundly castigated by opposition spokesmen who described his response as misleading and totally unacceptable.

Van Niekerk's subsequent statement that a new investigation is to be launched into the establishment of a pension provision system for all in SA — shaking off the dust of a similar investigation undertaken some years ago by the Meiring Committee — has also been greeted with disdain.

Government was fiddling with an issue when its main concern should be to focus on the dubious circumstances surrounding the state pension fund, it was argued in Parliament yesterday.

Roger Burrows (PFP, Pinetown) noted that fears were not over the short-term future of the civil service pension fund, but over its long-term viability.

He welcomed the fact that buy-back terms which apply to state pension schemes are to be reviewed.

● See Page 5

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4/9/87

EVENING POST, FRIDAY, SEPTEMBE

SA taxpayer 'milked' by Government

CAPE TOWN — The taxpayer was being milked to feed the public service and there were no signs that the Government was preparing to repay the debt, Mr Andreas Wassenaar, former chairman of Sanlam, told the Cape Town Press Club yesterday.

He said 21,9% of taxes were being taken to pay the men employed by the public service and 16,5% to pay the women.

The national debt, since the withdrawal of overseas funds from South Africa, was being financed from borrowings, he said, and each year the borrowings were growing.

Future generations would have to pay for the money being borrowed now.

Nowhere was this better demonstrated that in the public service pension fund.

The Government pension fund retained consultant actuaries until 1976, when they were able to buy back pensions to age 25.

In 1977 this was changed to 18 and in 1980 it was changed to 16 "when most of them were sitting on school benches", Dr Wassenaar said.

When consultant actuaries were employed, the basis of pension was the average salary over the last seven years of service.

This period was reduced to three years.

Then in 1981 this was changed, after dispensing with the consulting actuaries, to the last working day, but after protest this was changed back to three years.

This was open to vast manipulation which, he was sure, was being exploited and which would continue.

"Why were the actuaries removed? Did they do their job too well?" he asked.

Should his complaints be investigated, the State President would ask his Minister of Finance to carry out the investigation.

"The Minister, being as qualified as he is for the job, would seek advice from his department."

What sort of advice did one expect from a department which had not raised this issue before, because it was their duty to raise issues of this sort, Dr Wassenaar said.

"Balanced budgeting is not likely to happen under this Minister of Finance," he said.

"What sort of pension fund was it that paid 117% of their last year's salary to pensioners?

"What pension fund paid pensioners more than they earned while they were working?"

When the problems of the cost of the public service and its pension fund were pointed out to the Minister of Finance, he met it with a "deafening silence".

He hoped that if he ignored a problem, it would go away, he said.

"As with that birthday party song they hope 'rain, rain go away, come again another day'.

"Well, it will come back."

Asked from the floor what the future of the tricameral system was, he said the Afrikaner had made two great surrenders: "The first was at Vereeniging.

"The second was the admission by a Government Minister that 'we are on the wrong track' and the third will be the abandonment of the tricameral system." — Sapa

Minister pledges speed on Margo

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B/day 4/9/87

CHRIS CAIRNCROSS

FINANCE Minister Barend du Plessis gave strong assurances last night that the government had no intention of putting the Margo Commission's report on the shelf to gather dust.

The handling of the commission's report, and its recommendations, were to be treated with the utmost urgency, Du Plessis promised while opening the new Multiflora fresh flower market in Johannesburg.

Reacting to concern expressed in the media and from the private sector that Margo could end up the same way as most other similar tax commissions, Du Plessis outlined four initiatives that would continue in coming weeks:

- Justice Cecil Margo and some of his fellow commissioners were conducting a series of countrywide seminars to explain the report;
- A special task group from the Department of Finance, under the chairmanship of Director-General Chris Stals, was conducting an urgent study to prepare proposals for the Cabinet;
- Two further investigations proposed by the commission were to be embarked on;
- The task group would be giving special attention to any new submissions made by any interested parties between now and September 30.

Du Plessis said it was necessary that these recommendations be dealt with during October and November, so that the Cabinet could come to a final decision over what was acceptable to the government.

A White Paper would follow, setting out the government's views, and it should be published some time in February so that it could be tabled in Parliament as soon as possible.

The Minister said that as soon as gov-

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Minister stalled — Potwa

4/9/87 B/day

ALAN FINE

POST Office and Telecommunications Workers' Association (Potwa) president Vusi Khumalo said yesterday pressure was exerted on Home Affairs and Communications Minister Stoffel Botha by senior Post Office management and Potwa to approve the agreement which resolved the strike by Potwa members.

He said finalisation of the agreement was delayed from about 6pm on Wednesday to 3.30am yesterday because of Botha's reluctance to approve the deal. At one stage there were serious fears the settlement attempt would fail.

Botha could not be r

ment, but chief PO negotiator, Deputy Postmaster-General Johan de Villiers, said it was unfair of Khumalo to blame the Minister for the delay.

"The Minister was consulted from time to time, but he was only a small factor. Khumalo should rather blame me. It was a difficult meeting and there were other delays, such as Potwa arguing for an hour over a single word," he said.

Khumalo said in his opinion top PO

Tax report 'will not gather dust'

From Page 1

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ernment had reached its final conclusions in November on what proposals it was prepared to accept, his department would immediately begin preparing the White Paper and any legislation which might be necessary.

He stressed it would not be possible for any likely tax legislation flowing from Margo to be debated in Parliament before 1988.

This means it will be discussed only towards the end of the financial year, and any changes will be introduced over the following year.

MARGO COMMISSION

Sifting the mixed signals

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The celebrated Margo Commission has attempted to present government with a *fait accompli*: either it accepts one of two alternatives or nothing of its main tax proposals. Whether Pretoria feels obliged to accept this will become clear when it eventually publishes its White Paper.

Certainly there is much in the report that will reduce substantially some of the tax anomalies that burden the present system. And this tends to suggest that a piecemeal approach might have some merit. But the proposals are enormously complex and this too needs to be evaluated very carefully.

More to the point is whether Pretoria's reaction, in the forthcoming White Paper (WP), will depart substantially from Margo's main recommendations. Tax reform of any kind is complex enough to permit the WP to adopt what could turn out to be a stand diametrically opposed to Margo.

The next important tax event will be when government eventually produces its White Paper on the Margo Commission's controversial tax proposals. In drawing it up, government should be guided by certain tax principles that appear to have escaped the commission.

The main thrust of the report is to cut unpopular taxes that are of a high visibility — those imposed directly on consumers — and to finance this reduction by the proposed new Comprehensive Business Tax (CBT). This appears to be a sleight of hand, as Margo argues it is easy to pass on — forward to consumers, and backward to various suppliers. The implication from that is CBT is not a business tax at all but a consumer tax disguised as an impost on business.

Be that as it may, in its present form the CBT is a definite disincentive to business and will distort the optimum allocation of resources. So ultimately workers would be paid less, customers would pay more, and shareholders receive less. The *FM* believes Margo's insistence on the centrality of the CBT is damaging to the interests of the taxpayer.

Margo reinforces a desire for "invisible" or cloaked taxes by recommending that if the CBT is not acceptable, GST must be replaced by a value added tax (VAT), universally "added-in" to the cost of goods. It would then not be so easily perceived as a burdensome form of taxation.

This attempt to cloak real intentions also runs against the interests of the taxpayer. As justice must be seen to be done, so tax must not only be paid, it must be seen to be paid. Anything less undermines the integrity of the tax system and will eventually have political as well as economic implications. The concept of "tax votes," which Margo did not dwell upon, but which has grown in popularity since the Second World War (when tax burdens rose to reflect growing social security policy commitments), makes clear that taxpayers should know the quantum of tax they pay.

What the *FM* would like to see is a movement towards a dual system:

☐ A personal tax based on cash flows; and
☐ A consumption tax, like GST, imposed at the point of sale.

With such a system there would be less incentive to cheat. Both taxes would be highly visible, provided GST is retained on an "add-on" basis. GST would remain an indirect tax, the poor paying the same rate as the rich. The personal cash flow tax could be either an indirect or a direct tax: a direct one could be progressive so that the rich would pay more, proportionately. There are economic disadvantages to progression which, for the sake of argument, we will not deal with here.

The advantages of cash flow taxes are many. They are easy to measure (unlike income, which has never been defined in our law); and people only pay tax if they have the cash for it — a far cry from many cases under income tax law. Moreover, cash flow taxes can be easily applied to the business sector — should that be deemed necessary.

To achieve this, how far would the WP have to depart from Margo? The report provided Pretoria with two packages. The "main" one relies on the CBT which would be used to finance the reduction in some taxes and the abolition of others. The "alternative" package, which assumes the CBT is not acceptable, calls for GST to be replaced by VAT.

In its simplest form, Margo should be seen as a report divided into three conceptual areas: tax reform, removal of tax anomalies and the administration and collection of taxes. Fundamental tax reform, as an

Tax expert Vorster . . . the report doesn't measure up

issue, was ducked.

However, it deserves high praise for highlighting dozens of anomalies in the current tax system. Examples include the double taxation of dividends; the lack of an overall tax-avoidance provision in fiscal law; joint taxation of married couples; and the illogical tax advantages of the *inter vivos* trust.

On the question of administration and tax collection, an Inland Revenue spokesman says Margo's findings could be implemented "without further ado." The result would be that Inland Revenue would have to run a more open house; taxpayers would know how they're being assessed; more efficient inspections would garner more tax; and legislation could react more readily to market developments. The days of areas of tax law being run on principles enunciated in a case 60 years old would be over.

Both taxpayers and government would like to see anomalies thrown out the window. It could be noted in passing that a single-man commission sitting for a 10th of the time it took Margo would have uncovered all the same anomalies, and faults in administration and collection. However, there remains a wealth of good sense in the report and we would not wish to denigrate the commission on this score. The next step in the process, since tax reform is more a question of political will than anything else, is getting changes into the statutes.

Margo's chances of political acceptance appear to hinge on two issues. Firstly, the question of whether his package — with the CBT as its cutting edge — is meant to be accepted in full, with no other reform going ahead unless it does. Unfortunately, the question is both valid and moot: Margo was an advisory body. Government can accept and implement what it chooses.

Secondly, complex political issues surrounding tax, and other economic issues, bear directly on the relevance of the report.

With its emphasis on the "invisible" CBT and VAT taxes, Margo can be interpreted as a clever political ploy — as sidelining the issue of how much tax is raised and how relentless government spending can be.

It should not be forgotten that the taxpayer is not as sophisticated as many believe. To the average man, tax is something deducted from his remuneration and something he pays when he buys some goods. He is not tax literate.

Those who are tend, like voters in a democracy, to congregate in lobby groups representing their specific interest. Some perceptive commentators on Margo have noted, for example, that the package is highly attractive to the growing trade union movement because business appears to have to carry the tax can (although Margo says it will merely pass it all on).

If this be the thinking behind Margo, the WP, if it is to be responsible to the taxpayer, should in principle reject the CBT. It should move toward a personal cash flow tax that encourages saving and penalises spending; it should retain GST and refine the collection process to allow for a fall in the overall rate. Simply put, it should deviate substantially from Margo's recommendations on new taxes and it could do so within the general ambit of the commissioner's desire to move towards lower direct taxes and broader based direct taxes.

After all, as tax expert Henry Vorster argued in a seminar with some of the Margo commissioners, the report does not measure up to the primary canons of taxation: simplicity, equity and neutrality. We would agree with Vorster that Margo was not a "taxpayer's report."

For example, Margo recommended that the present draconian powers of the Commissioner for Inland Revenue and his inspectorate should be *increased*. This can be contrasted with a circulating US Bill that would reduce the powers of that country's tax authorities.

But most important of all, we would like to believe that the WP will be responsible enough to recognise a constitutional limit on government spending as a percentage of GDP. It may be remembered that California's "tax revolt" was based on the most prominent feature of Proposition 13 — that a constitutional limit be placed on the rate of tax on real property.

It was probably this feature more than any other that insured the overwhelming success of the proposition. Voters could predict the results.

Unless constitutional limits are placed on all rates of tax, there is no assurance that the overall level of taxes will be reduced. If the WP opts for a twin system of a personal cash flow tax, and retains GST, *and* limits rates through law, it would have achieved all Margo so admirably set out to do, and more. ■

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Govt spending 'hampers tax reform'

7/9/87

CHRIS CAIRNCROSS

GOVERNMENT expenditure has become the "Achilles heel" of any meaningful tax reform in SA.

That, in a nutshell, sums up one of the more important conclusions flowing from the various public debates now taking place around the Margo Commission's tax report, suggests Raymond Parsons, Assocom chief executive.

Tax reform will be manifestly incomplete if no limit is placed on tax as a percentage of GDP, he adds, echoing comments expressed elsewhere over the past two weeks.

A further reinforcement of this view comes from tax consultant Michael Stein who, at a seminar on Margo in Cape Town last week, described government's penchant for spending as the "root of evil".

The commission's brief specifically excluded government expenditure, a factor which is now being construed as the most glaring defect in the entire 500-page report.

This criticism has been labelled as unjust by Finance Minister Barend du Plessis. He gave two reasons in Parliament on Friday why Margo was not asked to look at government spending:

- It would have meant the commission taking far longer over its investigation;
- Government is already involved in a process of designing and using management instruments to get to grips with its expenditure.

"We believed there was a more important need to urgently get to grips with tax reform," Du Plessis added.

Margo has received its share of praise over the past two weeks: the three-year investigation has been described as probably the most comprehensive analysis ever undertaken.

But this praise has often been accompanied by the observation that tax commissions around the world have a poor record of acceptance by those governments that appointed them.

The perception already exists that Margo is destined to go the same way, despite strong assurances from Du Plessis that he has no intention of allowing the commission's report to gather dust.

It is generally thought unlikely government will accept either of the alternative packages in full and that a piecemeal response will be adopted.

(320) Sowetan 8/9/87

FOCUS

Tax drain on SA economy

Economist LYNN PIKHOLZ today looks at the implications for the South African economy of the Margo Commission's recommendations to lower taxes.

ONE of the main reasons for the economy's decline in the past decade has been the rising tax burden.

Since the late 1960s the Government's participation in the economy, particularly its spending, has been rising sharply.

The rise in Government spending goes hand in hand with a sharp rise in taxes which is used to finance it.

There has been an especially close relationship between the upward trend in Government spending and trends in direct personal taxation.

This has contributed to a decline in personal disposable income and personal savings as well as to a very slow growth in consumer spending.

The increase in taxes means that there has been a growth in consumer spending.

The increase in taxes means that there has been a growing transfer of economic resources from the private sector to the public sector. We are completely reliant on the Government to use its discretion where the funds are to be spent.

Hampered

Spending on housing, education, infrastructure and other basic needs are very much a necessity in a developing country and is fortunately a growing Government priority.

Government expenditure (financed by taxpayers) on defence, high public servant salaries and pensions and so on are more controversial issues.

The favouring of certain vested interest groups like mines which pay relatively low taxes and farmers who receive disproportionately high subsidies (for example, controversial maize subsidy) tend to distort markets and often inflate prices.

High taxes and special allowances to various interest groups have resulted in much tax avoidance, evasion and distortion.

Our present tax system is extremely inefficient leading to an inadequate tax base and inefficient tax collection.

It has discouraged entrepreneurs and encouraged the tax-avoiding informal sector. In short it has severely hampered economic growth.

The linkage between lower taxes and higher growth rates has been validated by a study of taxes and economic growth undertaken by the World Bank.

Lower taxes have encouraged a more rapid expansion in investment and productivity as well as showing a better employment performance. Lower taxes impact on the aggregate supply of the factors of production and also affect the efficiency of resources utilisation.

Already 10 industrial countries overseas have given way to tax reforms to foster econimic growth.

The Margo Commission addresses the problems in our tax system with the ultimate aim of creating tax reforms which allow economic decision-making to take place for economic reasons rather than tax reasons thereby encouraging the efficient use of resources towards growth in the economy.

Simply put, a tax system must finance expenditure adequately and fairly without stifling the creation of wealth. This induces a situation of conflict when one considers not only the active encouragement of wealth creation, but the very distribution of that wealth is crucial in South Africa.

Regressive

The Margo Commission addresses the creation of wealth rather than its distribu-tion which it leaves to Government. A clear example of this is the income tax conces-sions for individuals which aim at boosting the capacity and motivation for the entrepreneur towards economically productive activities.

The separate taxation of husband and wife is also to be welcomed by married couples and encourage economic productivity. Although not deal-ing in wealth distribution directly, the commission's recommendations do to some extent facilitate it.

An example of this is the suggested lessening of GST from 12 percent to four percent. GST is a regressive tax as it is not in accordance with one's ability to pay. It is a flat rate on consump tion and thus obviously would assume a higher proportion of a poorer person's income.

GST has been the fastest growing source of revenue to Govern-ment since 1982 followed closely by personal taxation. The reduction in GST is to be welcomed although its inclusion of basic food items which were previously tax-exempt will hit the pockets of lower income groups.

The revenue collect-ed from a lower GST will be partially compensated by a broadening of its base (with food included) and hopefully less distortion.

The tax burden has been largely shifted into the business arena in the form of a comprehensive business tax (CBT). It should not be seen exclusively as a tax on business as one can be sure that business will "shift the tax" both forwards onto consumers and backwards onto the suppliers of capital and other factors of production.

Always well hidden is the effect inflation has on taxes. This fiscal drag or bracket creeps as it is called causes one to land up in a higher income tax bracket and therefore pay higher taxes without a real rise in income.

It constitutes a big source of revenue to the State which is never stated. This subtle source of taxation is not as harmful to economic growth as it creeps quietly along and does not alter economic perceptions of perhaps lower tax rates in other areas.

Ironical

In some ways it is ironical that lower taxes which encourage growth (and therefore inflation) push us into a higher tax bracket which eats away at the benefits of the lower taxes.

Taxes now topical with the Margo Report will probably slowly fade into oblivion and remerge in a somewhat obscured and diluted form in 1989. The rate at which the recommended tax reforms are executed and to what extent they are watered down will depend on the degree of acceptance, persuasion and bargaining power between the Government and various interest groups.

The Media Council

Fringe benefits — tax the employer, not the employee

320 B Day 9/7/87

While SA awaits the Margo Commission's tax proposals, New Zealand has implemented major tax reforms over the past three years. In this extract from a comparison of tax in the two countries, JOHN C WAUGH, a partner in Deloitte, Haskins & Sells in Auckland, examines changes in the New Zealand approach to tax incentives, fringe benefits and indirect taxation

ONE OF the most effective ways of spreading the tax burden more evenly among the general body of taxpayers is to scrap the special tax incentives that various lobby groups have been able to achieve for their members.

Special investment and depreciation allowances for plant and machinery and for agricultural equipment, as well as those designed to encourage exports and mining, are examples of these tax preferences.

I acknowledge that SA's political exile gives it a special need to encourage exports, but these moves should be outside the tax system and be properly targeted and monitored — as with any other aspect of a country's economic management.

I do appreciate that SA has made some attempt to scrap some of these incentives. For example, it has got rid of certain investment allowances and has changed certain export incentives from tax credits to actual cash amounts, so that it is better able to quantify them.

But no sweeping changes have yet been made (especially not to the incentives enjoyed by the mining and agricultural sectors).

The South African government has said that it intended waiting for the Margo Commission Report before any real changes are made: its recommendations and government's acceptance or rejection of them should be awaited with interest — will it be a move towards economic neutrality or support for vested interests?

The UK has now got rid of most of its tax incentives of this type in the interests of economic neutrality. NZ has all but phased out its principal tax incentives, *including* those that relate to farming — an area of economic activity which I know is almost sacrosanct in SA, as it was in NZ until a few years ago.

In NZ, the old, very low standard values for livestock have been removed and have been replaced with values that are broadly in line with current market values. Our new system for valuing both herd and trading livestock has been designed in such a way as to resemble, as far as possible, the rules that apply in other types of business: again, the aim is economic neutrality.

We have provided phasing-in provisions that were designed to alleviate any hardship that may arise in the early years of operating under the new bases, including a "trade-off," in terms of which a generous portion of the initial revaluation increment in livestock values was treated as tax free and the balance taxable over a number of years.

The NZ example shows that a revision in the taxation of the primary sector, including agriculture and forestry, can be done even when it is such an important and powerful part of the country's economy.

I think that if the South African government is sincere in its desire to reform — if nothing else — its tax regime, it will have to look seriously at reforming the taxation of agriculture and mining income. However, I suspect that political considerations ultimately will be to the fore, as that is a fact of South African life.

Fringe benefit taxation has been an area of major legislative change in both SA and NZ. In both countries, the fringe benefits tax legislation was a long time coming, and its effects have not yet been fully determined.

In SA, this is in part because of the phasing-in provisions. In NZ, there were no phasing-in provisions: legislation enacted on March 29, 1985, took effect on April 1, 1985. And very effective legislation, too, with minimal loopholes or flaws — and most of those promptly attended to.

The real distinction in the legislative approaches lies in the fact that in NZ the problems of taxing non-monetary remuneration were tackled in an entirely different way to that in which the taxation of fringe benefits was dealt with in SA.

In NZ, it is not the employee who pays tax on fringe benefits but the employer.

Various fringe benefits (such as soft loans and company cars) are given taxable value, and FBT is levied at 48% on that value, the tax being payable quarterly by the employer.

With the corporate and top marginal tax rate for individuals also being set at 48%, and the FBT not being tax deductible, the effect is to make the cost of providing perks to employees non-deductible to the employer.

Australia also has adopted the NZ method of levying FBT: no howls from the employees or the unions — and what government pays much attention to employers? After all, by and large, they don't vote.

I understand that in SA the revenue gained from the introduction of FBT was greater than was originally estimated. In NZ, on the other hand, the amount of revenue has been far less than originally estimated, despite the comprehensiveness of the NZ FBT regime.

This appears to be because one of the principal consequences of the NZ FBT system has been a trend on the part of many employers to revert back to cash remuneration for employees, save in the area of providing motor vehicles.

In the past, another area of contention in the field of taxation has been the debate over direct versus indirect taxation. In some respects, that argument is now largely at an end, with most countries (including SA and NZ) having introduced an indirect tax of one form or another.

The burning issue thus becomes: what type of indirect tax should one have? Should it be a wholesale, retail or general turnover tax (with its economically damaging and inequitable cascading effects)? Or should it be a value-added tax (where tax is only applied once to each amount of value added in the course of producing a good or service, with no compounding effects)?

Until recently, NZ had an extremely selective and highly unsatisfactory wholesale sales tax, but in 1986 it introduced a value-added tax that is called "goods and services tax" — GST (not to be confused with your general sales tax).

I gather that here in SA there has been some talk of scrapping your sales tax regime and introducing some other form of indirect tax — possibly a value-added tax. So some comment on the NZ experience may be warranted.

NZ's introduction of its comprehensive GST went like clockwork, and is proving a fast, efficient and effective method of revenue collection — and all introduced with minimal political backlash.

One of the effects of our GST system has been that a large number of people who previously never featured in the NZ tax collection system, and who had evaded paying any income tax at all, got caught within the income tax net as well.

The reason for this was simply that, where a NZ trader pays GST on business purchases, he can recover that GST from the Inland Revenue — provided he is registered with the Inland Revenue Department for GST purposes *and* has an *income tax* number.

An incredible number of traders who had been evading income tax for years suddenly found they had Hobson's choice — front up on the income tax side or lose a mint by not recovering the GST content of business purchases.

What are the advantages of the VAT system (such as the NZ GST) as opposed to the SA-type of general sales tax? Overseas research suggests that VAT type taxes are far less easy to avoid or evade — although, as with any kind of tax, there will be attempts to do so.

Where goods or services pass through several stages before reaching the end consumer, the cascading effect of the SA-type of general sales tax is economically inefficient, a problem which is overcome by a VAT-type system.

However, the big advantage which the NZ type of VAT-type system has over your type of sales tax is that it is much simpler and easier to understand than most sales tax (and even many VAT) systems.

To the amazement of most European countries, NZ managed to introduce its GST system with virtually no exemptions from the tax, showing that it *can* be done if the political will is there. And virtually every trader and operator in the country (including clubs, charities, etc) is in the GST net.

Indeed, Japan currently is making a serious study of the NZ approach to VAT-type indirect tax.

Whether or not a VAT-type system should be introduced in SA instead of the existing sales tax (which I understand generates a huge amount of revenue every year for government) is another matter.

But the point is: there are alternatives — perhaps for the better — in terms of efficiency, neutrality and revenue collection.

Supporting the business tax

Willem Cronje is a partner of Deloitte Haskins & Sells.

The Comprehensive Business Tax (CBT) is by no means so grey and menacing as the *FM* has argued over the past few weeks.

It is in fact a form of value added tax (VAT), applied for many years in Europe, and in use now in approximately 50 countries. There is a world trend towards VATs. For example, Canada is considering changing its present manufacturing excise tax to a form of value added.

There are two important differences between CBT and the European style VAT:

□ VAT is the total of output taxes, in other words applicable to sales invoices, less input taxes; that is tax paid on input invoices. CBT, on the other hand, is imposed on the difference between sales and purchases. This may appear exactly the same, but an example will illustrate the difference.

Under VAT, if sales are 100 and purchases are 40, but for some reason the purchases have borne no input tax, the full tax will be paid on the 100. Assuming a rate of 10%, a tax of 10 will therefore be paid. On the CBT, it makes no difference whether or not the purchases of 40 have themselves borne tax. The tax will be 10% of 60, or 6. It is therefore not necessary with CBT to interlock invoices, or have a complex system of specially designed VAT invoices; and

□ The other major difference is that VAT taxes imports, but exempts exports. CBT, as suggested by Margo, would have no special provision in respect of exports, which would be included in the base. While the commission has not explicitly stated what would happen to imports, the implication is that they would not be subject to CBT.

It must be stressed that the additive approach adopted in the Michigan single business tax (the model for CBT) gives the same answer as the subtractive approach discussed above. One reason why Michigan went the additive route is that its tax is only payable annually, based on the Federal annual income tax return.

This lends itself to the additive route as the accounts are prepared and all information is available. As CBT is likely to be paid at least quarterly, if it is in any major sense to replace GST, a subtractive approach will probably be more appropriate.

So businesses and taxpayers will initially handle and see only the subtractive aspects of CBT. The additive approach will be done annually as a check and final adjustment.

As this subtractive method needs only two total sums, total taxable sales of goods and services less total taxable purchases, it is straightforward — provided, of course, taxable goods and services are defined.

Essentially this would mean a provision of any service or the sale of any good which would normally be included in the composition of National Product. After all, the CBT or VAT base equates to consumption in the National Income accounts.

It follows therefore that financial-type transactions such as the receipt of interest or capital gains would not be subject to CBT, unless the taxpayer concerned were a financial intermediary. Conversely, payments of interest and capital losses would not be deductible from the base.

As the base is allied to consumption in the National Accounts, secondhand transactions would not be taxed.

The *FM* has stated that service industries would be unfairly hit. They certainly would be hit, as they contain a large element of payroll; but if one accepts that the consumption base is itself fair, they would not be unfairly hit. There is no double counting: to the extent that the service industries service the business sector, the customer will claim the purchase as a deduction.

If the government were to accept the concept of a VAT, specifically one which does not operate on an invoice basis, but rather the accounting basis (be it additive or subtractive), the broad outline of the tax would be readily apparent.

Special problems arise with regard to financial transactions, leasing, capital gains and losses, dividends and dealing in real property. However, these are inherent in both the *accounting* system of VAT (used only in Michigan) and the *invoice* system, used in over 50 countries.

New Zealand recently implemented an invoice VAT. This is also found in a number of developing countries. There are therefore many precedents for both the basics and special problems of such a tax.

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Consumer-spending danger

IDC warns of tax threat to growth

8/day (370) 14/9/87

MICK COLLINS

UNFAIR taxation is endangering any hope of further growth in the economy, say the directors of government's Industrial Development Corporation (IDC).

And unless government acts to provide some measure of tax relief, consumer spending, which has already shown signs of weakness, may again enter a phase of decline.

Warning that urgent attention should be given to factors inhibiting economic growth, the normally-conservative IDC says the imbalance in the tax burden has resulted in the virtual elimination of private savings.

"The imbalance, which has developed over the past number of years, has largely been responsible for the reduction in the level of disposable income and dampning in consumer spending."

In its annual report presented to Economic Affairs Minister Danie Steyn, the IDC says it is of particular importance that the current growth phase must not lose momentum.

"A period of sustained economic growth is essential in order to create new employment opportunities, raise standards of living and facilitate structural political changes in SA."

Another factor which has had a detrimental effect, is the strengthening of the exchange rate in the past year, during which domestic inflation remained substantially higher than the rates of SA's main trading partners.

The trend has largely eliminated the benefit to local industry of an undervalued currency and during the past six months the growth in exports of manufactured goods, measured at a constant exchange rate, has already started to decline.

The prospect of a stronger rand being used as an anti-inflationary measure is causing concern among industrial exporters and a "clear official statement on exchange rate policy would assist in promoting industrial exports".

It also says despite State initiatives concerning Mossel Bay and the Lesotho Water scheme, it is unfortunate that other capital expenditure programmes were cut back.

Turning to its own affairs, the IDC says its high expectations for an upturn in the investment cycle in industry in the past financial year to June did not materialise.

320 SOWETAN 16/9/87

High government spending a strain on the tax system

Finance Staff

DURBAN — The Margo Commission had missed a "golden opportunity" to adequately review the unseen side of Government's high expenditure through costly tax concessions, Professor Jack Heyns, associate professor of economics at the University of Natal, said at a seminar in Durban yesterday.

Addressing a Durban Metropolitan Chamber of Commerce seminar, Prof Heyns welcomed many of the commission's proposals. However he said it had failed to help the Government sufficiently to defend itself against removal of concessions which were distorting and undermining the tax system.

These tax concessions could amount to R5 billion a year.

He said much of the blame for the complexity and unfairness of the present taxation system — and the need for reform — could be attributed to high and uncontrolled government spending, exacerbated by the modern tendency to blur the distinction between the spending and revenue sides.

Another major cause was the tax system's lack of immunity from high inflation.

Objectives

Government spending was both direct and indirect. Through various exemptions, incentives, and so on, the tax system was being used to achieve economic, social and even cultural objectives.

An array of built-in spending programmes actually amounted to billions of rands which were not reflected in the Budget. This was money foregone by the fiscus and had to be made up from other sources — and helped to keep tax rates high.

Prof Heyns said it was true that the Margo Commission had been precluded from investigating direct Government spending. However its terms of reference had actually given it "carte blanche" to investigate indirect spending through the long list of tax concessions.

He also said the report had been "disappointing" to those interested in budgetary policy because it did not sufficiently address the question of the role of inflation on Government finances.

At present a vicious circle existed in which Government automatically received extra revenue — through "bracket creep" even when the economy was in recession — without overtly reducing financial discipline. This spending then contributed to inflation itself.

There was not sufficient contraint for it to cut spending.

CBT too low

On the Comprehensive Business Tax (CBT), he said there had been calculations that eight percent would be needed — not five percent — to achieve other tax reforms proposed.

There was a lack of information on the tax in the report — possibly because the commission wanted to keep the tax as invisible as possible. It did not provide many details of how the tax would work and the report did not disclose who would bear the tax — whether it would be passed back to producers — or forward to consumers. This was an important issue which should have been addressed.

Also addressing the seminar, Margo commissioner Michael Katz said Prof Heyns had made a number of valid points. However critics should remember the time constraints under which the commission had operated — speed had been of the essence. He said that further substantial research had since been done on the CBT.

CBT would make an important contribution. Countries around the world had found that using a progressive income tax, as a means of better distributing the country's wealth, had failed dismally.

The Margo package had been designed to achieve arithmetic neutrality in a number of areas, between debt and equity (current law favoured the former), capital and revenue, the individual and business, small businesses and large businesses.

It was totally resistant to exemptions and imparted equality to the factors of production. The system was certain to be more simple and to bring more certainty.

IDC says taxation unfair

16/9/87

JOHANNESBURG -- Unfair taxation is endangering any hope of further growth in the economy, say the directors of government's Industrial Development Corporation (IDC).

And unless some measure of tax relief is implemented, consumer spending, which has already shown signs of weakness, may again enter a phase of decline.

Warning that urgent attention should be given to factors inhibiting economic growth, the normally conservative IDC says the imbalance in the tax burden has resulted in the virtual elimination of private savings.

"The imbalance, which has developed over the past number of years, has largely been responsible for the reduction in the level of disposable income and dampening in consumer spending."

In its annual report presented to the Minister of Economic Affairs, Mr Danie Steyn, the IDC says it is of particular importance that the current growth phase should not lose momentum.

"A period of sustained economic growth is essential to create new employment opportunities, raise standards of living and facilitate structural political changes in South Africa."

Another factor which has had a detrimental effect was the strenghtening of the exchange rate in the past year, during which domestic inflation remained substantially higher than the rates of South Africa's main trading partners.

The trend has largely eliminated the benefit to local industry of an under valued currency and during the past six months the growth in exports of manufactured goods, measured at a constant exchange rate, had already started to decline.

The prospect of a stronger rand being used as an anti-inflationary measure was causing concern among industrial exporters and a "clear official statement on exchange rate policy would assist in promoting industrial exports".

It also says that despite State initiative concerning Mossel Bay and the Lesotho Water scheme, it was unfortunate that other capital expenditure programmes have had to be cut back.

Turning to its own affairs, the IDC says the its high expectations for an upturn in the investment cycle in industry in the past financial year to June did not materialise.

"Consumer demand remained sluggish with the result that capacity utilisation did not increase to such levels that a need arose for capital on a large scale for expansion schemes."

However, the IDC's approval for new investment in industry increased from R190 million for 1985—86 to R294 million.

It says that the IDC is not only in a good position to make major financial contributions out of its resources to the energy projects scheduled for the forthcoming decade, "but also to make a continually growing contribution to the financing of industry especially when the investment cycle again shows an upturn."

R200m has already been paid out

Taxpayers meet huge rent debt

17/9/87 B/day

PATRICK BULGER

TAXPAYERS are set to pick up a multi-million rand tab — R400m in the Transvaal alone — for township rent boycotts.

Transvaal Provincial Administration (TPA) officials said yesterday more than R200m had already been provided to financially strapped black local authorities in the form of "bridging finance", but there was little chance of it being repaid.

A TPA finance official said: "The chances of us getting the money back are virtually nil."

Another official said: "Some are in a position to repay, but there are a few which I doubt will ever be able to repay the money."

Soweto mayor Nelson Botile said service arrears — which are being linked to payments for council houses — would not be enough to repay the loans.

Botile said: "We have not paid back any of the money because we do not have it." He said the council was negotiating for more time.

Apparently similar amounts have been made available by the Free State provincial administration for its townships, but this could not be confirmed.

And Soweto Civic Association (SCA) president Nthato Motlana said the more than one-year-old Soweto rent boycott seemed likely to end soon.

He said: "The boycott has served its purpose and should be called off." It was originally called as a protest against government's declaration of a state of emergency in June last year.

Motlana said the SCA would not negotiate with councillors, but if town clerk Nico Malan agreed to meet the SCA "it would make him an offer he could not refuse".

The boycott is being steadily undermined by government's mass housing sale.

During the past year, black local authorities have been nursed through the boycotts by monthly "loans" from the TPA. They are now strongly resisting pressure to increase service charges to try to recoup the money.

About R200m is owed to the TPA for the 1986/7 financial year. The loan was

● To Page 2

Taxpayers meet rent debt

● From Page 1

taken over by the TPA from the Department of Constitutional Development and Planning in October last year.

Although the TPA was under the impression repayments would begin within six months, 11 months later no money has been received. The loans were to be repaid without interest in six-monthly instalments over five years.

A second sum of R195m for 1987/8 was voted from the TPA's Special Departmental Services budget of R500m.

TPA provincial administration deputy-director Neil Joubert said no written agreement had been entered into for repayment of the funds. The TPA was negotiating the terms of repayment.

Joubert said the TPA was advising township authorities to increase rent and service charges in an attempt to recoup the money. But the already unpopular councils were resisting that.

He said: "All of them have to take the unpopular decision to increase rates. We have been pleading with them to increase tariffs."

A circular had been sent to township authorities pointing out bridging finance had been made available in the form of a loan.

TPA community services executive director Louis Kok said arrangements were being made to try to recoup the money.

Hansard

(d) Information only available for 1985/86.

A.	Department of Environment	Tacusa linen and art material.
B.	Council for the Environment	60 msg white bond.
C.	National Parks Board of Trustees	115 GvM Dukuza.
D.	Forestry	70 g for text, art material for cover.
E.	National Hiking Way Board	70 g for text, art material for cover.
F.	Fisheries Development Corporation	70 g for text, art material for cover.

	(i) (aa)	(bb)	(ii) (aa)	(bb)
A.	None	None	None	None
B.	None	None	None	None
C.	None	One (1984/85)	None	One (1984/85)
D.	None	None	None	None
E.	None	None	None	None
F.	None	None	None	None

Industrial sector/mining industry: tax concessions

425. Mr D J DERBY-LEWIS asked the Minister of Finance:

What tax concessions are available to the (a) industrial sector and (b) mining industry in respect of capital expenditure?

The MINISTER OF FINANCE:

The following tax concessions in respect of capital expenditure are available to:—

(a) *The Industrial Sector*

Industrial Buildings: A two per cent annual allowance and a 17,5 per cent building initial allowance in respect of the cost of building (or improvements thereto) which are used for manufacturing purposes, are allowed.

Housing: In respect of housing provided for employees 50 per cent of the cost thereof qualifies for tax relief subject to a maximum deduction of R6 000 per dwelling.

Machinery and plant: A 50 per cent machinery initial allowance may be claimed on the defined cost of plant and machinery used in a process of manufacture or similar process.

Patents, trade marks, etc: The cost of devising or developing any invention, creating or producing a design, trade mark, copyright or similar property and certain other expenditures in connection with this type of property is generally allowable over the period of use of the property.

Research and development: 25 per cent per tax year of certain capital expenditure relative to scientific research and development may be claimed as a deduction until the full cost has been written off.

Security: Certain approved expenditure in connection with security measures incurred in accordance with the provisions of the National Key-points Act is allowable.

Economic development areas: In lieu of the allowance in respect of housing referred to above an industrialist operating in an economic development area may claim an allowance not exceeding 35 per cent of the cost of a dwelling for an employee in the year in which the dwelling is acquired or completed and a further 10 per cent of such cost for each of the following nine years. The allowance is granted at the discretion of the Minister of Finance.

(b) *The Mining Industry*

Broadly, the mining industry is entitled to the deduction of the full cost of capital expenditure in the year in which such capital expenditure is incurred. This deduction is limited to taxable income from mining operations (as determined before the deduction of capital expenditure) with any balance of unredeemed capital expenditure carried forward to the next year for redemption on the same basis. Such capital expenditure includes all the costs incurred in developing and equipping the mine including the cost of providing housing, recreational and other facilities but excluding the cost of the acquisition of land, mineral rights and mining rights.

Hansard 320

Trespass

463. Mr K M ANDREW asked the Minister of Justice:

How many Whites, Coloureds, Indians and Blacks, respectively, who were arrested for trespass during the period (a) 1 July 1984 to 30 June 1985, (b) 1 July 1985 to 30 June 1986 and (c) 1 July 1986 to 30 June 1987 in (i) each of the main urban centres and (ii) the Republic (aa) were convicted, (bb) were acquired and (cc) had the charges against them dropped?

The MINISTER OF JUSTICE:

The information is not readily available in the Department. The honourable member is, however, referred to my replies to Written Questions No 35 of February 1986 (Hansard col 399) and No 244 of February 1987 (Hansard col 328).

Own Affairs:

Provincial education councils

47. Mr R M BURROWS asked the Minister of Education and Culture:

Whether, with reference to his reply to Question No 1 on 26 May 1987, the provincial education councils have come into operation; if not, (a) why not and (b) when will they come into operation; if so, who are the members of each of these councils in respect of each province?

The MINISTER OF EDUCATION AND CULTURE:

No,

(a) the dates on which the provincial education councils are to be constituted, were postponed due to practical considerations,

(b) Orange Free State—20 August 1987
Cape—24 August 1987
Natal—26 August 1987
Transvaal—31 August 1987.

The names of the members are as follows:

Orange Free State

Chairman—Mr C J H L Nel

Members:

(1) *Representatives of the Department of Education and Culture*
Mr W Odendaal
Dr F A Booyse
Mr G F Heyns
Mr D C Litch
Dr J F Malherbe
Mr W H B Rall

(2) *Represenatives of Tertiary Education*
Prof P F Theron
Dr J J van Lill
Mr B du P Brink

(3) *Representatives of the Organised Teaching Profession*
Mr A J du Plessis
Mr C R Peyper
Mr J F Stemmet
Prof N T van Loggerenberg

(4) *Representatives of Private Schools*
Mr N E P Alter
Mrs R W Dreyer

(5) *Representative of Special Education*
Mr H D Pienaar

RSC LEVIES

Taxing pensions

FM 25/9/87 320

The fact that Sanlam with its depths of resources — especially in taxation matters — interpreted the question of regional services council (RSC) levies on capital appreciation in a manner different from the intentions of Inland Revenue is hardly a salutary comment on these controversial taxes.

For it appears that Sanlam — indeed life assurers generally — might suffer a tax shock now that the Pensions Institute of SA (Pisa) has sent through an Inland Revenue interpretation that said pensions fund incomes would be fully leviable. This was contrary to Sanlam's pensions newsletter *Insight*, which announced that pension fund income from disposal of assets would escape RSC levies according to their interpretation.

"The problem of interpretation revolves around a leviable transaction as regards financial enterprise," says Willie Olivier, Sanlam's assistant GM pensions. He says it is defined in GN R340 as "any banking institution, building society, unit trust, long-term insurer, short-term insurer, pension fund, provident fund, retirement annuity fund, benefit fund, medical benefit fund, financier, buying association or similar institution, or any enterprise in the course of which financial assets are traded in or any company which carries on business as an investor of money."

Financial enterprises are leviable as normal, on 0,25% of their payroll, and 0,1% of turnover. The latter is easily ascertained. Turnover comprises three elements:

☐ Gross interest receivable on loans and advances; plus

☐ Gross interest and dividends receivable on any funds invested; plus

☐ Profits made on the dealing of financial assets — the specific point of contention in this issue.

Olivier says Sanlam had interpreted the law and regulations to mean that "in general, funds and assurers do not deal in financial assets and therefore the gross profits derived from the sale of financial assets are not subject to the (turnover) levy."

After correspondence with the authorities, however, Pisa has advised that notwithstanding the interpretation, pension and provident funds "are regarded (and were indeed intended by the legislature) to be leviable on the profits derived from the sale of financial assets (investments)."

Resolving this dispute does nothing but highlight the more contentious parts of the definition of "financial enterprise:" the meaning of financiers and companies carrying on business as investors of money. The latter in particular, says Miles Divett of Deloitte Haskins & Sells, is "extremely broad."

In particular:

☐ Is a holding company a "financial enterprise;" being a company carrying on business as an investor of money?

☐ Do in-house financing arrangements between related companies lead to "financial enterprise" classification, under the headings of financier, or the carrying on of business as an investor of money?

"The main authority," says Divett, "scant though it may be, for the view that a pure holding company does not carry on a business as an investor of money lies in a dictum in the judgment in the 1926 *Overseas Trust* case: "The mere possession of shares and investments did not amount to carrying on a business."

It seems that Inland Revenue has decided on an interpretation in conflict with this. The departure point seems to lie in a belief that *all* income is, prima facie, leviable; and therefore that a company which holds shares to produce income for itself should be subject to levy on any income so derived.

Inland Revenue's view seems to be that:

☐ A holding company whose sole purpose is to hold shares as a means, for example, of spreading control among a group of companies, and therefore merely acts as a *conduit* in the flow of dividends, paying out whatever it receives, will not — in the absence of any financing activities — be regarded as a financial enterprise. Its dividend income will therefore not be subject to levy; but,

☐ A holding company, one of whose purposes in holding shares, is to derive dividend income for itself *will* be regarded as carrying on business as an investor of money. It will be subject to levy on its gross dividend income.

So the mere *retention* of any part of its dividend income by a holding company will render the company a "financial enterprise." The only apparent concession is that dividend income may be retained to the extent that it is needed to cover the holding company's operating and administrative costs — without resulting in financial enterprise classification.

If any excess, above such costs, is retained, the gross dividend income will, however, become leviable.

The impact of this, argues Divett, practically speaking, is that all top companies in group and sub-group structures will be regarded as "financial enterprises" — and subject to levy on their gross dividend income.

As far as intermediate holding companies are concerned, they will only escape the "trap" if they on-distribute the full amount of their dividend income, less what may be required to cover operating and administrative costs. ■

STATE PENSIONS

It's welcome news indeed that some reform at least has been meted out concerning the civil service pension scheme.

Government Gazette 10945 dated September 21 changes the rules relating to buy-back rights — but leaves Director Generals with a discretion.

The amount payable will be determined by the formula: $n \times S \times F(x)$; where:

☐ n is the period of years for pensionable service;

☐ S is yearly pensionable emoluments on date of application; and

☐ $F(x)$ is a factor "determined by the Director General."

To this is added compound interest "at a rate determined by the Director General," from the date on which the amount calculated is payable, up to the date on which it is paid.

In terms of the new rules civil servants will only be able to buy back to age 18, not 16. The change in regulations affects three statutes.

The changes won't go far enough, but then anything is an improvement.

MORTGAGE BONDS

More bark than bite

Flush with funds, bankers are shouldering their way even deeper into the crowded housing bond market to get cash flows moving.

Hardly a day goes by without a sally or a riposte from one institution or another. Building societies anxiously warn of impending doom because bankers are offering things like 100% bonds and home loans on a fixed rate, but banks seem confident.

Having already dropped rates to wafer-thin margins, there is little scope for banks to make further bond rate reductions, so the cut and thrust of competition has moved to fancy packages and marketing of mortgage bonds.

As an example, the latest salvo comes from Standard Bank, this time to provide a five-year fixed instalment plan. But dressed up, the packages bark more than they bite. The only likely economic effect will be to

CAPE Times 25/9/87 320

Millions lost in homeland tax havens

Political Staff

SOUTH AFRICA has been losing millions of rands to the independent homelands in tax avoidance schemes over the past year, according to a spokesman for the Department of Finance.

The extent of the outflow to these newly established "tax havens" has caused the government to urgently introduce preventive legislation to close this loophole.

The thrust of the legislation is contained in the Income Tax Bill now being debated in Parliament.

Culprits who have readily been involved in using these TBVC states — Ciskei in particular — for tax avoidance schemes, can expect the government to crack down on their activities once the draft legislation passes into law.

According to government sources, several businesses, including certain insurance companies, have already been identified, and steps will be taken to recover the monies due to the South African revenue authorities.

One of the more common ploys, according to a government source, is for South African companies to set up a subsidiary in Ciskei and to provide it with loans, which are in turn used to buy government securities in South Africa.

The Deputy Minister of Finance, Mr Kent Durr, complained in Parliament this week at the manner in which the neighbouring states have established these tax havens on South Africa's doorstep.

He maintained that tax experts had been exploiting these loopholes to such an extent that it had become essential to take active steps to stop the "substantial erosion" of South Africa's tax base.

"Had the treasuries of our neighbouring states been enriched by the activities of the tax avoiders, those activities could perhaps have been tolerated," Mr Durr said. "As it is, however, the only real winner is the tax avoider, and the loser is the general body of taxpayers."

According to Mr Durr, the main steps contemplated against these tax avoiders include:

- Deeming that all interest received by an SA resident from a source in a neighbouring territory will be construed to be from a source within this country.
- The exemption enjoyed by foreign individuals and companies resident or incorporated in neighbouring territories on interest received by them from stock or securities issued by government and certain parastatals, is to be limited.
- The sixth schedule to the Income Tax Act is to be amended to bring within its ambit any insurance policies issued in these states, and to deem any amounts received by SA residents and domestic companies which are funded out of the proceeds of such policies to be insurance benefits received from an SA source.

TAXATION 320

Tax Bill surprises

This year's Income Tax Bill contains major attacks on tax-avoidance schemes set up (particularly) in Ciskei. Earlier this year, the *FM* was attacked by "experts" claiming that it was "impossible" for any such clampdown to be implemented.

The Bill provides two forms of attack, not one; and as the *FM* warned, the provisions will be retrospective. The Bill, read for the first time this week, introduces long-expected changes for the TBVC countries by introducing Sections 9 (4) and 9 (5).

These deem any interest earned — excluding that from an effectively permanent establishment — via these neighbouring countries to have been earned in SA. Since SA uses the "source" and not the "residence" rule, the income will be taxed at South African rates, as if it were earned here.

In addition, any income derived from banker's acceptances, or similar instruments, will be deemed to have been earned in SA. The Bill also introduces an apportionment system for investment companies in the neighbouring states which derive 50% or more of their income from investments.

If such companies are not subject to a tax "materially" similar to a tax in SA, and where tax is imposed at a rate of less than 40%, the income will be taxed at normal South African rates. In practice, this will only apply to such companies operating in Ciskei.

This section goes much wider than the deeming provisions of Section 9 by including interest, dividends, rents (other than rents on immovable property outside SA), any gains made on BAs or similar instruments, gains made on marketable securities, and gains under insurance policies.

If more than 50% of such a company's income is earned in such a way, it will be deemed to have been earned in SA.

The Bill contains further changes, to the Sixth Schedule, opening another prong of attack for tax-avoidance entities operating for the benefit of South African residents in Ciskei. It provides, effectively, that policies issued in TBVC that would have been subject to tax in SA will be subject to tax.

Proceeds derived in whatever form, funded by an insurance policy in TBVC, flowing back to SA, will be subject to tax in SA.

The Bill inserts Section 24F into the Income Tax Act to provide for the taxable income of film owners. The wording of the Bill is little changed from the third and final draft of motion picture legislation Inland Revenue had circulated for comment.

The spirit of this long-awaited amendment is to encourage the making of commercial films. Those that sell well at the box-office will qualify for the highest tax benefits. By adding the commercial incentive to the Bill's use of the "at risk" concept, tax law will be exploring a new area of the taxpayer-tax authority relationship.

The Bill withdraws exemptions for investment in government stocks — Section 10 (1) (h) — if the foreigners are resident in TBVC, BLS or Namibia; likewise the exemption from non-residents tax on interest (NRTI) is withdrawn from November 1 1987.

In perks tax, taxpayers who have been claiming their own and their spouses' car for favoured car allowance treatment simply by proving the "10 000 km rule," where only one was used primarily for business, will, unless both are used primarily for business, have to prove 10 000 km on business for both.

Another change for perks tax: the R20 000 rebate for the rental accommodation formula, that does not apply if a taxpayer or the spouse had the pre-emption to buy a property, has been extended to a company with that pre-emption.

Provisions of credit relief have been introduced for taxes paid outside the country, where these have been eliminated by the abrogation of double taxation agreements. This general provision will allow the granting of benefits of double tax treaties. Similarly, provisions to govern the debt standstill, to allow the non-payment of NRTI on loans, have been introduced.

The Bill also opens, to a limited extent, Inland Revenue's secrecy provisions: "Any information obtained by the commissioner in the performance of his duties . . . may be used by him for the purposes of the provisions of any other fiscal law administered by him. . ."

There are further changes, such as reciprocal relief for foreign shipping, and provisions regarding co-operatives. ■

Tax scams in TBVC states costs SA millions

DD 24/9/87 (320)

Govt crackdown expected

Daily Dispatch Correspondent

CAPE TOWN — South Africa has been losing millions to the TBVC states in tax avoidance scams over the past year, according to a spokesman for the Department of Finance.

The extent of this outflow to these newly established "tax havens" has caused government to take urgent action to introduce preventitive legislation to close this loophole.

The thrust of this legislation is contained in the Income Tax Bill now being debated in Parliament.

Culprits who have readily been involved in using these TBVC states — the Ciskei in particular — for tax avoidance schemes can expect the government to crack down on their activities once the draft legislation passes into law.

According to government sources, several businesses, including certain insurance companies, have already been identified and steps will be taken to recover the monies estimated to be due to the South Africa revenue authorities.

One of the more common ploys, according to a government source, is for South African companies to set up a subsidiary in the Ciskei, provide it with loans which are in turn used to buy government securities in South Africa.

The Deputy Minister of Finance, Mr Kent Durr, complained in Parliament this week over the manner in which these neighbouring states have established these tax havens on South Africa's doorstep.

He maintained that tax experts have been exploiting these loopholes to the extent that a stage has now been reached where it has become essential to take active steps to stop the "substantial erosion" of South Africa's tax base.

"Had the treasuries of our neighbouring states been enriched by the activities of the tax avoiders, those activities could perhaps have been tolerated.

"As it is, however, the only real winner is the tax avoider, and the loser is the general body of taxpayers."

According to Mr Durr, the main steps contemplated against these tax avoiders in the legislation includes:

- Deeming that all interest received by a South African resident from a source in a TBVC statewill be construed to be from a source within this country.

- The exemption enjoyed by foreignersand companies resident or incorporated in neighbouring territories on interest received by them from stock or securities issued by government and certain parastatals is to be limited.

Mr Durr declared that this exemption has been "shamelessly exploited by South Africa residents and companies which have formed subsidiary companies or trusts in neighbouring countries".

- The sixth schedule to the Income Tax Act is to be amended to bring within its ambit any insurance policies issued in these states, and to deem any amounts received by South Africa residents and domestic companies which are funded out of the proceeds of such policies to be insurance benefits received from an South Africa source.

Mr Durr said this step has become was necessary because certain insurance companies have commenced issuing nonstandard policies in neighbouring territories, thus securing for the holders foreign-sourced income for South African residents.

Tax-dodge clamp hits thousands

27/9/87 ST 320

By David Carte

THE Government has moved to end tax avoidance schemes that have cost the Receiver of Revenue tens of millions of rands in lost income.

- A Bill to amend the Income Tax Act was tabled in Parliament this week, aimed at stopping the practice of putting money in neighbouring states and investing or lending it in SA tax free.
- A Bill passed on Friday also stopped wholesale tax avoidance in film making.

Retrospective

The amendment to the Income Tax Act will be introduced with retrospective effect. So thousands of individuals and companies that availed themselves of tax avoidance opportunities through Transkei, Bophuthatswana, Venda and Ciskei (TBVC) will have to pay large amounts of backdated tax.

This is the first time tax legislation has been retrospective.

Several auditing firms, at least one assurance company and banks have advised their clients to use the homeland tax dodge. Many clients, who will be hit by unexpected tax bills, are furious.

Income has always been taxed at source and several former homelands are tax havens. The Tax Act amendment will "deem" income earned in neighbouring states to have been earned in SA.

Portfolios

Many SA companies and individuals have taken large amounts of money from SA and placed it in banks in TBVC states.

In some cases, they have lent it back to other parties or even to themselves in SA. Because it was earned in the homelands the interest was tax free.

Others have run share portfolios from the homelands and paid no tax on investment income.

At least a billion rands is believed to have been involved in these schemes.

One big life assurer has sold investment policies from the homelands, also offering juicy tax-free returns.

By operating from homelands, it avoided the sixth schedule to the Income Tax Act, which lays down which policies are tax free in SA.

Dorian Wharton-Hood, chairman of the Life Office Association, says his organisation asked assurers to hold back on these schemes because "life offices should not be eroding the tax base. We received undertakings from our members that they would not use this loophole."

One company that admits it sold these policies is Lifegro.

According to a spokesman, since the LOA urged restraint four months ago, it has sold policies to residents of Ciskei and companies registered there only. Some Ciskeian registered companies, he says, are run on SA money.

Undesirable

One life assurer says other "Cape-based" life companies are also selling homeland-based investment policies. But the Big Three — Old Mutual, Sanlam and Southern — all deny that they are doing so. Liberty has also not sold these policies.

The SA Institute of Chartered Accountants, representative body for the auditing profession, has written to the Minister of Finance protesting against the retrospective nature of the proposed legislation.

It says that to charge to tax an amount which would not previously have been charged is "undesirable practice".

Holiday cottages a tax get-away

27/9/87 SIT

320

IT is all very well to invest in a holiday home, but what are the tax implications?

Many executives acquire a holiday cottage and let it out while they are not using it.

But this letting often means that all costs involved are not covered, and losses are incurred.

In letting, one of the leading questions from a tax point of view is whether the rental losses sustained can be offset by the executive against his other income. In other words, is the expenditure incurred in the production of the rental income fully tax deductible?

Ernst & Whinney's Theo Shapiro says: "Inland Revenue's practice is to disallow the expenditure involved as a tax deduction to the extent that such expenditure exceeds the amount of the rental income.

"Its reasoning has been that because there is no real profit motive on the taxpayer's part, he cannot be said to be trading, and therefore the amount of the expenditure over and above the amount of the rental income has not been incurred wholly and exclusively for the purpose of trade — one of the requirements for an expense to be tax deductible."

When it decides the taxpayer's true intentions, Inland Revenue will look at:

- The overall prospect of making a profit.
- The parties to whom the property is let (for instance, whether it is a relative.
- The existence of a properly undertaken feasibility study so as to establish the viability of the investment.
- Details of the periods during which the property is let.
- Steps taken to operate profitably.

This analysis has caused uncertainty for taxpayers, and has given rise to several court cases — and precedents.

- The fact that there is no profit motive or that a rental loss has been suffered cannot, on its own, suggest that the property owner has not been trading, because the definition of trade in the Income Tax Act includes property letting.
- However, if it is a fact that there is no prospect of a profit, this may indicate that the property owner had mixed intentions. If these mixed intentions are established, then the expenditure is not incurred for trading and is not tax deductible.
- If mixed intentions are established, there can be no question of apportionment. The expenditure is either fully deductible or it is fully disallowable. It is this principle that conflicts with Inland Revenue's current practice.

Enormous erosion of base

R3bn-R4bn lost every year to tax 'cheating'

320

29/9/87.
B/Day

JENNY BOBERG

WHILE SA would need more revenue to meet the needs of its growing population, its tax base was being eroded by concessions, evasion and avoidance, Mr Justice Margo said yesterday.

Speaking at a Financial Writers Club lunch sponsored by Lifegro, Mr Justice Margo said it had come to his notice that R3bn-R4bn a year was lost through "cheating". That was 10% of the total revenue collected.

At the same time, highly paid consultants were advising tax payers on how to avoid tax. And concessions had led to an enormous erosion of the tax base.

The Margo Commission's main recommendations were a "forward-looking change for the better". It recommended the introduction of a broad based indirect tax, the removal of concessions and improved revenue recovery.

Speaking on the advantages of the proposed comprehensive business tax (CBT), commission member Michael Katz said it was resistant to exemptions and would, therefore, remain broad based.

Secondly, because the CBT did not tax profit only — profit was only one element of the CBT base — it was not vulnerable to inflation. Katz said that was a significant plus factor in SA where inflation was high.

Thirdly, it was resistant to the significance of assessed losses, which amounted to some R6bn and were eroding the tax base.

And, finally, because the CBT was based on the "benefit principle" and not the ability to pay, it was "resistant to the vagaries of trade cycle".

Department will be responsible for paying this compensation?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1) Yes.

(a) 1 435 persons to the Ntuzuma Township.
1 491 persons to the Tribal areas.

(b) Beginning of 1986 up to date.

(2) Yes.

(a) Compensation for improvements.

(b) Compensation determined according to replacement value.

(c) The Department of Public Works and Land Affairs.

Inanda

409. Mr A GERBER asked the Minister of Education and Development Aid:†

(a) From what date has expenditure for the provision of an infrastructure for Inanda been incurred, (b) what amount was spent by his Department in this connection in each specified financial year for which information is available and (c) (i) what total amount was spent in each of these financial years on (aa) planning and (bb) the physical execution of projects and (ii) what was the nature of these projects?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(a) From the financial year 1981-1982.

(b) 1981-82 .... R 1 938 041,60
1982-83 .... R 1 281 006,14
1983-84 .... R 4 523 093,99
1984-85 .... R 5 022 148,14
1985-86 .... R 8 201 775,43
1986-87 .... R20 425 849,12
1987-88 .... R18 230 000,00*
* Allocated.

(c) (i) (aa) 1981-82..... R 68 041,60
1982-83..... R 31 006,14
1983-84..... R 23 093,99
1984-85..... R 22 148,14
1985-86..... R 1 775,43
1986-87..... R 10 849,12
1987-88..... R500 000,00*
* Allocated.

(bb) R 1 870 000;
R 1 250 000;
R 4 500 000;
R 5 000 000;
R 8 200 000;
R20 415 000;
R17 730 000 (allocated).

(ii) Roads and drainage;
Water supply;
Sanitation;
Electricity supply;
Purchase of plant and equipment;
Housing loans;
Public buildings;
Sport facilities;
Office accommodation;
Schools.

Jewellery: *ad valorem* tax/import duty

544. Mr C J DERBY-LEWIS asked the Minister of Finance:

What is the (a) *ad valorem* tax on locally manufactured jewellery and (b) import duty on (i) gold, (ii) silver and (iii) platinum jewellery products manufactured overseas?

The MINISTER OF FINANCE:

(a) 35% *Ad valorem* excise duty.

(b) (i), (ii) and (iii) 25% Customs duty plus a further 35% *ad valorem* customs duty.

Note: In terms of section 65 (8) (a) of the Customs and Excise Act, 1964 the value of imported jewellery for purposes of the additional 35% *ad valorem* customs duty shall be the transaction value of the jewellery plus 15 per cent of such value plus the 25% customs duty.

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FRIDAY, 2 OCTOBER 1987

†Indicates translated version.

For written reply:

General Affairs:

Annual reports

360. Mr K M ANDREW asked the Minister in the State President's Office entrusted with Administration and Broadcasting Services:

(1) (a) (i) How many annual reports were produced in 1986 by his Department and/or statutory bodies falling under his Department and (ii) in respect of what bodies were these reports produced, (b) what was the cost of producing each such report, (c) how many copies of each report were printed and (d) who undertook the printing of each report;

(2) whether the printing of these reports was put out to tender; if not, why not; if so, (a) what was the (i) lowest and (ii) highest tender submitted, and (b) what was the amount of the successful tender, in each case;

(3) whether any copies of these reports were sold; if so, (a) how many, (b) to whom, and (c) at what price, in respect of each report;

(4) in respect of each of the latest specified five years for which information is available, (a) what was the total cost to his Department of these annual reports, (b) how many copies were printed, (c) how many of these reports contained (i) full colour and (ii) black and white pictures, (d) on what quality paper were the annual reports printed and (e) (i) how many of these reports contained a photograph or drawing of the (aa) political head and (bb) top official of his Department and/or the statutory bodies in question and (ii) how many of these pictures were in (aa) colour and (bb) black and white in each case?

The MINISTER IN THE STATE PRESIDENT'S OFFICE ENTRUSTED WITH ADMINISTRATION AND BROADCASTING SERVICES:

COMMISSION FOR ADMINISTRATION

(1) (a) (i) One.
(ii) Commission for Administration.

(b) R19 555,06.

(c) 2 000.

(d) Cape and Transvaal Printers (Pty) Ltd for the Government Printer.

(2) No, the Government Printer gives it out on contract.

(a) (i) and (ii) Falls away.

(b) Falls away.

(3) No. (a), (b) and (c) Falls away.

(4) (a) Information on 1982 to 1984 reports not available;
1985.............. R17 513,59
1986.............. R19 555,06

(b) Information on 1982 to 1984 reports not available;
1985.................. 1 500
1986.................. 2 000

(c) (i) and (ii) 1981-82 only black and white;
1982-83 full colour and black and white;
1984 full colour only;
1985 full colour only;
1986 full colour only.

(d) All on bond.

(e) (i) (aa) None.
(bb) 1982-83;
1984;
1985;
1986.

(ii) (aa) 1984, 1985 and 1986 colour.
(bb) 1982-83 black/white.

BUSINESS TAX (320)

Disaster details

Comprehensive business tax (CBT) as proposed in the Margo Commission Report could magnify the impact of a recession on businesses. This is illustrated in a table prepared by Marius van Blerck of Anglo American and Graham Richardson of Pim Goldby for an Institute of Internal Auditors' seminar.

In healthy business conditions, CBT increases the effective tax rate from 47% to 53,2%. And when the economy is booming, it is more likely that business will be able to pass on the cost of CBT to consumers. Company tax in all examples is assumed to be 47% and Margo's suggested CBT 5%.

When economic conditions deteriorate, however, CBT's proportion of net profit can rise from 53,2% to 202%, or more. Alternatives B, C and D are identical to A, except that the cost of purchases is steadily increasing from R25 000 in example A to R50 800 as in example D — with consequent effects on gross and net profit on the assumption that sales income remains static at R70 000.

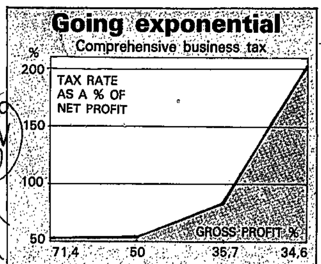
Since declining profitability is only *one* of the factors CBT takes into account, the CBT burden decreases at a much slower rate than the rate at which profit decreases. In the end CBT boosts the effective tax rate substantially as things get worse.

In conditions of business recession it also becomes more difficult to pass on CBT cost to customers, forcing business to absorb these costs.

The fact that the CBT base is less likely to fluctuate over the trade cycle than any one of its components (profits in particular) is seen by the commission as an advantage as it will, so the theory goes, provide a "less volatile" source of revenue on which to rely.

Van Blerck warns that this theory appears attractive, but ignores the strong possibility that this lack of flexibility inherent in CBT will itself accelerate the decline of a struggling business. This would aggravate the business recession and damage the overall tax base.

F/M 2/10/87



320

F/M 2/10/87

The arguments in favour of "stability" may have been valid in the days where tax allowances resulted in substantial deferrals of tax payable by profitable business concerns. They are not as valid today and will be even less so in the future if the Margo report's recommendations on the elimination of tax allowances are accepted.

Van Blerck adds that while there is some controversy as to whether CBT is, to a large degree, a payroll tax discouraging employment (the pragmatists argue that it is so), it is clear that the increasing impact of CBT as profits decline will encourage managers to retrench workers more promptly than otherwise would have been the case.

And if CBT follows the course of any other tax in South African history, it will rise and rise. ■

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THE ARTS

Locals' lekker with the new tax laws

New tax laws are designed to stop scams in the movie industry. FABIUS BURGER looks at how the regulations will affect filmmaking in South Africa

THE new tax regulations relating to the film industry in South Africa have been generally greeted by mainstream commercial filmmakers with a let's-see attitude displaying neither panic nor wonder.

These regulations are seen as putting a brake on tax scams and making it tougher to use film as a tax shelter while still making it possible to continue producing export films.

The chief change is a clause stating that 75 percent of the total cost of the South African export film is to be spent in the country. However, this excludes the money used to pay four foreign people imported either for expertise or as "names" through which the film may be sold — for example, well-known stars or a hot-shot director. The rest of the crew and cast must be local.

Regardless, however, of these four people, a minimum of 50 percent of the film's cost must definitely be spent in South Africa. Previously, say, 90 percent of the film budget could be spent overseas with only 10 percent being used for post-production in this country — merely a necessary "something" that would make the film "South African".

The other main difference is a clause, that makes the enjoyment of tax allowances dependent on the tax payer actually carrying commercial risk on the film. In other words, a film must go into profit, and the better the profit, the better the tax benefits.

Foreign filmmakers with money invested in films here, or with long term film programmes, are keeping tight-lipped, waiting to see what happens. They are, according to certain sources in the industry, in the "calm of reassessing their long term programmes and involvements and weighing up the advantages and disadvantags of the new tax regulations".

Local filmmakers think that the new tax laws will boost and even drastically change the infra-structure of the local industry.

Whichever way it goes, it can only be advantageous, is the general verdict, especially for local technicians and actors who now no longer have to watch foreign expertise walk away with all the plums and prize jobs. Local is going to be *lekker*, whether visiting filmmakers like it or not. And, they say, South Africa has a lot to offer, tax scams or not.

But a few take the view that the new laws could be detrimental. Films cost money and there shouldn't be limits on where or how that money is obtained. The new tax could dry up necessary, if dicey, areas of film financing. In fact, the Jeremiahs take the view that the industry is at the crossroads and either feast or famine wait ahead.

And will it follow that quality and subject matter will improve? That's a difficult question to answer, filmmakers say. There are several schools of thought.

Perhaps, say some, we'll move into a film era in which we can compete as South African film (whatever that may be) with the best mainstream products from overseas. Now that the export film has to compete on the market, the quality will have to improve.

Perhaps, say others, with more optimism, concerned filmmakers will no longer have to sit by and watch other countries annex important local subjects and themes such as Mandela or Biko, and turn them into trite, pop best-sellers of the mass media. South Africa is the focus of world media attention. It's only logical to think that local subjects will be in demand and that producers who look realistically as open film markets will sooner or later have to realise that films about South Africa can only be done in this country.

Others think, with some cynicism — and probably a degree of realism — that *Quatermain*-type trash will be made with all star South African casts. After all, the accent is on profit and competition, and it's well-known that those films catering for the lowest common denominator make the most money.

Time will tell. Meanwhile, it seems as though the industry is taking stock before moving on to either a feast or a famine.

391 - FUNERAL UNDERTAKING, CERTAIN AREAS.

Superceding w.d. no: 325

AREA A: Alberton, Bellville, Benoni, Boksburg, Brakpan, Durban, Germiston, Goodwood, Johannesburg, Kempton Park, Krugersdorp, Kuils River, Nigel, Oberholzer, Pinetown, Port Elizabeth, Pretoria, Randburg, Randfontein, Roodepoort, Sasolburg, Simon's Town, Springs, The Cape, Uitenhage, Vanderbijlpark, Vereeniging, Westonaria, Wonderboom and Wynberg;

AREA B: Bloemfontein, East London, Inanda, Kimberley, Klerksdorp, Pietermaritzburg and Welkom.

AREA C: Odendaalsrus, Paarl, Potchefstroom, Somerset West, Stellenbosch, Strand and Virginia. Municipal Area: Witbank.

AREA D: Kroonstad.

Footnotes

1. Additional Allowance - Special allowance
   - Embalming allowance

JANUARY — MARCH

TAXATION — ~~B~~ - 1988

tion rate to some extent, espe- ... cans were spending less on food ...

Margo proposals 'may ease estate planning'

HELEN WISHART

15/1/88

THE Margo Commission recommendation to do away with donations tax could simplify estate planning and obviate the need for further amendments to the already complicated governing statutes.

A Johannesburg attorney said the clarity which could be provided by the Margo recommendations "could only be helpful. Wills and estate planning have become very expensive and time-consuming".

A suggested capital transfer tax (CTT) would replace both donations tax and estate duty. All capital transfers would be taxed at 15% subject to certain permissable rebates.

Bequests to spouses would remain free of CTT.

However, by attempting to prevent tax avoidance through "generation-skipping" in trusts, the Margo recommendations might unfairly "overtax" the income of minor children and dependents of a deceased person at a later stage. "If a trust is established to avoid CTT on the death of the beneficiaries, the trust would be taxed every 15 years in any case".

The attorney emphasised the importance of a trust as a vehicle to protect a beneficiary for personal reasons: "The purpose of a trust is not solely to avoid donations tax or estate duty, though this has become increasingly popular since tax rates have become so heavy.

"The personal advantages of trusts include the protection of assets for minor children, senile beneficiaries, widows or widowers and agricultural property which must be passed down through a family.

"Trusts have become 'extra popular' because of their present tax advantages — and these will to some extent remain — but it would be a pity if these advantages were removed to the detriment of minor children, widows and old people."

Tax Bill holds more trauma for US firms

B/Day 8/1/88 350

JENNY BOBERG

US COMPANIES operating in SA could face the prospect of not only paying double tax on their SA profits, but also on capital gains blocked in SA by exchange control and on undistributed profits.

This threat is posed by the recently passed US anti-apartheid Double Tax Bill which became effective at the beginning of the year, says Arthur Andersen partner Adelaide Passos.

She said that when the Bill became effective, the undistributed profits of SA subsidiaries also became taxable in the hands of their US parents, regardless of those profits not having been remitted to the US.

However, while SA subsidiaries often got permission to remit their trading profits to the US, exchange control regulations prohibited any dividends being paid out of capital gains. It was nevertheless posssible that US companies could be liable to pay tax on these gains.

This would only be avoided if US companies could claim a tax deferment until exchange control uplifted the ban on paying dividends out of capital gains, Passos said.

Previously, US companies paid tax only on dividends actually remitted by their SA subsidiaries. The US authorities taxed the retained earnings only of subsidiaries in tax haven countries. However, any country to which the US denied tax relief was treated for tax purposes like a tax haven.

The anti-SA tax provision denies US companies credit for tax paid in SA.

get 33% pay for four months.

Dilly-dallying over Margo delays planning

320

JENNY BOBERG

BUSINESS planning for the 1988/89 financial year is being hampered by uncertainty over government's response to the Margo recommendations.

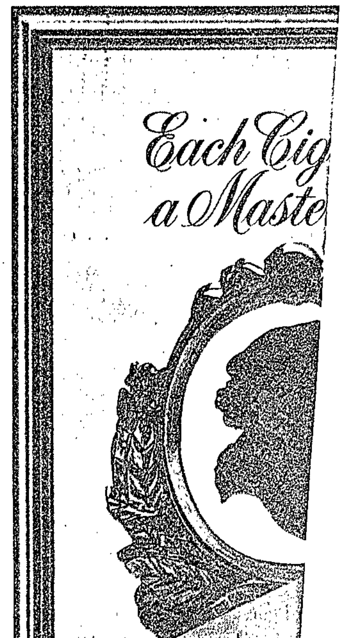
Long-term estate planning has also become almost impossible in the absence of a white paper on the commission's report.

Tax is often a vital element to be considered when assessing the viability of any business proposition, say tax experts. But at present, tax is yet another "imponderable", like the gold price, or the future cost of equipment.

"Uncertainty about what tax legislation will eventually apply to the mining industry has made it extremely difficult to give advice on the feasibility of new prospects", says Price Waterhouse partner Chris Frame.

He says before launching a new mine, or expanding an existing one, it is essential to know the rate at which capital expenditure can be written off. At present this type of decision is being de-

To Page 2



Margo: long-term planning impossible

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From Page 1

layed. And it is possible that the passing up of viable mining propects is affecting SA's gold production. Ian Mackenzie, a partner at Arthur Young, says business is finding it difficult to formulate their labour policies because of uncertainty about whether the proposed comprehensive business tax (CBT) will be imposed.

He says an expanding business is in a quandry when faced with the choice of employing more people or opting for machinery to do the work. While labour forms part of the CBT base, a deduction can be claimed for equipment purchased.

INLAND REVENUE (320)

Watching you more

Inland Revenue is substantially strengthening its three special units — Special Investigations Branch, GST Collections and Random Audits — which were identified by the Margo Commission as having the "greatest potential to provide increased revenue."

Special Investigations, which Margo recorded as having 124 inspectors in mid-1986, now has 167 staff, with 68 vacancies. There are now 99 special investigators "in the field," compared to 82; 58 of these are Inland Revenue officers.

The number of chartered accountants in the field has more than doubled to 41. These were referred to by Margo as "mercenaries, that is, CAs under contract." These specialists are the fear of anyone who has participated in the main area of special investigations, tax evasion.

The 10 branches of Special Investigations recovered R14m in 1981 and 1982, rising to R40m in 1987, and R23m in the first seven months of the 1988 tax year. The bulk of these are from income tax investigations.

The GST Collections unit has increased recoveries exponentially. The three forms of recovery — desk inspections, field inspections and penalties — brought in R32m in 1982, steadily increasing to R187m in 1987.

Practical problem

For Margo, collection of GST is a major practical problem. The technical assistance mission of the IMF was quoted as saying on May 20 1985 that: "The frequency of field audits averaged once in every 26 years in 1983 and once in every 31 years in 1984.

"Such field audits as occurred detected underpayments by more than one third of taxpayers visited.

"Audit data for 1983 suggest that detectable evasion in that year was at a level of R700m."

This latter figure, equal to about 10% of GST collected in 1983, implies a crude loss to GST evasion of at least R1bn in 1987-1988. Along with the insurmountable problems of collecting GST in certain areas hit by unrest, it is highly likely that the White Paper on Margo will accept VAT, or the disguised VAT termed "Comprehensive Business Tax," as a replacement for GST.

But the prize for the best figures proving effectiveness goes to the Random Audit team. Review of tax assessments on a "selective and random" basis, as Margo noted, "has been a long-standing procedure." There are two main aims: to protect the fiscus, and to establish credibility with the public for correctness and dependability.

The scope of audit reviews is wide, covering mainly salary cases, but also trade, farming and companies. In 1982, audits in these areas uncovered additional taxable income of R112m, rising steadily to R779m in 1987.

The main increase in additional income taxed lies with companies, rocketing from R112m in 1982 to R633m in 1987, after peaking at R693m in 1986. Margo noted that company audits represented only about 8% of the register in 1982-1984, mainly due to a serious shortage of qualified staff.

In their early days, recruits of CAs and accounting graduates recovered income tax of R171m in the 13 months to October 1985, and added back income on loss assessments to the value of R164m. In the year to March 31 1987 the respective figures were R173m and R454m; for the nine months ending October 31, R95m and R246m.

Receiver accused of refund delays

JOHANNESBURG — Refund cheques from tax overpayments, which could aggregate millions of rands, are being held up in the offices of Receivers of Revenue — many for periods longer than three months.

The delays are affecting provisional taxpayers, corporate and private, as well as people subject to PAYE deductions. Some refund cheques are stale by the time they reach the recipients, say accountants.

"The Receiver's office is not only taking months to release refund cheques, but it appears also to be playing for time by raising trivial queries about the returns of taxpayers to whom a refund is due," said one accounting partner.

An Arthur Anderson partner, Mr Richard Rubin, said refund cheques were usually issued when a taxpayer was assessed. However, a recent directive from the Commissioner for Inland Revenue had made it incumbent on assesssors to undertake an audit where taxpayers were owed more than R1 000.

"What is happening is that cheques are drawn when an assessment is made, but the Receiver is sitting on them until the audits are completed. In some cases this takes more than three months," Mr Rubin said.

A Kessel Feinstein partner, Mr Ernest Mazansky, said that as a result of these delays provisional taxpayers, who qualified for interest on their refunds, were losing this interest owed to them.

A Pim Goldby partner, Mr Graeme Richardson, said it looked as though the Receiver lacked the manpower to complete the audits timeously. — DDC

320 DD 12/1/88

'Strict orders over tax refunds'

By Michael Chester

The Department of Inland Revenue today gave an assurance that tax officials were under strict orders to ensure no undue delays in the issue of refund cheques to taxpayers who had been overtaxed in the 1986/87 year.

Mr Schalk Albertyn, chief director of operations, said most tax offices had cleared any backlogs that might have built up in the processing of refund payments due to private and corporate taxpayers.

He was responding to a report carried by a Johannesburg morning newspaper, that refund cheques which could total millions of rands, were being held up in the offices of Receivers of Revenue for three months or longer.

"There may be a few instances of delays, but they are relatively rare and it is most unlikely that large amounts could be involved anyway. There are certainly no deliberate hold-ups.

"Receivers are under instruction to issue refund cheques as speedily as possible.

"If any delays occur at all, the cause is likely to be due to double-checks that may be made on refunds of R1 000 or more to [illegible] you-earn taxpayers.

"Doub[illegible]ks are often made because it [illegible]t unusual for PAYE deductior[illegible]ceed the tax tables that empl[illegible]w."

320 STAR 13/1/88

Bus drivers strike after killing of a colleague

Own Correspondent

MARITZBURG — About 130 000 people were affected yesterday when bus drivers employed by KwaZulu Transport in the capital refused to work after the killing of one of their colleagues during unrest at the weekend.

Kwazulu Transport MD E Marshall, said all Sizanani Mazulu Transport drivers had refused to work on Sunday and yesterday leaving thousands of commuters stranded and unable to get to work.

This followed the shooting of a bus driver in the Elandskop area outside the capital on Saturday evening, he said.

Following lengthy negotiations, drivers agreed to return to work yesterday evening on condition that they need not enter the townships after dark.

Marshall said several bus drivers and staff members had been killed in violence in the Maritzburg district.

8/day

'Tax help nurtures growing industry'

JENNY BOBERG

THE key to the Republic of China's (ROC's) success in electronics is the government's willingness to be the "enabler" rather than the "controller", by offering a wide range of incentives.

Altron group executive DH Jacobson, who led a delegation from SA industry to the ROC in October, makes this point in his report. The CSIR sponsored tour group studied the ROC's success as an electronics exporter.

Tax concessions, says the report, have proved highly effective because they encourage "winners". "If a business is not successful it is not paying taxes and cannot make use of tax concessions."

In the ROC, (Taiwan) a five-year corporate income tax holiday is granted to new enterprises. Imported machinery and equipment are tax exempt, the depreciation of machinery is accelerated by up to 50% and generous tax credits are given for expenditure on technology development.

These concessions, should, the delegation believes, be implemented in SA. "If the above measures are rejected in principle by government, as a consequence of the view of the Margo Commission, then a method of direct cash incentives should be used".

Those governments which create a wide variety of incentives encourage electronics industries to expand, says Jacobson's report.

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B/day 19/1/88

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Work overload reason for late refunds?

By ROB TAYLOR

CAPE TOWN'S Receiver of Revenue has been accused of holding back on refund cheques — but manpower shortage and computer overload may be the root cause.

The Cape Times received numerous complaints from the public yesterday, including allegations that the Receiver was responsible for delays of up to two months between the date and the posting of refund cheques and that it was also holding back on the issue of cheques for less than R1 000.

But Mr Ernst Conradie, the Receiver of Revenue in Cape Town, said his office was "well ahead" this year, and defended the delay, stressing that the sheer volume of work made it impossible for all tax refunds to be processed at the same time.

"It's the luck of the draw," he said.

Mr Conradie added that it was absolute nonsense that his department was holding back on cheques that were worth less than R1 000.

"We have no control over those cheques. They are issued by computer in Pretoria," he said.

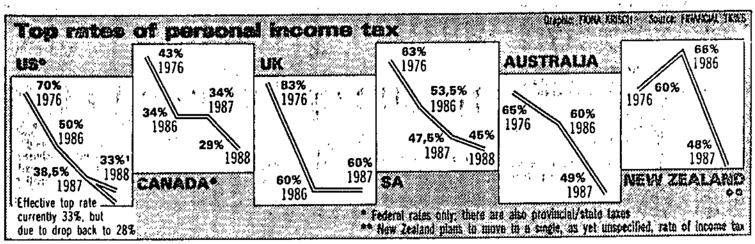
"If they are over R1 000 they are subjected to an audit. And only in exceptional cases does the delay go beyond three weeks."

Asked to commment on further allegations that the Receiver was paying interest on outstanding cheques for only 10 to 15 days beyond the date on which an assessment was processed — in spite of many cheques received two to three months later — and that it was also retaining the interest accrued on those amounts, Mr Conradie said he could not comment as this was a policy decision that concerned the Commissioner's Office in Pretoria.

But he said that only provisional tax payers with taxable incomes of over R50 000 were entitled to interest from the Receiver.

20/1/88 (320) B/Day

There is an international trend to a particular philosophy in tax reform — an emphasis on "tax neutrality" and efficiency. A market philosophy dominates: taxes should interfere as little as possible with the free operation of market forces



The world plumps for neutrality in tax reform

CEDRIC SANDFORD (Professor Emeritus at the University of Bath)

TAX REFORM has been high on the agenda for most developed countries for the last few years. The US tax reform of 1986 made the biggest splash, although many other countries had dived into the pool before the US and done so more deeply.

The US reform hit the headlines because of the claim that top personal income tax rates had been cut to 28%. But it embodied no new taxes and, in a sense, no new principles.

Essentially, all the US did was to cut personal income tax rates drastically, partly by reducing tax reliefs and concessions (so-called "tax expenditures") within personal and corporate income taxes and partly by transferring tax from the personal to the corporate sector.

In contrast, reforms in other countries have been much more fundamental.

Australia has not only reduced tax expenditures and cut income tax rates, but has started to tax capital gains and introduced a fringe benefit tax on employers and a new corporation tax.

New Zealand has implemented a comprehensive package of reforms, including a new broad-based Value Added Tax (VAT) made more acceptable by new social security benefits, a broadening of the income tax base and slashing of income tax rates.

In Canada some reform has already taken place and more is planned, on similar lines to the US, but also to include some form of federal VAT.

Tax reform is not confined to English-speaking countries. Japan has reformed its income tax and sought to introduce a sales tax. And in many European countries — for example France, Germany, the Netherlands, Denmark and Sweden — tax reform is happening, even if it is less dramatic than that across the Atlantic or the other side of the Pacific.

What has sparked all this interest and activity? It is a truism to say that tax reform has resulted from discontent with the existing tax system. But in some countries this discontent has reached extreme proportions.

Much resentment was generated in the US by the belief that many of the rich were avoiding all tax by using tax shelters. The same belief in Canada led to the introduction of a minimum income tax in 1986. Australia has also had its tax avoidance scandals.

In Australia and in New Zealand income tax was bearing with exceptional severity on those of modest earnings; in New Zealand in 1985 the top marginal rate of income tax — 66% — applied to workers earning only 2,4 times the average wage, while in Australia a top marginal rate of 60% became effective at 1,6 times average earnings.

And in Ireland, an unprecedented march in Dublin by wage and salary earners to protest at the tax burden they bore — compared with that of farmers and the self-employed — preceded the setting up of the Tax Commission.

Growing tax burdens and discontent with the tax system have in part been a product of changes in the economic environment common to all countries.

Increasing public expenditure as a percentage of GNP has pushed up tax rates; high and changing rates of inflation in the Seventies generated tax inequities; while depression in the Eighties made tax reform more difficult but also more necessary if budget deficits were to be reduced with least pain.

Dissatisfaction with the outcome of tax policies has both helped to cause and been fuelled by changes in attitudes and economic philosophy. Moreover, tax reform in some countries has stimulated it in others.

Partly this is emulation, but more significantly — in a world in which the barriers to international mobility of capital and labour have been diminishing — one country cannot ignore what is happening in others, especially where there is both a common language and a common border, as with the US and Canada.

The common feature of the resulting reforms has been a reduction in rates of personal income tax. The most common approach to achieving this reduction has been to broaden the income tax base.

For decades this policy has had its advocates — it was central to the recommendations of the most comprehensive official report on taxation ever to appear, the Carter Commission in Canada in 1966.

No country has gone as far as the Carter proposals suggested towards a comprehensive income tax base, though the Tax Commission advocated it in Ireland.

But moves to broaden the base are widespread. The US Tax Reform Act of 1986, besides removing various exemptions, reliefs and concessions from personal income tax, also provided that capital gains should be taxed as ordinary income. Previously, only a proportion of the gain had been subject to income tax.

Australia brought capital gains within the income tax code for the first time in 1986. In both Australia and New Zealand the new taxes on fringe benefits are essentially part of the same base-broadening philosophy: the tax is directed at employers because of the difficulty of taxing fringe benefits in the hands of the employees, but the intention is to discourage employers from making payments in this form so that they will disappear in favour of straight money payments taxable as wage and salary income in the normal way.

Japan has lowered income tax rates, partly by removing some of the special savings incentives which were used as tax shelters by the wealthy.

Canada and West Germany have also embarked on a programme for lowering income tax rates, partly by base-broadening.

Another important element, designed further to reduce personal income tax rates, is a switch to indirect taxation.

Where countries already have a broad-based sales tax, notably VAT, it is increased. Sir Geoffrey Howe did this most dramatically in Britain in 1979, when the standard rate of VAT was raised from 8% to 15% to pay for income tax cuts.

In other European countries the change has been more gradual — it is widely expected that the final stages of the planned tax reform in West Germany in 1990 will require a VAT increase.

Corporation tax has also been the subject of tax reforms of principles similar to those which inspired the income tax changes.

The reduction of corporation tax rates has often been accompanied — indeed, made possible by — a broadening of the base by the removal of preferential capital allowances, as in the UK and the US. In Australia and New Zealand, corporation tax reform has included a move to an imputation system.

Underlying all these changes is a particular tax philosophy: an emphasis on "tax neutrality" and efficiency. A market philosophy dominates — taxes should interfere as little as possible with the free operation of market forces.

Reducing income tax rates increases incentives to supply labour and capital. Widening the tax base of personal and corporate income tax removes distortions to investment and saving.

A broad-based consumption tax is more efficient than a manufacturers' tax (as in Canada) or a variety of wholesale taxes (as in Australia and New Zealand) and it also enables growth-creating reductions in income tax.

An imputation system of corporation tax avoids (or reduces) the double taxation of dividends, and is neutral as between retention and distribution.

This philosophy of tax neutrality — minimum tax interference in the working of markets — is not only espoused by conservative or right wing governments, as in the US, Britain and Canada, but has been taken up — and, indeed, taken furthest — by the Labour governments of Australia and New Zealand.

Moreover, it has been electorally popular; both these governments were returned to power in 1987 with more or less unchanged majorities.

FINANCIAL TIMES

Private sector caught in 'web of taxation'

Cape Times 21/1/88 9,320

Own Correspondent

PRETORIA. — The private sector was caught up in a web of taxation, which had become a major irritant and a disincentive to growth, the PFP's finance spokesman, Harry Schwarz said on Tuesday.

The taxation tangle, he said, cried out for rationalization before it snuffed out business initiative.

The major need was for a simplification of the system by reducing the multiplicity of taxes.

Businessmen were burdened with the heavy costs involved in additional staff to cope with mountains of paperwork.

Currently, there were Regional Services Council levies, income and company taxation, fringe benefit returns, unemployment insurance and workmen's compensation and many other procedures, in addition to municipal rates and taxes.

And there was a threat of yet another tax — the comprehensive business tax (CBT), recommended by the Margo Commission — being accepted by government, and imposed in the new financial year.

Schwarz said every form filled in in the private sector had to be checked, processed and filed by someone in a government office.

This involved thousands of workers who could be more productively employed elsewhere.

"We can't have half the population filling in forms and the other half checking them. We simply can't afford this.

"Businessmen have plenty of problems to face without having to struggle with cost-loading tax procedures."

On the Margo report, Schwarz said there should be no delay in getting the white paper onto the table.

"The private sector has waited for months now to find out where government is heading with its tax reforms."

The delay has interfered with forward planning in many organizations, Schwarz said.

SLACK TAXES

After two-thirds of the fiscal year, government has collected 61% of total expected revenue of R39bn, short of a proportionate 67%. Month-on-month income tax receipts fell marginally in November 1987 on the year before; GST collections climbed a meagre 7,9% to R836m.

Overall receipts were up 12,6% for April-November against a year before, more than two percentage points down on the final 14,9% estimate. On the other side of the coin, exchequer issues rose by 21,7%, well above the final 17% estimate.

Government spokesmen are not much concerned at November's apparently poor revenue. Given that gold mines make quarterly payments in November, they presumably expect a substantial boost in GST collections for the Christmas period, which will only be reported in January's figures.

Estimating gold mine tax payments, says an official, is more a case of "thumb-sucking" than anything else.

The increase in the dollar gold price has to some extent been neutralised by the fall of the US$. Other influences are the effects of mine strikes; the mining of lower-grade ore; the tax effects of capital expenditure expansion programmes; and the on-going increase in working costs.

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FM 22/1/88

MR MARTIN Sweet... tax advice.

New tax hits lower paid

380

Sowetan 25/1/88

THOUSANDS of people in the lower paid income group will face severe hardships when the Government introduces a new form of tax — the Comprehensive Business Tax — within the next two months.

The Margo Commission of Inquiry, which has submitted a report to the Government on a new tax structure, has suggested that a "modified" new form of tax, the CBT, be implemented at a rate of 5 percent.

This means that people will be paying another "GST" on all goods they buy.

A top Johannesburg insurance company will be holding seminars this week at different venues to discuss how the consumers, mostly those in the lower paid income group, will be affected.

The senior manager (legal services) of the insurance company, Mr Martin Sweet, said: "This new tax will affect blacks most. At the moment, a large proportion of the country's population, mostly blacks, is outside the income tax net, and this is the only way the government can make them pay tax.

The seminars will be held at: Morula Sun Hotel, Mabopane, Pretoria, on Tuesday, Johannesburg, Sun Hotel on Wednesday; and Cape Sun Hotel, Cape Town, on Friday.

AL and CAPE 80c (71c + 9c tax)

A TIMES MEDIA PUBLICATION

Govt is still looking into an 'own affairs' tax

CHRIS CAIRNCROSS

CAPE TOWN — Government has apparently not dropped ideas of creating a new "own affairs" tax or levy which could piggyback on the two regional services council (RSC) levies introduced last year.

According to parliamentary sources a special committee has been set to study the ramifications of introducing this additional tax, which could take the form of a user charge on all services provided under the "own affairs" umbrella.

It is understood the committee falls within the responsibility of the House of Assembly Budget Minister, the portfolio currently held by Dawie de Villiers.

Government's ideas for imposing this additional levy were inadvertently let out of the bag by National Education Minister F W de Klerk in Parliament last year when, in an apparent off-the-cuff remark, he told House of Delegates MPs if they did not get enough money for education from the budget they had the authority — in terms of the Constitution Act — to impose other levies for collecting such funds.

Subsequent investigations revealed such levy proposals had actually been formulated in the form of a position paper within the House of Assembly Budget Ministry.

The possible existence of such a proposal — ambiguously officially denied at the time — was widely condemned.

Meanwhile, there seems little doubt the financial needs of the country's new third tier of government, the RSCs, will feature prominently in the March Budget.

Official estimates are the two RSC levies being collected in the 16 RSC areas thus far established could raise some R300m this financial year.

For some RSCs the amounts raised will not be nearly enough to finance their requirements and bridging finance will be required from the Treasury.

At this stage no official is prepared to estimate what that total shortfall is likely to be.

Call to check GST payments

26/1/88 B/Day 320

JENNY BOBERG

DO NOT expect Revenue inspectors to point out GST overpayments, says Pim Goldby manager Hennie du Preez, formerly deputy director of law interpretation at the office of the Commissioner for Inland Revenue.

He urges regular reviews of GST to avoid 100% penalties for underpayment. Although many companies overpay, he says: "I have never heard of any inspector who has pointed out overpayment."

Du Preez warns that any inspector with written authority is legally entitled to enter a vendor's premises at any time, and may search for and seize any documents. If the time of the inspection is not convenient, vendors are entitled to a deferment of the inspection on reasonable grounds.

Obstruction of the commissioner's representative is an offence carrying a fine of up to R200 and 12 months' imprisonment.

'Gratuities protected' from extra tax

Cape Times 28/1/88

No need to retire early, says Du Plessis

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By AUDREY D'ANGELO
Financial Editor

THERE is no risk that anyone retiring after February 29 this year will pay more tax as a result of a recommendation by the Margo Commission, Finance Minister Barend du Plessis said last night.

In a statement, the Minister said "a large number" of people were thinking of retiring early in order to avoid paying extra tax.

But this was unnecessary because the interests of people due to receive retirement gratuities including those payable out of the proceeds of insurance policies would be protected.

Du Plessis said that, as previously announced, it was intended to table a White Paper in Parliament containing the government's decisions on the Margo Commission's recommendations.

"Speculation and the spreading of erroneous information involving a recommendation of the Commission on the taxation of retirement gratuities and lump sums under pension, provident and retirement annuity funds has however created a great deal of uncertainty among members of such funds.

"In particular, those members who are due to retire in the near future are apprehensive. Indeed, a large number of cases has come to our attention of people who as a result of this uncertainty are contemplating early retirement before February 29 this year in order to avoid the possible taxation of such benefits.

"The government views the matter in a serious light inasmuch as erroneous information can lead to the taking of decisions that might turn out to have been ill-advised."

The Margo Commission recommended that:"Where gratuities, including gratuities payable out of the proceeds of insurance funds, accrue to employees the Commission recommends that they be treated as if they were lump sums from pension, provident or retirement annuity funds and taxed at the beneficiary's average tax rate for the three preceding years of assessment."

At present such payments, within prescribed limits, are exempt from tax.

The Commission added that the transition should be made in such a way as to ensure existing members of funds "are not worse off under the new provisions."

The Minister said last night:"The Government accepts the reservation that vested rights must be protected and therefore does not plan to implement the Commission's proposal without having first investigated the matter further and found a means of giving effective expression to this reservation."

He pledged:"Any such formula as may be agreed upon will in no circumstances be retro-active.

"The Government regards personal provision for retirement as highly commendable and therefore deplores the disquiet now being sown among members of these funds by speculative and incorrect information."

Tax shock for low-income group

THOUSANDS of low-income earners who were previously exempted from paying income tax may soon be forced to if recommendations in the Margo Commission report are implemented.

Mr Martin Sweet, a senior manager of legal services with a Johannesburg life insurance company, said Justice Margo recommended, among other things, that all businesses be liable to what will be known as comprehensive business tax (CBT) in order to finance lower tax rates, reform the general sales tax and abolish the Regional Services Councils' tax free dividends and separate taxation of husbands and wives.

The Commission's White Paper is expected to be tabled in Parliament within the next two months. Parliament might decide to implement or reject all or some of the recommendations in the report.

Mr Sweet, winner of the Edward Nathan Tax Prize, said the CBT was a broad based indirect tax on income, generated by business activity in particular. He said although both blacks and whites would be liable, many blacks who had never paid tax as they had not reached the income tax level, would be affected.

"Unlike the general sales tax, CBT is involuntary. CBT is difficult to evade or avoid and is invisible to the consumer. You can't see how it is levied and there's no way of finding out how profits are going to be taxed," he said.

He said businesses which would be affected by this form of taxation would be forced to pass it on to the consumer.

Mr Sweet also said the Association of Chambers of Commerce (Assocom) saw CBT as posing serious risks to exports, new businesses and labour intensive industries.

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Sowetan 29/1/88

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'Govt won't change taxation of retirement pay'

Political Correspondent

CAPE TOWN — Finance Minister Mr Barend du Plessis yesterday assured people close to retirement that the Government was not about to change the law in such a way that would adversely affect the taxation of their gratuities.

In a statement released in Cape Town, Mr Du Plessis said speculation and the spreading of erroneous information involving the Margo Commission on the taxation of retirement gratuities and lump-sum benefits had created a good deal of uncertainty.

Members of pension, provident and retirement annuity funds who were due to retire in the near future were particularly apprehensive and it had come to the Government's attention that a large number of people were contemplating retiring before February 29 this year to avoid the possible taxation of such benefits, Mr Du Plessis said.

Mr Du Plessis said: "The Government views the matter in a serious light, inasmuch as the erroneous information can lead to the taking of decisions that night turn out to have been ill-advised."

Mr Du Plessis said the Government accepted the Margo reservation that vested rights must be protected and therefore did not plan to implement the Commission's proposal about taxing gratuities without having first investigated the matter further and finding a means of giving effective expression to this reservation.

The Department of Finance would consequently hold further discussions with interested parties to devise a suitable formula to protect vested rights, and would advise the Government further in this regard in due course.

13 stolen cars

Collection of GST is on target at R7,5bn

GERALD REILLY

PRETORIA — GST collections are on target, with nearly R7,5bn collected in the nine months to end-December, say Inland Revenue Directorate figures.

Finance Minister Barend du Plessis budgeted R9,956bn for the 1987/88 financial year.

And PFP finance spokesman Harry Schwarz said there was little likelihood of any significant decrease in GST in the budget, unless government introduced a complete tax reform package based on the Margo report.

Margo recommended a reduction in GST to 7%, and eventually to 4%.

"The problem now is the percentage increase in government spending is greater than the percentage increase in revenue," said Schwarz.

He said the deficit before borrowing was likely to be greater than budgeted for, and all indicators pointed to even greater government spending in the new financial year.

Sales tax hits black business on Bop border

380

B/day 3/2/88

THEO RAWANA

THE GST burden is hitting traders in Soshanguve, the township on the border of GST-free Bophuthatswana — and Nafcoc has formed a committee to look into this, says the black business organisation's PRO, Gab Mokgoko.

Mokgoko says Soshanguve forms a single economic unit with the Bophuthatswana areas of Mabopane, Hammanskraal, Ga-Rankuwa, Brits and Winterveldt.

"They are all under the magnetism of greater Pretoria which serves as a supplier of commodities and services, and these areas are also Pretoria's source of labour.

"They are all tucked away in the north-west of Pretoria, yet a street determines whether one side is a GST or non-GST area," says Mokgoko.

Mokgoko says this has brought about a contradiction of stated government policy of generating a balanced economic development.

Not entitled to trade

"The situation of the areas is ridiculous and, because it does not affect whites, nobody bothers. In fact, the Bophuthatswana side appears to benefit whites more than blacks, because the whites have the best of both worlds.

"Soshanguve entrepreneurs are not entitled to trade in Bophuthatswana, which is just across the street, because government policy states they are South Africans."

He says, because of unfair competition from Bophuthatswana, they have no financial muscle and cannot raise loans because financial institutions see them as a financial risk.

"Nafcoc is raising the issue for the black businessman who, although he is expected to play a part in raising wealth, is seriously hampered by a deliberate imbalance in the economy.

"The Soshanguve traders construe this as blatant unfaithfulness and the Nafcoc committee is going to investigate this," says Mokgoko.

Tax doubt forcing early retirement

Star 5/2/88

(320)

Finance Correspondent

DURBAN — The Minister of Finance was called on yesterday to react urgently to the Margo Commission report on taxation to stem the tide of skilled people seeking early retirement.

Mr Martin Sweet, senior manager, legal services, with Charter Life said despite a recent statement by the Minister, Mr Barend du Plessis, many experienced employees were planning early retirement because of the uncertainty injected into retirement planning by the Margo recommendations.

BENEFITS

One of the Margo recommendations was to abolish tax-free benefits at retirement.

Mr Sweet told a Durban seminar that a statement issued by the Minister of Finance on January 27 — which promised any move on lump sums would not be made retroactive — had actually done nothing to dispel the long-term uncertainty.

Employees were simply not prepared to take a chance on their carefully planned lump-sum payments becoming taxable in the future.

Mr Sweet said the Minister had praised personal provision for retirement and had deplored the disquiet being sown among members of pension funds by speculative and incorrect information.

However, Mr Sweet said, the only way the Government could prevent the disquiet and premature retirement of employees was "to confirm publicly that the specific Margo recommendation which affects these benefits will be rejected by the Government and consequently to announce that tax-free benefits will be left intact.

"The implication at the moment that the uncertainty is being sown by anyone other than the Government is simply passing the buck."

Mr Sweet said overall uncertainty flowing from Margo was severely prejudicing business planning in 1988.

The sector would be severely prejudiced if the Government did not speedily publish its White Paper on the Margo report.

Companies wanting to convert to close corporations did not know whether to wait and see whether dividends would become tax-free.

Even in the estate planning area, uncertainty reigned.

The legislature last year had closed the Estate Duty Act's 4(q) and 4(m) avenues, which it had left open for many years. Tax planners had now found new ways of creating double deductions.

VESTING TRUSTS

He pointed out that there had been a move away from vesting trusts to what are called discretionary trusts.

The move to a capital transfer tax was ironic in that the UK — on which the Margo ideas were modelled — had moved away from the concept to what is called an inheritance tax, which was more along the lines of the estate duty South Africa seemed set to drop.

TAXATION 320 FM 5/2/88

The great chase

Taxpayers who have invested in schemes aimed at exploiting the Export Marketing Allowance (EMA) may be in for a shock.

The EMA, which allows 175%-200% of qualifying expenditure to be deducted from income, is due for substantial amendment this year.

Inland Revenue authorities believe the EMA is being widely abused. Schemes described under Section 11 *bis* of the Income Tax Act are reportedly being used for products as diverse as computer software and used cars.

To qualify for the EMA, the law prescribes that expenditure be incurred in "advertising, marketing and otherwise securing publicity for an export product in an export country." Provided that export revenue has increased by at least 10% annualised since the previous year of assessment, 200% of the defined expenditure may be deducted.

At 50% company tax, the overall "best" position of a company exploiting the EMA is a neutral net cash-flow. *How* the money is spent, and *who* gets it, say some, can be "another story."

If the product exported is itself subject to generous tax write-off provisions, an exporter can come out very well. The EMA previously won wide publicity, without specific mention, regarding substantial investor returns available in the motion picture industry.

New tax law for motion pictures was announced in April 1987, and gazetted in September, after mopping-up and wide discussions with the private sector. The EMA was not specifically abolished for export motion pictures, but investors now have to be "at risk" to the extent of their cash input — crudely, this means they will be exposed to economic loss should no income flow from the picture.

The other "risk" is that, though sources conflict, it seems that Inland Revenue has rejected certain losses associated with motion pictures. These could stem either from artificial structures found before April 1987, or from schemes promoted subsequently that have fallen foul of the "at risk" rule.

Is there a moral in the EMA experience? Only that investors should be extremely suspicious of who promotes an investment, and investigate who will stand behind it.

For example, front runners in the motion picture industry, such as Toron International's Edgar Bold, stress how important it is to count 10 before signing cheques. Counting 10 can mean anything from (paying for) counsel's opinion to a couple of independent assessments from attorneys and accountants.

How far the EMA will be tightened up remains to be seen. If abuse is widely stemmed, the never-ending search for the next best exploitable tax break will take wings. ■

Crash changes tax rates

(320)

Richard Hammer of Price Waterhouse, New York, is chairman of PW's World Firm's International Tax Services Panel, and president of the International Fiscal Association.

Following Black Monday, October 19, industrial countries are reconsidering tax and other economic policies. President Reagan, for example, says that all spending and taxing programmes, except social security, are "on the table."

I hope this means that Reagan's previous impasse with the Democrat-controlled congress will fade as both compromise ideology (and forgo "business as usual") for economic survival — at home and abroad. The goal of tax policy remains, as in the 17th century, to pluck the goose "so as to get the most feathers with the least hissing." But, in an industrial age, the stakes are higher.

I do not expect tax policies in industrial countries to change dramatically, short-term. Changes, when they come, will be of degree. The US is in the forefront of several important trends, including:

- ☐ Reduced tax rates for both individuals and corporations;
- ☐ A broader tax base — more items included in income and fewer deductions and credits — for both individuals and corporations;
- ☐ Provisions which make it relatively more expensive to operate abroad (tax haven legislation, restrictions on the foreign tax credit, and restrictions on tax treaty benefits);
- ☐ Tougher rules on, and closer scrutiny of, transfer prices between related parties — such as parent and subsidiary corporations;
- ☐ Increased complexity. Under the US rules, businesses with significant foreign operations *cannot* prepare tax returns properly without sophisticated computers; and
- ☐ Enforcement policies that squeeze more tax out of an existing tax system.

On the other hand, the US has not yet embraced a value added tax (VAT) or a national sales tax. These are major sources of revenue in most industrial countries (except Japan), most US states and many US cities. Nor has the US implemented relief from double taxation or corporate profits by integrating the taxation of corporations and shareholders — as a growing number of industrial countries are doing.

A final trend, to the great joy of non-US multinationals, is the demise — or at least scaling down — of worldwide unitary reporting. A few years ago about 25% of US states, most prominently California, used this to compute a multinational's income.

On January 1, the top US individual tax rate went down to 28% and the top corporate rate to 34% — from 50% and 46% respectively, two years ago.

Industrial countries are worried that low rates in the US will cause their best and brightest to emigrate. Some have acted already. Canada, where 95% of the population lives close enough to watch US TV, is lowering the top national rate to 29% from 34%. Australia has lowered its to 49% from 60%; New Zealand from 66% to 48%.

The UK was the trendsetter in corporate rate reduction. It reduced its 50% rate to 35% in steps over three years, to 1986. The US soon followed, with France reducing its longstanding 50% rate to 42%. Holland has cut its rate to 42%. Germany is studying rate reduction, though its rate is only 36% on profits distributed as dividends.

Industrial countries which lowered tax rates offset — or more than offset — this with a broader tax base. The UK coupled rate reduction with the removal of a major capital recovery programme, which had permitted new plant and equipment to be written off 100% in the first year.

The US went even farther. Despite lowering the corporate rate from 46% to 34%, US business will pay an average of $25bn a year more in income taxes in each of the next five years. The major reasons are:

- ☐ Elimination of the investment credit;
- ☐ Lengthening of depreciation lives; and
- ☐ Making the foreign tax credit limitation more restrictive.

The Tax Reform Act of 1986 was supposed to be "tax neutral"; that is, to generate the same revenue as the tax system it replaced, if with some major shifts of impact.

Industrial countries are moving towards integrating corporate and individual income taxation. France, Germany and the UK have done this for many years. Canada, Italy and Australia have joined the club.

The additional impetus of economic crisis may speed more rational tax policies. It is heartening that major countries are rethinking longstanding policies to find fairer methods that least distort their economies.

TAX PLANNING

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Fiddling while pensions burn

Pre-Margo White Paper speculation, particularly regarding retirement, is frenetic. Some professional advisers are sending out panic signals. Unfortunately, nothing will be settled until there is an official government statement.

It is doubtful that the Margo White Paper **(see box)** will suffice. The main worry in retirement planning concerns the Margo recommendation to abolish lump sum benefits from retirement funding instruments. This major, immediate benefit of retirement is important to ex-employees.

According to tax advisers, people are taking retirement before February 29 to avoid the effects of possible acceptance of the Margo recommendation. There has been some half-baked official reaction to the situation.

On January 27, Finance Minister Barend du Plessis said that government regards retirement planning as "commendable. It therefore deplores the disquiet now being sown among members of these funds by speculative and incorrect information."

The statement did not, however, guarantee or promise that retirement-linked lump sums would not be taxed in future.

Says Charter Life's Martin Sweet: "If government indeed regards personal provision for retirement as commendable, it should confirm publicly that the specific Margo recommendation will be rejected. The implication that uncertainty is being sown by anyone other than government is simply passing the buck."

Since Margo's appointment four years ago, tax planning has been a headache, especially for medium- and long-term plans. There has been retroactive law (investments in TBVC); promises of and promulgation of retroactive law (the motion picture industry); and unsignalled, ad hoc changes (fringe benefits tax is the best example).

Another example of vacillating behaviour by government relates to estate duty. This has been up for abolition for some years.

Margo concurred, recommending that estate duty be replaced by a flat rate Capital Transfer Tax. For estate planning at the coal face, however, things have been very different. In 1984, after consultation with the private sector, amendments were introduced that, given a properly devised plan, *effectively* abolished estate duty.

Government ignored warnings, prior to promulgation of the amendments, that this would be the case. Nothing happened until late 1987 when, out of the blue, an amendment effectively reinstated estate duty, allowing only a deferment.

There is as much tax uncertainty in another area — vehicles for conducting trade and business.

Then, whereas a Close Corporation (CC) and incorporated company pay the same rate of 50% on taxable profits, dividends are treated differently. CC dividends received by an individual are tax-free; two-thirds of those received from a company are taxed at the individual's marginal rate.

For tax reasons alone, it has thus been beneficial for many companies to convert to a CC — where possible. There is a conversion price: 10% of accumulated profits.

Margo recommended (wisely) that *all* dividend receipts should, in steps, be freed from tax. If this is accepted, the 10% conversion fee will make it pointless to convert to a CC if tax is the sole consideration. Again, tax planning has been hamstrung. There are many more examples, but the point is that government has sown the seeds of tax uncertainty and is now reaping its crop. While taxpayers continue to shoulder an ever rising tax burden, personal and business tax rates are falling drastically throughout the West (see **P42**).

Anecdotal evidence suggests that some people now leave SA for tax reasons — a far cry from the immediate post-war period, when low taxes were a major attraction to immigrants. If people are also retiring early for tax reasons, some of them must also be added to the "brain drain" list. This is a sad state of affairs for a country in which every interest recognises that there is a lack of skills.

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President's speech and reaction

No increase for public servants

By AUDREY D'ANGELO
Financial Editor

PUBLIC servants, including teachers, will receive no across-the board pay rises this year. There will be a cut-back in the creation of new jobs in the public service, and "a revision of services and standards".

These measures to reduce government spending were among points made by the State President, Mr P W Botha, in his speech at the opening of Parliament yesterday.

Other plans include the privatization of Eskom, South African Transport Services (SATS), Posts and Telecommunications and some sections of highway to raise money which will be used to reduce public debt and finance the development of small business and of infrastructure in developing areas.

Mr Botha also disclosed that the government would replace General Sales Tax (GST) with an invoice-based Value Added Tax (VAT), which has been in use in Europe for many years.

However, it will not be possible to make the change-over to VAT this year. At a press conference yesterday the Minister of Finance, Mr Barend du Plessis, said it was hoped to replace GST with VAT in the 1988-89 tax year.

Mr Botha disclosed that the possible listing of Eskom on the Johannesburg Stock Exchange (JSE) was being investigated.

This would possibly be followed by JSE listings for SATS and Posts and Telecommunications.

All three must become "tax-paying, profit-seeking enterprises either in their entirety or after sub-division into appropriate business undertakings".

Mr Botha said agreement had been reached with one consortium for the privatization of the Hendrik Schoeman highway between Springs and Krugersdorp; and with another for the privatization of sections of the national route between Kroonstad and Johannesburg and between Maritzburg and Alberton.

These would become toll roads. Alternative routes would remain.

The government was in favour of the privatization of its shareholding in Foskor.

"As far as Iscor is concerned, structural adaptations are at present being considered to make privatization possible.

"Similarly, it is the government's view that the development of the Mossel Bay gas project should in the main be a private sector development.

"In the meantime, good progress has been made with the privatization of several functions of the Atomic Energy Corporation in which advanced technology is involved."

Mr Botha said the proceeds of privatization would be allocated to the state's capital revenue fund and would not be used to finance current expenditure.

They would be used, as a first choice, for the redemption of public debt.

Mr Botha said that in 1988 economic policy would "still be geared to further increasing the economic growth rate without aggravating balance of payments and inflationary problems".

But affordable limits for government expenditure were determined by the contribution taxpayers were able to make plus the amount that could be borrowed.

Since every need could not be met, priorities would have to be determined. "Naturally, humanitarian services for the less privileged will enjoy a high degree of preference in the determination of priorities."

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VAT system tightens tax net

Star 6/2/88

And raises ire of those who pay it

NEIL BEHRMANN

LONDON — If the European experience is any indication, value added tax (VAT) will draw more businesses and individuals into the indirect tax net.

In principle it is similar to general sales tax (GST) where the consumer must pay indirect taxation on goods bought.

While VAT helps the government collect tax more easily, it raises the ire of businessmen, professionals and self-employed tradesmen who must be registered for VAT if their gross earnings are more than £21 300 (R74 500) a year.

For them it is an irritating adminstrative burden.

They must complete complex forms containing incomprehensible jargon. Time wasted with accountants and customs and excise officers could be spent more profitably elsewhere.

Anyone remotely involved in the VAT system complains bitterly.

The 15 percent value added tax (VAT) is collected in stages from the primary producers through to manufacturers and wholesalers to the distributor and then the final consumer.

VAT differs in member states of the European Community (EC). It was first introduced in Britain in April 1973 to comply with general EC directives.

In Britain consumers have some advantages: food, children's clothing and footwear, books and newspapers, prescriptions, sale of residential and office buildings, new construction, air tickets and exports are exempt from VAT.

In Britain plumbers, carpenters, solicitors and accountants must register for VAT if they earn more than the stipulated minimum.

The medical profession, insurance companies, brokers, banks and freelance writers or journalists must also register. But they are regarded as "zero rated" for VAT. This means that they do not have to charge VAT on their bills. Instead they can claim back the VAT paid on their supplies.

In theory VAT forces non-tax-paying members of the "informal economy" to pay tax.

Successful self-employed tradesmen should register for VAT. On all their invoices there is a VAT number and if they try and avoid paying income tax to the Receiver of Revenue, they can be caught out by the customs and excise authorities.

In practice, however, many tradesmen make sure that they receive cash and deliberately keep their turnover below the limit.

For this reason, the "moonlight" or informal economy, to the chagrin of governments, is still alive and well in Europe.

● **Ann Crotty** reports that the VAT system, rather than GST, is believed to be better suited to South Africa where total economic activity comprises a very large informal sector which can easily allude both measurement and legislation. This means that in many cases although retailers are adding on the GST to their customers' bills, this GST portion is not getting passed on to government.

Under the GST system the retailer is the only link in the chain between original producer to final consumer that is responsible for tax collection and payment.

So if he does not pay up the government receives nothing. With VAT the collection and payment burden is spread throughout the chain. This means that the chances of government receiving some payment is enhanced.

Pick 'n Pay's Raymond Ackerman feels that VAT is superior to GST because there is less scope for evasion.

D/D 6/2/88

Businessmen welcome tax change

(320)

JOHANNESBURG — The South African business community has welcomed the announcement that an invoice-based valued added tax (VAT) is to replace general sales tax (GST).

This is with the proviso that VAT can be applied at a low rate.

Business and industrial leaders have given qualified support to the VAT announcement. But they are reluctant to commit themselves fully until the rate at which VAT will be applied has been announced. This is expected to be disclosed in the March budget.

The president of the Afrikaanse Handelsinstituut (AHI), Mr Pierre Steyn, said it was essential that VAT be applied at a low rate and on a broad basis.

The director of the National Association of Automobile Manufacturers (Naamsa), Mr Nico Vermeulen, said invoice-based VAT (IVAT) was much like GST but could be applied on a broader basis, since it applied to every transation in the production and distribution process of a product or service, with the tax being imposed on the difference between input costs and value of outputs.

The Association of Chambers of Commerce (Assocom) expressed some regret that GST is to be scrapped, but Assocom's president, Mr Alec Rogoff, said if change was inevitable, Assocom preferred VAT to CBT.

The president of the South African Federated Chamber of Industries, Dr Hugo Snyckers said that "the structural reform of the economy which is envisaged is highly desirable, together with the exercise of the necessary fiscal and monetary discipline."

The Consumer Council said VAT would be advantageous to the authorities because all products and services were included and better control over collection could be exercised than with GST.

"It can only benefit consumers if tax rates are lowered as a result thereof," it said in a statement. — Sapa

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How VAT will work

By LAWRENCE TOTHILL

THE switch-over from the present General Sales Tax (GST) to the Value Added Tax (VAT) system should not result in the consumer having to pay more for goods.

They are both sales taxes and both result in the end user actually paying the tax. The following simplified example is given to try to illustrate the difference.

GST system:

Raw materials sold to manufacturer	R 500
Manufacturer adds value through process	1 000
Sold by manufacturer to wholesaler	1 500
Wholesaler adds on value of	500
Sold to retailer for	2 000
Retailer adds on	500
Retailer sells for	2 500
GST @ 12% added on	300
Consumer ends up paying	R2 800

VAT system:

Raw material cost (R500 plus 12% tax)	R 560
Manufacturer adds R1 000	1 000
	1 560
Manufacturer takes off the tax he has paid	60
	1 500
Manufacturer adds 12% tax	180
Sells to the wholesaler for	1 680
Wholesaler adds	500
	2 180
Wholesaler takes off the tax he paid	180
	2 000
Wholesaler adds 12% tax	240
Wholesaler sells to retailer for	2 240
Retailer adds on	500
	2 740
Retailer takes off the tax he paid	240
	2 500
Retailer adds 12% tax	300
Consumer pays the final price	R2 800

The consumer ends up paying the same, but it always seems a long and cumbersome way of getting there. It increases paperwork consideraby. On the other hand it is devised to make sure that tax is collected all along the line.

The switch-over is scheduled for March 1, 1989 at the earliest.

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BUSINESS

Du Plessis: VAT more efficient, despite paper work

By AUDREY D'ANGELO
Financial Editor

ALTHOUGH the invoice-based value added tax (VAT) which the Government will substitute for General Sales Tax (GST) will be an administrative burden it will be efficient, the Minister of Finance, Barend du Plessis, said yesterday.

He told a Press conference that the multi-staged tax has been in use in the European Economic Community (EEC) and other countries for years.

Accounting-based VAT, or Comprehensive Business Tax (CBT), which was favoured by the Margo Commission would have been an attractive tax. But there were "insurmountable problems as far as exports were concerned."

There were strong objections from the private sector against the inclusion of export income in its base. Repayment of refunds would have been a considerable administrative burden and there could have been difficulties with the General Agreement on Tariffs and Trade (GATT).

Du Plessis said it would be impossible to replace GST with VAT this year. "But if it is at all possible we would like to see it introduced in the 1988/89 tax year."

Discussing plans to tighten up Government spending, Du Plessis said that a new framework for public sector finance would ensure that money was used where it was most needed, according to a system of priorities.

"All money will in future come to the Treasury. Earmarking of funds is over."

The Budget would be restricted to affordable limits. "Your needs always exceed your resources and so you need a system of priorities to do what you see as the most important thing — not necessarily from the economic point of view."

Discussing the privatization of parastatals, Du Plessis said this would not only reduce State activities but would provide capital to help meet priorities.

"For many years, the State has not had any real return benefit on investments made originally for socio-economic purposes, like Iscor."

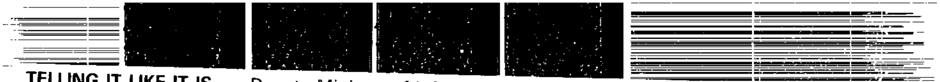
Privatization would enable the State to re-apply the money for other more pressing socio-economic needs without exploitation of the taxpayer.

Discussing the decision not to give across-the-board increases to public servants, Du Plessis said that 32% of State expenditure was on staff.

Public servants would receive i crements of scale, which were a co tractual obligation, and there wou be very modest increases for profe sional groups who found themselv in an imbalance between salari paid by the State and the priva sector.

Members of the public would al make a contribution to saving b cause they would have to accept reduction in standards of service

"If you want lower taxation, y must accept the consequences of r duced services," said Du Plessis.



TELLING IT LIKE IT IS . . . Deputy Minister of Information Stoffel van der Merwe (left) and Minister of Finance Barend Du Plessis discuss plans to tighten up Government spending at a press conference yesterday.

Business community welcomes VAT, but with proviso

Financial Staff

THE SA business community has welcomed the announcement that valued added tax (VAT) is to be introduced in place of general sales tax (GST) provided it is applied at a low rate.

Pierre Steyn, president of the Afrikaanse Handelinstituut (AHI), said it was essential that it be applied at a low rate and on a broad base.

Nico Vermeulen, director of the National Association of Automobile Manufacturers (NAAMSA) said invoice-based VAT (or IVAT) was much like GST but could be applied on a broader base, since it applied to every transaction in the production and distribution process of a product or service, with the tax being imposed on the difference between input costs and value of outputs.

IVAT was well-tested in other countries and was therefore preferable to the relatively untried CBT system.

The Association of Chambers of Commerce (Assocom) has expressed some regret that GST is to be scrapped.

But Assocom president, Alec Rogoff, said if a change was inevitable, Assocom preferred VAT to CBT.

"Research done by Assocom has highlighted the serious foreign trade difficulties posed by CBT and this has clearly been accepted by government in its decision to opt for VAT instead," he said.

"The association also welcomes the fact that tax reform will be implemented in close consultation with the private sector, as considerable forward planning is necessary."

Hugo Snyckers, President of the SA Federated Chamber of Industries (FCI) said:"The structural reform of the economy which is envisaged is highly desirable, together with the exercise of the necessary fiscal and monetary discipline.

"Overall, the State President's announcements should inject new confidence into consumers and business decision-makers and lead to the creation of more jobs.

"We are sure all businessmen will endorse the need to exercise self-discipline and determination in regard to prices and employment costs to match that of the government."

Snyckers said it was to be hoped that workers would accept the need for the required short-term restraint and "be persuaded that the steps to be implemented will increase the size of the overall economic cake".

He said the announcement of the introduction of VAT would remove some of the uncertainty following the Margo Commission report.

The Consumer Council said VAT would be advantageous to the authorities because all products and services were included and better control over collection could be exercised than with GST.

"It can only benefit consumers if tax rates are lowered as a result thereof," it said in a statement.

The chairman of Iscor and the Industrial Development Corporation, Marius de Waal, welcomed the undertaking that the government will actively reduce its role in the economy in an effort to curb inflation.

With regard to the privatization of Iscor, De Waal said Iscor should assess the cost-structures in order to make it possible, and in order that Iscor would be able to pay an initial dividend to its shareholders.

DAILY DISPATCH, SATURDAY, FEBRU/

DD 6/2/88

Vat and GST: the difference

(320)

CAPE TOWN — Value added tax was a form of sales tax, but differed from the GST mainly in the way in which it was collected, the Department of Finance said in an explanatory memorandum released yesterday.

GST was payable only by the end-user or end-consumer, while VAT was payable on each sale in the chain from the producer of raw materials to the retailer.

However, under the VAT system, the seller received credit for the tax he had paid on his purchases, and thus in effect paid tax only on the value he had added.

Under GST, imports of goods were taxable, except when imported for resale. Under VAT, however, tax would be payable on the imports but credit for the tax would be granted. Under GST, exports of goods were, subject to certain conditions, exempt from tax. Under VAT however, an exemption would be inappropriate as tax payable at earlier stages would not be accounted for.

"Countries applying Vat usually grant refunds or adopt some other system by international agreement," the memorandum said. "The refund system is usually feasible only where there are effective border controls between countries."

The memorandum said that the existing system of GST operated under a "ring system" by which a sale of goods by an enterprise to another enterprise was exempt from tax if the goods were purchased by the other enterprise for resale.

Under the present 12 per cent GST system, a manufacturer might purchase raw materials worth R500 from a supplier. He, the wholesaler and the retailer, might then in succession add a total of R2 000 in value to the goods. Up to this stage, all transactions would have been tax free. The final sale of the goods, now worth R2 500, would be subject to R300 in GST, paid by the end user. Under VAT the tax would be payable in four stages — with the seller receiving credit for the tax he had already paid on his purchases. The supplier would be obliged to pay a tax of R60 or 12 per cent of the R500 cost of the raw materials.

If the value of the goods when they left the manufacturer was R1 500, that manufacturer would be obliged to pay 12 per cent, or R180 of that amount, less the R60 in tax for which he had been invoiced by the supplier. This would amount to 12 per cent of the value he had added. He would in turn invoice the wholesaler for the tax already paid, and the wholesaler would deduct that from the tax he was obliged to pay. The process would be repeated when the goods went on to the retailer, and total tax payable, borne in full by the end user, would be R300. — Sapa

VAT to start from March '89 — Barend

Star 8/2/88 (320)

Political Correspondent

CAPE TOWN — Value Added Tax (VAT) will replace GST on March 1 next year, Minister of Finance Mr Barend du Plessis said today.

He said the rate of the new tax would be announced only when it was introduced and would depend upon budget requirements at the time.

President Botha announced on Friday that the Government had rejected the Margo Commission's recommendation for a Comprehensive Business Tax (CBT) but had accepted its second choice of an invoice-based VAT system.

While GST is a retail sales tax levied only when goods are sold to the end user, VAT is levied on each disposal of goods in the chain from primary producer to the end user.

The Margo Commission said that to avoid escalation and ensure that, for a given rate, a VAT system produces about the same revenue as GST, each trader is refunded the VAT on his purchases and pays VAT on his sales.

The net effect is that the difference between the two represents VAT on the value that the trader has added — hence the name.

The commission was not clear on whether it thought VAT would push prices up or down.

(550) B/day 8/2/88

☐ BEADY EYE ... P W Botha has publicly committed government to fundamental reform actions

Into battle with Bothanomics

Has government finally heeded the calls for far-reaching reform of the SA economy? If P W Botha keeps to the promises made in his opening of Parliament speech on Friday, this would seem to be the case, although the road chosen by Botha will not be an easy one. Deputy Editor NEIL JACOBSOHN reports from Cape Town

A FRAMED text hangs on the waiting room wall outside Finance Minister Barend du Plessis's Cape Town office. It reads:

"The State's budget must be balanced

"The public debt must be reduced,

"the bureaucracy's' arrogance must be moderated and controlled.

"Payments to foreign states must be reduced

"if the State should not go bankrupt.

"The people should learn to work again,

"instead of thriving on public handouts."

The words were written in 55BC by Cicero, Rome's greatest orator. The significance has obviously not escaped Du Plessis — and if Friday's opening of Parliament speech by the State President delivers all P W Botha promised, it will not escape anyone else either.

The Finance Minister has been pleading for fiscal discpline and tax reform since his first day in office. But as a junior minister, he lacked the political clout to enforce that discipline. Now, that has all changed.

P W Botha himself has flung his very considerable weight behind a major economic reform plan. More than that — has publicly committed government to a series of fundamental actions.

It is this last factor that is causing flutters in even the most sceptical of breasts. Years of broken promises and budget overruns mean that credibility is the Nationalist government's greatest public relations problem. Few people would have believed promises — but few can fail to be shaken by the action he has taken.

Make no mistake — what Botha has proposed is a radical departure from the socialist-leaning economic strategy the National Party has followed since 1948.

This approaches Thatcherism — with pay restraints on public servants, privatisation of State monopolies, deregulation of trade and fiscal discipline — if government delivers.

There was a certain irony in the sight of Botha announcing a new era of discipline in government spending in a spanking new R31m Parliamentary chamber that will probably be used no more than half a dozen times this year, which nicely illustrates the point that no one should minimise the difficulties that lie ahead before the economy is in the clear — such as untangling the web of State subsidies and support schemes that so severely skew the market, and such as that Damoclean sword of the State's pension fund.

But that does not alter the fact that Botha has taken some far-sighted and bold steps, both politically and economically.

To deal with the latter first, there is little in the announcement than can be criticised, with the possible exception of the privatisation of sections of the national roads network.

It's one thing to privatise a new road, from the planning stage upwards, but quite another to sell off an existing road, already paid for by the taxpayer. Even Margaret Thatcher left the roads network untouched in her privatisation drive.

For the rest, few free market supporters can quibble with the plans to privatise the State monopolies. In particular, government's intention to use funds raised through privatisation to redeem national debt is a sound move.

If, as has been suggested, the target is to reduce the deficit before borrowing to the generally-acceptable norm of 3% of GDP, privatisation is the only way to go.

More importantly, the commitment to privatisation now seems irreversible and could well spread right down the line to grass-roots institutions, such as schools.

Obviously, the State must play a role in the provision of such services for the less affluent sector of the population, but Du Plessis told Business Day that government had already adopted a more supportive role in private school education, and that he expected this process to accelerate.

So, too, the freeze on public sector pay increases, while politically risky, is economically the right action to combat inflation. Du Plessis admits "there is a correlation" between inflation and the State's staff expenditure.

With government's wage bill running to 32% of the budget, that's putting it mildly.

But, he warns, the downside of this equation is that the public must accept a decline in the standard of service from government, and that fees and tariffs charged by government departments will become more "realistic".

The latter premise can be partially accepted. The former should be rejected.

Realistic tariffs and fees are part of a free market, although government must understand that another key move in controlling inflation is to keep a firm hand on administered prices, which include tariffs set by departments such as Sats and the Post Office.

But less government need not mean poor government. Privatisation should result in increased efficiencies, and there is no reason why this should not rub off on those functions remaining in the State's hands.

The replacement of GST by VAT, too, has been generally welcomed as a more equitable system. GST has in many ways failed. Evasion has become a national pastime. In many sectors, particularly the black informal sector, it has proven impossible to collect.

VAT should change that. Being a multi-stage tax, collection is more efficient and evasion more difficult.

But there are tough decisions to be made.

Will capital goods be taxed? And what of food, which, in a pure invoice-based VAT system, should be included? Will government face the possible social repercussions of a new tax on food?

If both capital goods and food are exempted, other problems arise. VAT has a narrower tax base than GST, which means that the rate would have to be much higher than GST (possibly as much as 17%) to maintain the same revenue.

Much discussion lies ahead, in which — government has pledged — the private sector will be deeply involved.

What then of the political implications of Botha's package?

In the short-term, Botha's boldness is likely to damage the National Party's chances in the Randfontein by-election, because of that constituency's strong public-service electorate. Schweizer Reineke and Standerton will be less affected, even though the CP has wasted no time in crying *"skande"*.

The CP is right to be shocked, for what Botha has embarked upon is, in effect, a fundamental swing away from national socialism. This is hardly likely to make him the most popular figure in hundreds of dreary government offices from Pretoria to Pofadder.

Already the Sats unions have howled their rage, threatening court interdicts, work stoppages and other action.

It therefore follows that Botha has also obviously decided against a snap general election this year — and that he may well have in mind a deal with the Labour Party to postpone next year's poll.

He would be politically wise to do so. When launching her reform programme, Thatcher warned that things would have to get worse before they got better. The same applies here, and in the short-term it is only Botha who is strong enough to stand up against the collective rage of the public sector.

And after Botha? His speech refocuses the spotlight interestingly on Barend du Plessis, who, make no mistake, is an ambitious politician. Botha has handed Du Plessis an immense political weapon, and one that he can use most effectively against his own profligate Cabinet rivals.

If 1988 truly becomes the Year of the Economy, Du Plessis will emerge down the line as an economic saviour — and as the party's strong man at the very moment a new leader will be needed. F W de Klerk must be feeling as sick as a dog.

The main reforms

MAJOR economic reforms announced by President Botha are:

☐ Salaries for *all* public servants, from policemen to teachers, from Cabinet Ministers to postmen, have been frozen for the next year, apart from normal notch increases and specific professional adjustments. This has been matched with an appeal to the private sector for restraint;

☐ Privatisation is on the road, with Du Plessis talking confidently about Eskom going for a listing within 12 months. Legislation to convert Eskom, Sats and Posts and Telecommunications into "tax-paying, profit-seeking enterprises" is to be tabled, and Iscor, Foskor and the Mossel Bay gas project are identified as next targets for privatisation;

☐ GST is to be replaced by an invoice-based Value Added Tax. Experts agree that VAT is a simpler and far more effective way of collecting sales tax. But there are difficult choices to be made before this can be implemented;

☐ Control over government spending is to be tightened through a beefed-up priorities committee and a secreteriat to control capital expenditure. Significantly, Du Plessis intends to involve the private sector on a consultative basis;

☐ The system of earmarking of funds, which in the past has effectively put them out of the Treasury's reach, is to be ended;

☐ New deregulation steps are being planned, including a revision of regulations controlling food-handling and trading hours and licences, and legal prescriptions on trading rights and business premises for black businessmen (but only in their "own areas"); and

☐ Agreement has been reached with two consortiums for the establishment of toll roads between Springs and Krugersdorp, and for sections of the Kroonstad-Johannesburg and Maritzburg-Alberton national routes.

Why government had finally to about-face to save the economy

The party is over. It was fears of lagging tax revenues, an aborted economic recovery and the balance of payments constraint that finally drove government to commit itself to last week's volte-face, writes Financial Editor GERALD PROSALENDIS

WITH ECONOMISTS churning out ever more alarming projections for the general spending levels and deficit before borrowing, government finally had no choice.

State President P W Botha's intention of controlling the *extent* of the Budget back to within *affordable* limits contained an implicit admission.

Things had gone too far.

It also has broader philosophical [illegible]

wages and salaries and for servicing debt.

Last year's interest on government debt (R5,2bn) ate up 13% of the total Budget.

This is where government's intention of using the proceeds from privatisation to repatriate public debt is extremely important. It will help ease the deficit before borrowing.

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'Pressure on govt led to I-VAT plan'

HELENA PATTEN

PRIVATE sector opposition to the "comprehensive business tax" (CBT) recommended by the Margo Commission had been so strong that government had rejected it in favour of an invoice-based "value-added tax" (I-VAT), Mr Justice Cecil Margo said on Friday.

His comment followed President P W Botha's announcement in his Parliamentary opening address that I-VAT would be the principle on which government would base future tax collections.

Opposition in the private sector to the CBT was centred on the inclusion of export activity in the proposed tax base.

Tax experts said the CBT rode roughshod over major sectors of the economy in its heavy export-orientation and that its discouragement of exports was what sunk the notion in the end.

Mr Justice Margo said government would probably have gone ahead with the CBT if the private sector had not been so "misguidedly" opposed to it.

He conceded in a statement that a tax had to be "acceptable", and to make the CBT acceptable would have introduced costly additional administration in order to provide for a refund of, or credit for, tax on income generated in exports.

Difficulties with GATT (General Agreement on Tariffs and Trade) were also foreseen, he said.

"The commission's report was that, in such circumstances, its alternative recommendation of an I-VAT should be adopted."

Most tax consultants have welcomed the decision to adopt the system used in Europe and now in New Zealand.

Price Waterhouse Chartered Accountants' Chris Frame said government had arrived at a sensible conclusion. "The I-VAT system adopted by our trading partners has proved to be efficient. With our economy under siege, government cannot afford to launch into a totally unknown area, so the choice of I-VAT system rather than CBT was fairly predictable."

Anglo American group tax consultant Marius van Blerck said he would have preferred a more efficient sales tax, but "if the choice is between an I-VAT and a CBT, the I-VAT is probably the lesser of two evils.

"I-VAT is definitely potentially more expensive than GST, in both the public and private sectors, because of the multiple collections needed for every final goods sold. However, GST is more easily evaded than VAT."

He said I-VAT would raise sufficient revenue for government to continue with tax reforms and lower tax rates.

Deloitte Haskins & Sells' partner Willem Cronje said I-VAT, as used in Europe, was a "good, sound tax" and its introduction was good news. However, he said Mr Justice Margo's criticism of regional levies should still be addressed. Here, a simplified CBT with a flat 2% rate could adequately service regional needs.

☐ A government spokesman said the tax would not be implemented this year, because the adjustment period had proved to be fairly long — around nine months with GST and at least a year where the Regional Services Council levies were concerned.

I-VAT could be ready for implementation by the 1989 Budget.

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8/2/88

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State President P W Botha's intention of controlling the *extent* of the Budget back to within *affordable* limits contained an implicit admission.

Things had gone too far.

It also has broader philosophical implications for the size of government, and the broad patterns of the use of this country's resources.

But two separate things are at issue here.

The first is the rising level of goverment spending and, second, the growing deficit before borrowing.

It is the second that has immediate implications for financial markets.

Hidden tax

Some argue that they are merely different sides of the same coin. At some point, as the level of spending continues to rise, government is unable to increase taxes. Spending has outrun the ability to collect revenue, and hence the need to borrow.

From this it can be further argued that the deficit before borrowing merely amounts to a form of hidden tax that inflicts its cost either by way of higher inflation, rising interest rates or both — given that raising taxes, the last resort of desperate men, is now impossible.

If sharply higher interest rates are to be avoided, it is the deficit before borrowing that must be controlled in the medium-term.

While some economists have been punting for a deficit R11bn for the current fiscal year, the authorities seem confident these estimates will prove to be inaccurate, even unduly alarmist.

Certainly, it will be larger the the R8,4bn, or 4,7% of GDP, projected in last year's Budget speech, and probably closer to R10bn.

In private, government officials are talking of a long-term goal of a deficit of around 3% of GDP, the internationally accepted standard.

They argue that the present 5% is a spinoff of rising unemployment, surplus capacity and the low level of private sector investment.

In present circumstances, this no longer holds water.

With growth rising and excess capacity shrinking, an expanded demand by government for goods and services will crowd out private sector consumption and investment by pre-empting the use of labour and capital.

The greatest danger, in the face of government's failure to control spending, is that the presure on the central bank to create money will become almost irresistable.

If the bank yields, brace yourself for another round of demand-driven inflation.

Also, rising inflationary expectations will force up long-term interest rates, making it all but impossible for government to fund rising spending by way of loans and without further money creation. And so the circle begins again.

If, on the other hand, the central bank resists the temptation to resort to the printing press, interest rates will rise sharply as government and the private sector compete for scarce funds.

It was this realisation — and all the dire consequences it holds for the real economy — that finally put pressure on government to act.

But Botha also paid attention to the *composition* of government spending. Since 1979, consumption spending — current spending on salaries and wages and services of a non-capital nature — had risen 37,1% in real terms.

Disturbing

This is not the full picture. Investment spending, expressed as a percentage of consumption spending, had dropped to 14,3% in 1986 from 25,5% in 1979.

Going even further back, the long-term trend that emerges is more disturbing — investment as a percentage of consumption spending stood at 35% in 1970.

Investment spending generates its own returns in the form of a sustainalbe cycle of more jobs, rising incomes and, ultimately, higher tax revenues. Consumption spending does not.

At one stage the South African Budget was split into two sections:

☐ A revenue account, which detailed current spending; and,

☐ A loan account, which was the equivalent of capital spending.

At the time, the country often had a surplus on the revenue account which was then transferred to the loan account, amounting to a form of government saving.

Now, if the same system was still in force, it would reveal a different picture, with a deficit on the loan account, amounting to dissaving by goverment.

Put another way, current spending is consistently exceeding current revenue and money has had to be borrowed to finance the deficit.

While rising current spending is funded by current revenue, the situation remains stable. But when it is funded by borrowings, things can turn ugly.

It was the City of New York which discovered the end result of this particular folly, and it took some tricky financial tinkering to extracate itself. SA does not have access to this sort or parachute.

Returning to the deficit before borrowing, it is one thing for government to use the deficit before borrowing to spending on capital projects in times of recession, which generate jobs and income. It is another to use borrowed money for current spending, mainly on wages and salaries and for servicing debt.

Last year's interest on government debt (R5,2bn) ate up 13% of the total Budget.

This is where government's intention of using the proceeds from privatisation to repatriate public debt is extremely important. It will help ease the deficit before borrowing.

Government will give investors, mainly large institutions, the opportunity to swap debt for assets. This involves no loss of capital and will bring about a large saving in current spending in future Budgets, easing the pressure on the tax base.

Commitment

Given government's commitment to a secular downtrend in the deficit before borrowing, and the need not to put unneccessary strain on the economy during recessions, possibly it should commit itself to a stepped downward movement in its borrowing requirement.

This would see the deficit remain fairly stable during recessionary years and dropping sharply during times of expansion.

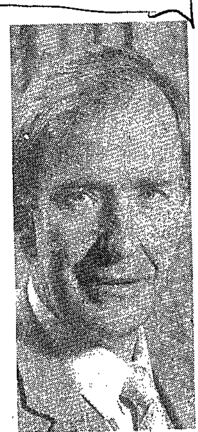
This has been the policy of the UK government, as embodied in its Medium-Term Financial Strategy announced in 1980, with visible success.

Should government fail to carry through its new found dedication to balancing the books, the results would be disastrous, and in the long-term could even threaten the stability of goverment itself.

Perhaps it is goverment's own self-interest in the present policy being implemented that will guarantee its success.

D/D 8/2/88 (320).

Speculation over personal tax cuts



MR DU PLESSIS

JOHANNESBURG — Speculation is rife that the Minister of Finance, Mr Barend du Plessis, will cut personal income tax rates in his March budget as a psychological boost to the State President Mr P. W. Botha's economic reforms.

Mr Du Plessis would not be drawn on the speculation, beyond saying that no increase in income tax would, in fact, signal a decrease because of inflation.

But Treasury and other political sources said a small cut in personal rates was on the cards — and that the government was planning a series of sweeping tax cuts, affecting personal and company taxation, if the reforms announced by Mr Botha bore fruit.

The PFP Finance spokesman, Mr Harry Schwarz, said a reduction in personal tax rates this year was a real possibility and would signal the government's commitment to righting the economy. — DDC

DID 8/2/88 (320)

VAT more effective — minister

JOHANNESBURG. — The Minister of Finance, Mr Barend du Plessis, says the proposed value added tax, to be introduced soon, will be far more effective than the present system of general sales tax.

In a radio interview he spoke about the far-reaching economic reforms announced by the State President, Mr P. W. Botha, on Friday.

Mr Du Plessis said the new tax would be collected in stages and this would curb price increases.

The government believed the tax burden on the individual was too heavy and so every attempt would be made to ease this burden.

Less tax meant that state expenditure would have to be kept within limits. This would demand sacrifices and certain services would have to be reconsidered.

Mr Du Plessis undertook, however, to ensure that essential services would still receive priority.

Referring to the announcement that public servants would not receive across-the-board salary increases this year, Mr Du Plessis said that 30 per cent of total state expenditure was on personnel, and that expenditure could not be curbed without limiting salary increases.

To help with the curbing of inflation, the private sector would have to look not only at salaries, but also at price increases.

The minister also referred to privatisation and said care would have to be taken to ensure that monopolies were not created.

The new packet would give the country the best chance to achieve success.

The proposed steps did not comprise only economic reform, but they would also have to facilitate and support constitutional and social reform. — Sapa

Reaction P11
Editorial opinion P12

ES MEDIA PUBLICATION

9/3/88 (320) 6(a)

Possible cut in personal tax rate

SPECULATION is rife that Finance Minister Barend du Plessis will cut personal income tax rates in his March budget as a psychological boost to the State President's economic reforms.

● DU PLESSIS

At the weekend, Du Plessis would not be drawn on the speculation, beyond saying no increase in income tax would in fact signal a decrease because of inflation.

But Treasury and other political sources said a small cut in personal rates was on the cards — and that government was planning a series of sweeping tax cuts further down the line, affecting personal and company taxation, if the reforms announced by P W Botha bore fruit.

PFP Finance spokesman Harry Schwarz said a reduction in personal tax rates this year was a real possibility and would signal government's commitment to right the economy.

320 B/day 8/2/88

Margo still favours CBT against VAT

CAPE TOWN — Mr Justice Cecil Margo still believes a Comprehensive Business Tax (CBT) would have been preferable to the system of invoice-based Value Added Tax (I-VAT) the government has opted for, had it not been for objections to CBT from the private sector.

Margo, chairman of the commission of inquiry on tax which recommended CBT, said in a statement that a government task force had established that an origin-based CBT — also known as the "additive type" of VAT — would have been simpler and cheaper to administer than the I-VAT.

However, there had been "very strong" objections from the private sector to the inclusion of export income in the CBT base.

"The objections are such that if a CBT were imposed it would have to provide for a refund of, or credits for, the tax in respect of income generated by exports."

This could lead to a large additional administrative burden and possible objections under the General Agreement on Tariffs and Trade (GATT).

Margo said that once the export component of the origin base of the CBT had to be excluded -- in this case because of the strength of public perceptions against it, no matter how erroneous such perceptions might be — the administrative problems connected with it had to be recognised and these militated against the introduction of such a tax.

"Although the commission's view is that a CBT which includes income generated by export activity in the base has considerable advantages, a tax must nevertheless be acceptable, and the present objections against the inclusion of export income in the base lead to the conclusion that a CBT as such should not be implemented at this stage.

"The commission's report was that, in such circumstances, its alternative recommendation of an I-VAT should be adopted."

Margo said one of his commission's basic recommendations had been that, in common with similar development in overseas countries, greater reliance be placed on indirect tax in SA's tax system.

This tax, it believed, should be a multi-stage VAT as opposed to a single-stage tax.

The next decision had been whether to opt for an I-VAT or a CBT, also known as A-VAT.

The term I-VAT, he said, referred to the type of VAT in operation in the European Economic Community and in certain other countries, which was calculated by the invoice method.

The EEC I-VAT was destination-based, although it could in theory have been either destination or origin based.

The term A-VAT referred to a VAT on business activity, calculated by the accounting method. An A-VAT could in theory also be either origin or destination based.

In its report the commission had recommended that, with a view to lowering tax rates generally and effecting other reforms, consideration be given to the introduction of a tax on value added by business activity, on an origin basis, and calculated by an accounting method of the additive type (A-VAT or CBT).

The commission, bearing in mind the high export content of the tax base, had favoured an origin-based CBT since this would ease the implementation of lower rates.

It had said, however, that before any decision on this matter was taken it should be thoroughly dicussed with the business community.

It was after such "wide consultations" with interested parties that government had decided to opt for the commission's alternative recommendation of an I-VAT. — Sapa.

P.T.O.

How VAT works

VALUE-ADDED TAX (VAT), which is to be introduced in SA in place of GST, is a form of sales tax which differs from GST mainly in the way in which it is collected. The Department of Finance explains the difference between the two systems as follows:

GST is payable only by the end-user or end-consumer. This is achieved under a system of exemptions called the ring system, under which a sale of goods by an enterprise to another enterprise is exempt from tax if the goods are purchased for resale.

The second enterprise makes use of its registration certificate to obtain the exemption. For example, a manufacturer purchases raw materials free tax, which are used for the manufacture of goods. The goods are then sold to a wholesaler, who acquires them free of tax because he re-sells the goods to a retailer for sale to the public. The retailer also acquires the goods free of tax. He charges and collects tax when the goods are sold to the public — the end-user (See Table A).

UNDER VAT the tax is payable on each sale, but the seller receives credit for the tax he has paid on his purchases, and thus in effect pays tax only on the value he has added.

Sale of raw materials to manufacturer	R 500	(free of tax)
Value added by manufacturer	1 000	
Sale by manufacturer to wholesaler	R1 500	(free of tax)
Value added by wholesaler	500	
Sale by wholesaler to retailer	R2 000	(free of tax)
Value added by retailer	500	
Sale by retailer to end-user	R2 500	(subject to tax)
GST @ 12%	300	
End-user pays	R2 800	

TABLE A

Using the same example, the tax would be payable in four stages (See Table B).

Under GST, imports of goods are taxable, except when imported for re-sale. In the example, the manufacturer would be allowed to import the raw materials free of tax. Under VAT, however, tax would be payable on the imports but credit for the tax would be granted.

Under GST exports of goods are, subject to certain conditions, exempt from tax. Under VAT an exemption would be inappropriate, as tax payable at earlier stages would not be accounted for.

Producer of raw materials:	12% of R500		R60
Manufacturer:	12% of R1 500	R180	
	less tax invoiced by producer	60	R120
	(12% on R1 000 value added =	R120)	
Wholesaler:	12% of R2 000	R240	
	less tax invoiced by manufacturer	R180	R60
	(12% on R500 value added =	R60)	
Retailer:	12% of R2 500	R300	
	less tax invoiced by wholesaler	240	R60
	(12% on R500 value added =	R60)	
Total tax payable, borne in full by end-user:			R300

TABLE B

Countries applying VAT usually grant refunds or adopt some other system by international agreement.

The refund system is usually feasible only where there are effective border controls between countries.

Why 50 nations picked VAT to collect their tax

Star · 9/2/88

320

By Michael Chester

By the adoption of the Value Added Tax system instead of the widely abused General Sales Tax, South Africa will be joining at least 50 overseas nations that have picked VAT as the best way to hit consumers with tax bills while leaving the taxman to keep a low and almost invisible profile.

It is tucked under the heading of "indirect taxation" — globally an increasingly popular alternative to direct income tax and political flak, while still drawing cash into State coffers.

Britain set the fashion with the introduction of VAT as long ago as 1973, but many South Africans are still vague about how the system actually operates.

They are likely to be kept in the dark about several key issues until the government announces a precise plan of implementation — probably not until the 1989 Budget in March next year.

Yet to be unveiled are government plans about the intended rate of VAT. Nor has anything yet been said about any exemptions, such as the many food items, which have been excluded from GST.

In Britain, VAT is running at 15 percent, but there are exemptions on items ranging from food and children's clothing to books and air travel tickets.

Guideline

At least the Department of Finance has produced a few basic guidelines, starting off by explaining that the chief difference between VAT and GST, as a sales tax, is the way it will be collected.

In short, GST is payable only by the end-user, or consumer, with exemptions covered by what the experts call a ring system. Under the system, no business enterprise pays GST as long as it can prove the goods are going to be resold to another enterprise on the way to the eventual consumer.

For example, a company purchases raw materials free of GST and the wholesaler pays no GST because he shows the goods are to be re-sold to a retailer. In turn, the retailer does not pay GST when he buys the goods, because he can show they are intended for resale. Instead, he collects the tax from the consumer who finally buys the goods, and passes it on to the Treasury.

Under VAT, tax must be paid on each and every leg of the journey from primary producer to wholesaler to retailer to consumer. But none of the tax is paid twice.

Example

Our graphic shows what happens in the production of a car as an example. It is based on the assumption that VAT will be pitched at 12 percent, just like the present GST rate.

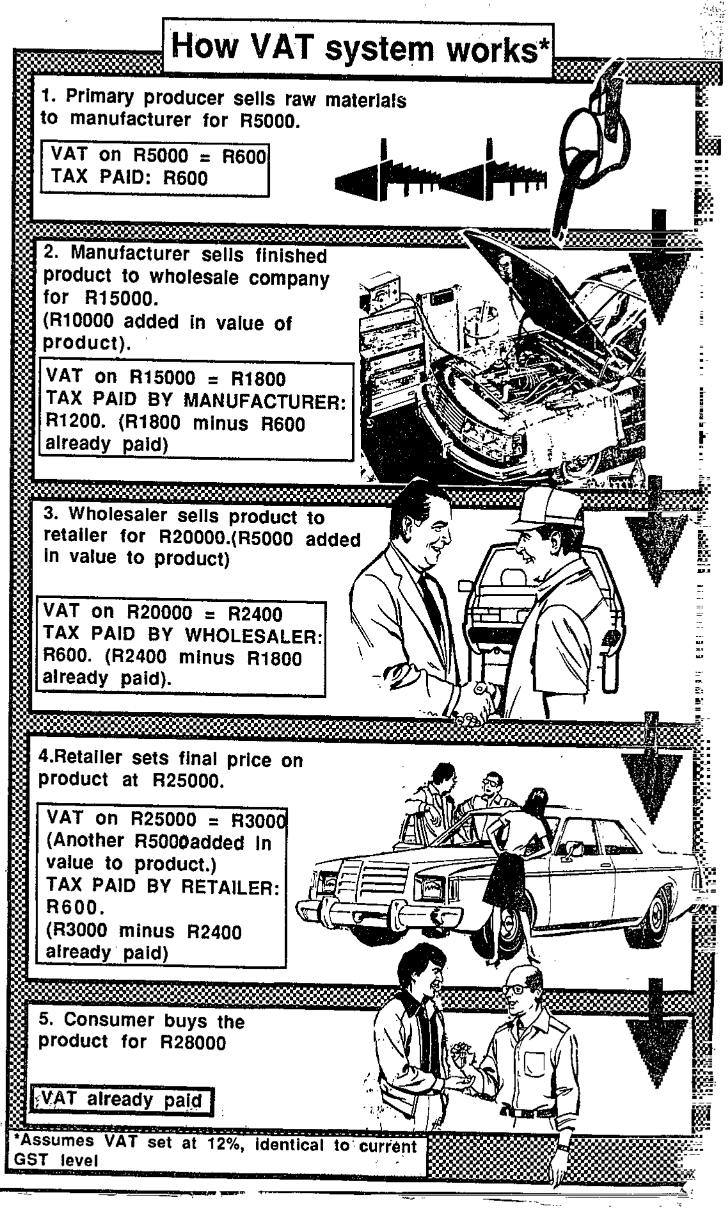
Though it must be emphasised the proposed new VAT rate has not yet been fixed, the example illustrates the difference between it and GST.

It can be seen that when the consumer forks out R28 000 for the final product, though it may appear there is no more sales tax to pay, in fact the consumer is still footing a price tag that has been inflated by taxation — however well hidden.

Put another way, if the proposed new VAT rates are set at the current GST levels, the consumer will pay precisely the identical price as now at the end of the day. The car, for instance, still has an ultimate price of R28 000.

But who paid the tax?

Watch this space.



No exemptions under new VAT

Food stamps system for the poor may be introduced

Star 9/2/88

(320)

By David Braun, Political Correspondent

Cape Town

A system of food stamps for the poor, similar to that used in the United States, is being considered by the Government, because all foodstuffs are to be taxed from next year.

Finance Minister Mr Barend du Plessis confirmed in Parliament yesterday that all foodstuffs and capital goods would be subject to the new Value Added Tax (VAT) which is to replace from next year General Sales Tax (GST) — from which food is now exempt.

The reintroduction of a tax on food could mean a lower rate for VAT compared with GST.

Although the Minister has refused to speculate, the implications of the broader-based tax are that VAT would be lower than the 12 percent at which GST is currently levied.

Wider net

This would be in keeping with a recommendation of the Margo Commission that GST be applied more broadly, including to all foodstuffs, and that the rate be reduced to 7,5 percent.

The commission found that under the present system of exmpting basic foodstuffs from GST, 72 percent of all food consumed was not taxed.

Mr du Plessis said in an interview today that food stamps had been mentioned by many people, including himself, as a possible form of relief which could be considered.

The Minister said important lessons had been learned with regard to exemptions to GST, and one of these was that they narrowed the base, which consequently made it necessary to raise the tariff.

Progressive Federal Party spokesman on Finance Mr Harry Schwarz said the Government had made it clear the new VAT would be across the board, which meant it would probably be at a lower level than the present GST.

● See Page 13.

Timetable for VAT outlined

330 BDay 9/2/88

CHRIS CAIRNCROSS

CAPE TOWN — The proposed timetable whereby government plans to replace the existing GST by a European-style value added tax (VAT) was outlined yesterday by Clive Kingon, Commissioner for Inland Revenue.

Kingon said in a statement the draft legislation providing for the introduction of VAT will be prepared as soon as possible and published for information and comment during the second half of 1988.

Legislation in its final form will then be drawn up for presentation to Parliament early next year. If the draft Bill is accepted a suitable date on which VAT will be introduced will then be announced.

GST will only then cease to be payable from the date the legislation comes into force.

VAT: how it works

JOHANNESBURG — In theory there will be no difference in the final price or the amount of tax between the present GST and the planned invoice-based Value Added Tax (VAT) if they are both levied at the same percentage level.

The Margo Report says VAT holds a danger that mark-ups can be calculated on the total cost, including the full VAT and excluding the refund, which would lift prices, but considers "competition should ensure that this profit-taking is limited."

An example of the two systems, worked out at 10 per cent VAT, or GST, is given in the Margo Commission report:

The cost of goods is taken as a basic R100, other costs to be added are R20 and a mark-up of 8,3 per cent or R10 in each case — the VAT system would levy tax of R13 meaning that the goods would leave the factory at an invoice price of R143 under VAT and R130 under GST.

The wholesaler would have additional costs of R30; under VAT he would have a R13 refund of tax; there would be mark-up of 15,3 per cent or R20 in each case; and VAT of R18. The goods would leave the wholesaler at R198 for VAT and R180 for GST.

The retailer would get a refund of R18 VAT, the other costs would be R40 and the mark-up 9 per cent or R20. This would produce a pre-tax price of R240 and tax would be R24 whether GST or VAT.

The difference is that under GST the retailer makes one payment of R24 while the VAT system would see the manufacturer pay R13, the wholesaler R5 and the retailer R6.

By levying VAT at different levels it is thought that the opportunities for evading tax will be reduced.

The switch-over from GST to VAT system should not result in the consumer having to pay more for goods.

They are both sales taxes and both result in the end user actually paying the tax. The following simplified example is given to try and illustrate the difference.

GST system

Raw materials sold to manufacturer = R500

Manufacturer adds value through process = R1 000

Sold by manufacturer to wholesaler for R1 500

Wholesaler adds on value of R500

Sold to retailer for R2 000

Retailer adds on R500

Retailer sells for R2 500

GST

12% added on R300

Consumer ends up paying R2 800

****

VAT system

Raw material cost (R500 plus 12% tax)=R560

Manufacturer adds R1 000= R1 560

Manufacturer takes off the tax he has paid (R60)= R1 500

Manufacturer adds 12% tax = R180

Sells to the wholesaler for R1 680

Wholesaler adds R500 = R2 180

Wholesaler takes off the tax he paid (R180) = R2 200

Wholesaler adds 12% tax R240

Wholesaler sells to retailer for R2 240

Retailer adds on R500 = R2 740

Retailer takes off the tax he paid R240 = R2 500

Retailer adds 12% tax R300

Consumer pays the final price R2 800

The consumer ends up paying the same but it always seems a long and cumbersome way of getting there. It increases considerably the paper work which businesses will have to do.

On the other hand it is devised to make sure that tax is collected all along the line and that tax dodgers at the end of the day are brought into the net.

Tax dodgers would include those thousands of people in the informal sector who can range from a backyard panel beater, to the housewife doing private dressmaking from her home.

The switch-over is scheduled for March 1, 1989, at the earliest and clearly there has to be a lot of money spent in teaching people and getting ready for the change.

320

D/D 9/2/88

Basic food taxed under VAT system

9/2/88

320

By TOS WENTZEL
Political Correspondent

THE new value-added tax will apply to basic food.

The Minister of Finance, Mr Barend du Plessis, indicated this in an interjection during the first day of the no-confidence debate in the House of Assembly yesterday.

He also indicated that the tax would be levied on capital goods.

Mr du Plessis said the less-privileged could be helped through systems such as food stamps that were used in some countries abroad.

Sources in the Department of Finance cautioned against speculation that VAT, which will start on March 1 next year, will be lower if applied to all goods, including food.

When GST was increased to 12 percent fresh food was exempted.

There has, however, been concern among Nationalist politicians because canned food, often a staple commodity in poorer communities without refrigeration, was not exempted from GST.

The Margo Commission on tax reform calculated that the fiscus lost about R1,5-billion a year because up to 70 percent of food was exempt from GST.

Impression

It also calculated that the poorer population benefited only by about R300-million a year by the exemption.

Mr du Plessis said today his department had learnt a lot from sales tax with regard to exemptions, which narrowed the tax base.

He would not speculate about the VAT rate and said it would be set only for the 1989-90 Budget.

Mr Harry Schwarz, Progressive Federal Party financial spokesman, warned that VAT would clash with the levies imposed by the Regional Services Councils and he urged the Government to scrap the levies once the new tax was introduced.

The Commissioner of Inland Revenue has warned that there is an impression among some that GST has already been abolished.

A statement said that vendors must continue to levy GST on all taxable transactions until the Sales Tax Act has been repealed and legislation to introduce VAT has been passed.

GST will not stop until new tax is law

GENERAL Sales Tax still had to be paid until the new system of Value Added Tax (VAT) came into effect, which would probably be next year, the Commissioner for Inland Revenue, Mr Clive Kingon, said yesterday.

He was reacting in a statement in Cape Town to an apparent misunderstanding by some vendors that GST was no longer payable following the announcement by the State President, Mr P W Botha, that it had been decided in "broad principle" to replace GST with a European-style VAT system.

"It has come to my notice that the State President's announcement has been understood by some to mean GST is no longer payable. This is quite erroneous.

"Vendors must continue to levy GST on all taxable transactions until such time as the Sales Tax Act has been repealed and VAT becomes chargeable in terms of the appropriate legislation."

Mr Kingon said the timetable the Government had in mind for the implementation of VAT was:

- Draft legislation would be prepared as soon as possible and published for information and comment during the second half of this year;
- Legislation in its final form would then be drawn up for presentation to Parliament early in 1989;
- If the Bill was accepted, the date of commencement of VAT would then be announced; and
- Only on that date would GST cease to be payable. — Sapa.

DD 9/2/88

Car dealers may benefit from VAT

320

PORT ELIZABETH — Used car dealers will probably benefit from the replacement of General Sales Tax by Value Added Tax (VAT).

Although tax will still be paid, the lower rate will mean a better break for the buyer. This is the tentative conclusion of the Executive Director of the Motor Industries Federation, Mr Jannie van Huyssteen.

"But it would depend on the way the government implemented it," he said.

"If we went the UK route, the tax burden borne by the buyer would certainly be less.

"In the UK, if a dealer purchases a used car for say, £10 000, and sells it for £12 000, VAT is paid only on the difference — that is, on the value added."

Under the present GST system, tax is not only paid on the total selling price, but is levied every time the vehicle changes hands. It is estimated that this varies between four and six times during its lifetime.

As an example, a top-of-the-line executive model costing around R60 000 will probably be sold every two years.

Given the high inflation rate, the sale price of a car in this category is unlikely to ever dip below the purchase price. At today's rate of 12 per cent, this would therefore mean GST of R7 200 paid at least four times — R28 800 in all.

Dealers say this tax is fiscally vague and bears absolutely no relation to the value of the vehicle.

The Receiver of Revenue, Mr Joe Kapp, admits that the whole GST issue "is a sore point with most buyers".

Curiously, it is felt that should VAT prove more favourable than GST, there might actually be a slowdown in used car sales in the interim period.

As for private sales between individuals, the consensus is that tax evasion will continue. — DDC

Any tax cuts will be modest

19/2/88 (320)

Finance staff

At best there will be only modest and symbolic income tax adjustments in the coming Budget, according to economists and tax specialists.

The new economic package, outlined by the State President, Mr PW Botha on Friday, has led to speculation that income tax will be cut in the coming Budget.

However, specialists said that, despite the freezing of civil service salaries, the Government continues to face enormous short-term spending pressures.

Tax consultant Mr Costa Divaris said that even if tax rates were trimmed, inflation would still ensure that the State received a lot more in the coming year through fiscal drag.

If taxes were cut by up to R500 million, the State could get R1,5 billion through the effect of inflation on incomes — and therefore on taxes.

He thought the Government might make some modest "concessions" in the Budget.

Volkskas economist Mr At Engelbrecht said although the Government is committed to restrain its spending, the necessary adjustment will take some time to effect.

The restraint on government spending would tend to hold back the economy. Coupled with the slow-down in the world economy, slower government spending would keep the growth rate to 2-2,5 percent this year.

The one factor which could change the outlook is privatisation — which Mr Engelbrecht described as an aspect too complex to predict with any accuracy.

A major asset sale in the coming year would reduce the expected deficit before borrowing — estimated by some to run as high as R13 billion in 1988/9 — and give the State more leeway to cut tax.

The swop from GST to the "more effective" VAT will not take place before next year at the earliest - meaning the benefits will take some time to flow through

The Minister of Finance, Mr Barend du Plessis, is refusing to be drawn on the question of income tax cuts. He said at the weekend that the Government believed the tax burden on the individual was too heavy and so every attempt would be made to ease this burden.

Less tax meant that State expenditure would have to be kept within limits. This would demand sacrifices and certain services would have to be reconsidered.

Mr du Plessis undertook, however, to ensure that essential services would still receive priority.

The Minister also referred to privatisation and said care would have to be taken to ensure that monopolies were not created.

Meanwhile, Iscor's management said it could not expand on Mr Botha's remarks about possible privatisation of the steel giant.

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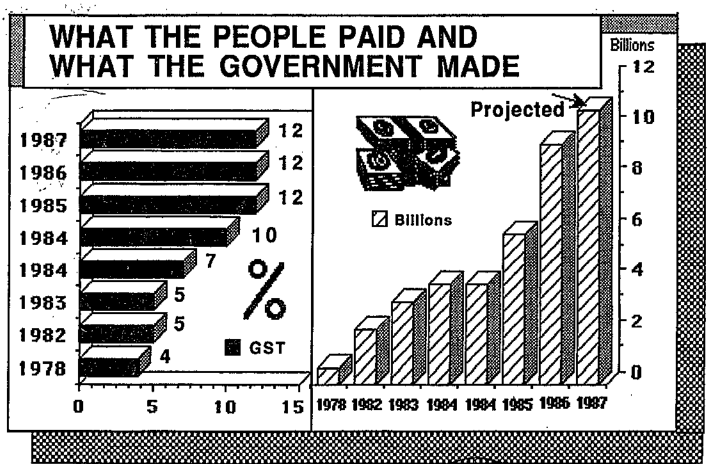

Star 19/2/88 (320)

Government's GST profits keep soaring

With General Sales Tax (GST) soon to be replaced by a Value Added Tax (VST) system, the Government can look back on some profitable years of applying GST, culminating in an estimated take of just under R11 billion last year.

Since GST was introduced in 1978, it has risen from 4 percent of the value of the goods to 12 percent at present, but the revenue from this source has soared by almost 1 000 percent over the same period.

GST has been an additional burden to taxpayers, already plagued by ever-increasing income tax rates, as they account for about 50 percent of GST payments, with the other half consisting of payments made by companies.

Planned VAT tax 'will hit poorer groups hardest'

Star 10/2/88

220

By Inga Molzen

The introduction of Value Added Tax (VAT) on food next year will hit the lower income groups hardest and has led to a warning that it may encourage industrial unrest.

Economists and consumer groups yesterday expressed dismay at the implications of the extension of the tax to foods previously exempt from General Sales Tax.

Finance Minister Mr Barend du Plessis announced in Parliament this week that, unlike GST, there would be no exemptions under the new tax system.

Said Professor J L Weyers, director of the Consumer Council: "Individuals who have until now only spent their money on tax-free foodstuffs, by buying meat instead of biltong and bread instead of buns will now be paying more."

Although theoretically the consumer should be paying less, because the implications of the broader-based tax are that VAT would be lower than GST, Professor Weyers said under VAT, tax must be paid on each and every leg of the journey from primary producer to wholesaler to retailer to consumer.

"In the final instance the consumer will be paying more for goods," he said.

Other analysts indicated that the tax burden would fall heavier on lower income groups, who previously benefited most from GST exemptions.

An economist, Professor Duncan Innes, said that food prices were an "incredibly sensitive issue" with workers because they constituted a large component of their total expenditure.

Food prices rocketed by almost twice the average inflation rate of 14,7 percent last year, he said.

"This shows that lower income groups have already been affected more by inflation," he said.

"There's every chance that the wage freeze the Government is attempting to impose, which has not been accompanied by a corresponding freeze on prices, is also likely to lead to industrial unrest," he said.

He likened the possibility of industrial unrest resulting from the wage freeze to the "winter of discontent" under the UK Labour government during Mr James Callaghan's bid to arrest inflation.

According to a recent report by Andrew Levy and Associates, the estimated number of work days lost to strike action in 1987 increased by 800 percent over 1986.

President of the Housewives League Mrs Joy Hurwitz said they had campaigned "long and hard" to have certain basic foodstuffs exempted from tax.

Reacting to yesterday's announcement that all foodstuffs and capital goods would be subjected to the new VAT, Mrs Hurwitz said it was a "calamity".

"When the tax exemption of certain foodstuffs was passed — although not for all products asked for, such as prescribed medicines — it was a great help to all consumers, particularly those poorer communities," she said.

Mrs Hurwitz suggested that the Government investigate how VAT operated in the United Kingdom: "Food is not taxed in England. Neither are other essentials such as books and school uniforms."

While Mr du Plessis said a food stamp system had been proposed as a form of relief for the poor, Professor Weyers of the Consumer Council said administering the food stamp system would be complicated and the costs would be "astronomical".

Black Consumers Union president Mrs Ellen Kuzwayo said: "I would like to see how the proposed system of food stamps for the poor will actually benefit people in the lower income groups.

"Tax on basic foodstuffs, including maize products, milk and fresh products, which have previously been exempt from tax, will be disastrous.

Cape Times 10/2/88 320

VAT 'fairest, but complicated'

Own Correspondent

JOHANNESBURG. — Value added tax (VAT) is probably the fairest of all the available indirect tax options, but it is more complicated to operate than GST and is likely initially to pose an administrative burden, says Aiken and Peat partner Glen Herbert.

The success of VAT's introduction would depend on close consultation with commerce and industry.

"Consultation with the business comunity will have to focus on the simplest and smoothest possible form of operation."

It was inevitable, however, that the private sector would have to train staff to handle the VAT system.

"Nevertheless, VAT's introduction in this country will be a major step in the shift from direct to indirect taxation and a lowering of the tax rate."

As a tax on everything, including food and professional services which are currently exempt from GST, VAT will spread the load more equitably through all income groups, Herbert says.

There are also fewer loopholes for slipping through the tax net than is the case for GST.

Unlike the add-on GST system, which is a visible component of every transaction record, the VAT components are inclusive and therefore "hidden".

Because the advertised or quoted price is what the consumer pays, "the public will in time come to live with VAT much more comfortably".

What's in a VAT? A barrel of red tape

Little-loved GST is to be replaced by the mysterious acronym VAT. RICHARD RUBIN of Arthur Andersen and Co explains the difference

	GST Amount	GST Tax	VAT Amount	VAT Tax
Cost of goods to A	100		100	
Expenses	30		30	
Profit	20		20	
Selling price	150		150	
Tax	0	0	15	15
	150		165	
Tax refund	0		(15)	
Cost to B	150		150	
Expenses	35		35	
Profit	45		45	
Selling price	230		230	
Tax	0	0	23	8
	230		253	
Tax refund	0		(23)	
Cost to C	230		230	
Expenses	50		50	
Profit	100		100	
	380		380	
Tax	38	38	38	15
Price to consumer	418		418	
Total tax paid		38		38

Assume that A, B and C are traders, with C retailing the goods to an "end-user". The rate of GST and VAT assumed for the example is 10 percent.

THE introduction of value added tax follows the findings of the Margo Commission into South Africa's tax structure which reported last year.

The commission came out against the current 12 percent general sales tax level on the basis that it was unpopular and ineffective.

It's first preference was for a combination of GST at lower rates (maximum seven percent) and the comprehensive business tax which would make up for the revenue lost with a lower GST rate. Failing that, it recommended that GST should be replaced by VAT.

VAT, which is more "invisible" to consumers than sales tax, would be easier for the government to enforce, there would be less incentive to evade it and it might be less inflationary than GST.

The debate which centred around the merits of the CBT is now largely of academic interest. The reason advanced for dispensing with the tax was that CBT could not be applied to exports without a significant effect on results in this area; while the exclusion of exports from the CBT base would almost inevitably cause difficulties under the General Agreement on Tariffs and Trade (GATT).

Instead an invoice type of VAT is to be introduced from March 1989 to replace GST as the form of indirect taxation.

As opposed to GST which in principle is a retail sales tax intended to be levied only upon sales to the end user, VAT is imposed generally on sales of goods and services — including those that take place between intermediate parties in the production and trade chain.

While the VAT paid by each party on its purchases is refunded (or more typically credited), this tax is also paid on sales, such that the net VAT paid by a trader is based on the difference between its purchases and sales, or the "value added".

Assuming the same tax base, rate and level of compliance, the total tax payable by way of VAT or GST should be the same, as illustrated in the table.

A statement has yet to be made regarding the VAT rate. It is possible that a dual rate of VAT may be implemented — as in the United Kingdom — or a multiple rate as used in France.

Favoured transactions, which would typically include exports, would be subject to VAT at a lower or zero rate. In this case, the vendor concerned may claim a refund or credit of the VAT paid by him at the standard rate, while VAT is collected at the lower or zero rate on his sales. As opposed to this, certain transactions may be exempt from VAT, in which event the vendor neither charges VAT nor is entitled to a credit for the VAT paid to his suppliers.

In practical terms, the burden of administering VAT falls on the business sector.

The administrative burden will far exceed that encountered under the GST regime, especially if dual or multiple rates apply and exemptions apply to the operations of an enterprise.

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VAT (320) FM

A minimum of 15%?

Computer companies and printers may be the real beneficiaries of the invoice-based value-added-tax (I-VAT) to be introduced in March 1989 as GST is scrapped. Contrary to theory, VAT is heavily abused in many countries where it is used. 12/2/88

Administrative pain

Those who comply with VAT tax law will be subject to a tax that is an administrative pain. So we have to ask: is VAT appropriate, particularly with SA's dual economy and especially with increasing evidence that the underground economy is growing faster than the measurable economy?

For one thing, while business and other leaders welcomed President P W Botha's announcement of VAT, few appeared to remember what Margo said the rate would have to be. It was just one reason for Assocom saying that it "had hoped that a way could be found to retain GST."

Margo itself noted that: "The base of the present GST is extremely wide" and argued that "immediate replacement" of GST by VAT would require an "unacceptably" high rate of almost 17% to collect the same revenues as GST at 12%. Moreover, the 17% rate would apply "even if food, now largely excluded from the GST base, and a wide range of services were included in the net."

Some provisos

But there were some provisos that could soften the rate. Better collections — "a feature of the VAT system" — could reduce the rate by 10%-15%; *retention* of capital goods in the base could drop it another 15%-20%.

After that, said Margo, VAT could be introduced "without loss of revenue" at an initial rate of 11%-12%. So far, tax experts have settled on an introductory rate of about 15%. This is simply too high.

Many details regarding VAT are lacking. Nobody is certain how VAT will affect agriculture and, far more important, financial institutions. The latter, not liable to GST, form a massive *theoretical* VAT base.

Some doubt has been expressed at Margo's claim that the advantages of an invoice VAT "include better collection." In some jurisdictions using VAT, says Deloitte Haskins & Sells' Des Kruger, evidence of 30%-40% evasion has been found.

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The workings of the tax criminal are often simple. Says Ernst & Whinney's Ken Walton: "In some countries, to evade VAT, a plumber, for example, won't do a job for *anything* but cash. To many the password: 'cash only — no receipts' is the password." Similar processes can be found in systems with retail taxes and in SA with GST.

But why change over?

VAT's evasion rate is a pity, because the escalation in GST evasion — which Margo blamed on its "high visibility" and "high rate" — has been mirrored by significant expansion of the informal sector. The "cash" economy is the one area where VAT can be *totally* evaded.

There is also the question how VAT falls into overall tax reform. With rejection of the Comprehensive Business Tax (CBT), Margo's would-be key reform, the major mechanism for allowing a fall in *income* tax rates has been shattered.

Rejection of CBT was a blow for commission chairman Mr Justice Cecil Margo, who said: "CBT, also known as the additive type of VAT, would have been preferable to I-VAT, had it not been for objections from the private sector."

Inclusion of exports in its base doomed CBT. But the *FM* has established that one major reason for rejection was the inclusion of pay in its base, which would have made it extremely unpopular with trade unions.

The CBT formula suggests that it is far more than an "additive" VAT; it is a multi-faceted impost that taxes payroll, profits and value added. CBT's generous base meant it could have been introduced at (Margo's) 5% with reductions in other taxes, against 12%-plus for VAT without reductions.

Many details are still needed to evaluate how VAT will affect prices, competition, corporate structures and attitudes to tax. Says Walton: "Big business can cope with VAT, but there are complications for the smaller business and the informal sector."

VAT acceptance probably hinged heavily on its "invisibility." Margo was almost obsessed with tax visibility. Regarding GST, it said: "In the extremely sensitive political situation ... this problem is critical."

year in line with the economic package

Tax audits find R300m

JENNY BOBERG

A RECORD R57,1m in unpaid GST and nearly R250m additional taxable income was uncovered as a result of tax audits in the last quarter of 1987.

The figure for unpaid GST represents a staggering 63% increase over the R35m revealed by audits conducted over the comparative 1986 period.

Inland Revenue chief director Schalk Albertyn attributes the increase to "more people on the job", and the coming together of "a long process of training and induction into this type of work".

Of the R248m additional taxable income — 23% more than the R202m uncovered by audits conducted in the last quarter of 1986 — R215m (87%) was from companies and R33m (13%) from individuals.

This contrasts with the general distribution of the tax burden — borne 55% by individuals, who contributed R10bn to the total R18bn income tax collected during the year ended March 1987.

Kessel Feinstein partner Ernest Mazansky says: "It is clear where Inland Revenue's attention is directed. But the

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Tax audits show record R57m unpaid GST

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additional corporate income is not very significant when seen as a percentage (2,7%) of the R8bn-odd collected from the corporate sector in the last tax year.

"So taxpayers are either more honest than expected, or the inspection teams are not digging deep enough."

Fisher Hoffman Stride partner Anthony Chait says audits traditionally uncover more corporate income.

"With regard to the claiming of allowances, company returns are far more open to interpretation. The returns of individuals, on the other hand, are generally straightforward."

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TAXATION

Value-added computing

The government's decision to switch from a general sales tax (GST) to a value-added tax (VAT) system will provide a boost to the South African computer industry, particularly accounting and payroll software developers. But little can be done to prepare for the changes until details of how the VAT system will work and particularly whether it is likely to be similar to that imposed by European governments.

If that happens, as one commentator points out, it will be a simple case of adjusting packages to deal with the new system because much of the software sold in SA is imported and was designed for VAT in the first place, then adapted for GST. These programmes can simply be adjusted to revert to the purpose for which they were originally designed.

Far more difficult will be the control and support systems and perhaps getting the users to understand the implications and differences. Much will also depend on how much time software developers and end-users will have to prepare for VAT. It is also clear that, at the small business end of the market, there will be large numbers of software packages which will require relatively simple adjustments. Fewer systems run on large minicomputers, but these may require major adjustments and adaptations.

Major adjustments

The effect on an individual business will depend on how much buying and selling the company does. Retail chains, with their high-volume buying and selling, will be among the most affected.

Derek Bailey, DP manager for OK Bazaars, says he is adopting a wait-and-see attitude. "Certainly, when I look back at the introduction of GST and what we had to do with our accounting systems, that was quite a job. I think the introduction of VAT will be similar but more complicated and will involve major software adjustments to our mainframe system, which was developed in house."

Jeremy Dennehy, director in charge of the information technology division of Price Waterhouse, believes the computer industry and suppliers of point of sale terminals will be kept busy by the proposed changes. "The onus with VAT will be on the producer to record not only what he has been charged by his suppliers, but also exactly what value he has added. If one is buying continually from a supplier at variable prices, the VAT will vary and that stock will have to be controlled on a lifo or fifo layers basis — what you bought, when, at what price, what VAT was charged and what the finished product was sold at.

This will mean more than merely software adjustments and could well involve hardware memory upgrades because an awful lot more information will have to be held."

Dennehy believes that the changes will be furthest reaching in the manufacturing sector and also in the financial and agricultural sectors, if these are subjected to the VAT system. ■

WHAT COST VAT?

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Comprehensive Business Tax (CBT) was stillborn and GST will be interred in 13 months' time. Meanwhile businesses will spend tens, perhaps hundreds, of millions of rand preparing for value added tax (VAT).

Most of the cost of collecting VAT, like the cost of collecting regional services council levies, will be paid by the private sector. But on any cost-efficiency analysis, the switch-over is nonsensical.

VAT involves more "links in the chain," thus needing greater Inland Revenue surveillance than GST.

The Margo Commission was not particularly enamoured by VAT. Using 1985 figures, Margo stated: "As the total cost to the authorities of controlling the present GST is estimated at R6,5m, the benefits of even slightly improved collections will easily outweigh costs." That year GST produced more than R10bn.

Inland Revenue's Schalk Albertyn, who stated that "potential (VAT) losses will be far less than under the current GST system," thus misses the point.

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TAXATION 320 FM

Death on two legs?

There has been unofficial confirmation that two major blows will soon be dealt to tax shelters. Revenue officials have stated that, following increasing evidence of widespread abuse, the tax treatment of partnerships and the Section 11 *bis* export marketing allowance (EMA) will be amended.

It is proposed that partnerships will be

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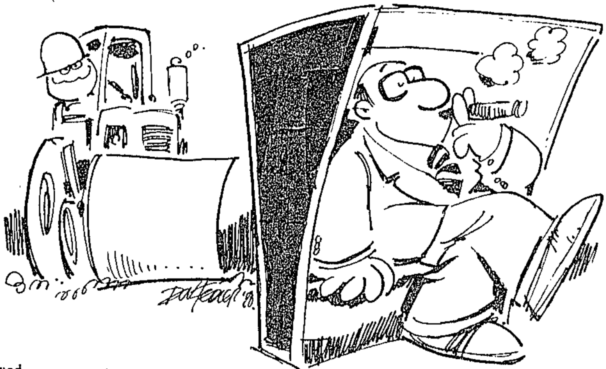

taxed as companies, which would severely curtail the ability of taxpayers to buy tax losses for writing off against income.

For example, using a partnership, an individual can buy a tax loss contrived under a motion picture scheme and write it off against income from salary, dividends, interest and so on.

If partnerships are taxed as companies, a tax loss could only be written off against income produced by the partnership/company and not transferred to reduce an individual's tax liability.

The change would amount to what is called "ring fencing;" that is, tax losses and profits are "fenced" in and may not mix with other forms of tax loss and income.

One, perhaps the only, way to combat ring fencing is for a company to generate artificial tax losses. Corporate memoranda and articles of association are normally broad enough to allow, say, a company mining coal to make widgets or invest in movies without special shareholder authorisation.

So, for example, if a large retailer made a motion picture, it could write tax losses off. The authorities could combat this only by an all-embracing ring fencing provision that, regardless of the *legal persona*, tax losses could only be written off against income derived from the activity producing the loss.

All-embracing provision

It is understood that such an all-embracing provision is unlikely, as the taxation of partnerships as companies is aimed at a particular kind of taxpayer — "armchair" investors with large incomes who buy into the many schemes that, regardless of commercial success, guarantee a net neutral "worst outcome."

A change to the taxation of partnerships is linked to an amendment to section 11 *bis*. The latter, governing the EMA, allows for double deduction of expenditure laid out for overseas publicity and marketing. Taxpayer schemes have "grossed up" figures for the EMA, so that marketing costs are disproportionate, compared to the cost of the product.

In some cases, expenditure qualifying for the EMA is five or 10 times the cost of the product. The authorities think such ratios absurd in normal commercial circumstances. Accordingly, it is thought that the amendment to section 11 *bis* will seek to impose a ratio, say 1:1, for the cost of product:marketing. ■

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VAT could pose cash-flow problems

Star 14/2/88

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By Tom Hood

CAPE TOWN — Farmers may experience serious cash-flow problems through the introduction of a value-added tax, says Mr Des Kruger, a former deputy director of Inland Revenue.

Unless special rules are introduced, farmers will have to pay VAT on their purchases of inputs (including feed, seed, fertiliser) and have to charge tax on their sales.

Though they will be allowed to deduct the input tax borne by them, they could face serious problems because of the lapse in time between the time of purchase of the inputs and the sale of the produce.

"Special rules are applied in some countries to meet this problem and it is conceivable the same would apply here," he said.

He said that under the invoice-type VAT, a firm charges tax on its sales (referred to as "output tax"), subtracts the tax imposed on purchases, excluding capital goods, (referred to as "input tax") and pays the difference to the Government.

Any excess of tax paid on purchases over tax charged on sales may either be refunded (as is the case in Europe) or carried forward to be offset against future tax liability (as in the case with the present VAT type dispensation in the liquor industry in South Africa).

Traditionally, VAT systems covered a wider range of services than the sales tax. In New Zealand all services (including the professions) are subject to VAT with only health and educational services being exempt.

Few countries had been able to impose VAT on financial services, and then only by applying an additive method (as was proposed for the CBT).

"Although it cannot be denied that financial institutions 'add value' and should strictly fall inside the net, there are major definitional problems in trying to identify the actual considerations paid for the various services."

Asked what effect the change will have on prices, Mr Kruger said with the same base and rate of tax both GST and VAT will produce the same revenue.

"Theoretically, a 12 percent VAT (although the rate will no doubt be less if food is taxed), should not have any effect on prices. But if each firm takes his mark-up on the tax inclusive price of his purchases, this will result in some escalation in prices," he said.

CT 12/2/88 (320)

Record unpaid taxes uncovered

Own Correspondent

JOHANNESBURG. — A record R57,1m in unpaid GST and nearly R250m additional taxable income was uncovered as a result of tax audits conducted in the last quarter of 1987.

The figure for unpaid GST represents a staggering 63% increase over the R35m revealed by audits conducted over the 1986 comparative period.

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This contrasts starkly with the general distribution of the tax burden — borne 55% by individuals, who contributed R10-bn to the total R18-bn income tax collected in the year ended March 1987.

Kessel Feinstein partner Ernest Mazansky says: "It is clear where Inland Revenue's attention is directed. But the additional corporate income is not very significant when seen as a percentage (2,7%) of the R8-bn-odd collected from the corporate sector in the last tax year.

"So taxpayers are either more honest than expected or the inspection teams are not digging deep enough."

Fisher Hoffman Stride partner Anthony Chait says audits traditionally uncover more corporate income.

"With regard to the claiming of allowances, company returns are far more open to interpretation. The returns of individuals on the other hand are generally straightforward."

AA sees VAT as good for car purchases

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15/2/88 Star

The replacement of GST by VAT should be good news for motorists "... since the iniquitous levying of GST each time a motor car changes hands should now fall away," says the director-general of the Automobile Association, Mr Peter Elliott.

The AA recognised that the burgeoning informal sector of the economy and large-scale evasion of personal and sales tax compelled the State either to derive income from direct and certain other sources or, to the detriment of the economy as a whole, to increase individual and company tax, he said.

"Accordingly, the accrual to central revenue of the consolidated fuel levy was seen as merely turning a *de facto* situation into a *de jure* one.

"While the AA would prefer a dedicated, inviolate fund, we recognise that at the current level the road fund levy is inadequate to meet both maintenance and new road construction project costs.

"Clearly, operating expenditure for road maintenance, the MVA fund, etcetera, will be provided as in the past on submission by the departments concerned of properly motivated budgets, while expenditure of a capital nature will be subject to set priorities funded from all sources of State revenue.

"It is imperative that consultation with such bodies as the National Energy Council and the proposed National Roads Board takes place and that the recommendations of the priorities committee not be overridden by *ad hoc* decisions," Mr Elliott said. — Sapa.

VAT could boost house prices 6%

(320) . B/day
19/2/88 .

TERRY MEYER

THE cost of a new house could rise by more than 6% once the new value added tax (VAT) is introduced.

And with building costs expected to rise this year by a minimum 17%, the combined rise could add an extra R23 000 to the cost of a R100 000 house by year-end.

National Association of Home Builders (NAHB) executive director Johan Grotsius says about 50% of the cost of a house at present — that part made up of labour, overheads and finance charges — is not subject to GST.

However, under the proposed VAT system this would appear to be taxable and could add R6 000 to the cost of a R100 000 home.

Grotsius said the home building industry was anxiously awaiting information on VAT, as the tax could present another major obstacle in the way of buying a home.

To make matters worse for first-time buyers, major builders throughout the country confirm that, with building material increases, they are no longer able to build homes for less than R40 000, which is a pre-requisite if first-time buyers are to apply for government bond subsidies.

And with mortgage interest rates expected to rise later this year, the cost of a new home could prove even more "unreachable" to first-time home buyers.

Prize moves to R800

Govt aims to halt tax avoidance schemes

CHRIS CAIRNCROSS 330

GOVERNMENT has issued a warning that it is to clampdown on tax avoidance schemes devised to get round legislation relating to incentive allowances.

The warning comes from Deputy Finance Minister Kent Durr, who noted that the Income Tax Act was amended in 1984 in order to minimise the incentive and other tax allowances to abuse by taxpayers.

This was aimed at bringing to a halt those practices whereby businesses were capitalising finance charges into the cost of such assets and claiming the allowances on the resultant inflated cost.

B/day 15/2/88

Durr said in a statement released in Cape Town it had been brought to the government attention that new schemes have now been devised which make use of similar principles and are purported to fall outside the scope of present legislation.

Section 11(bB) of the Act is to be revised to make it clear that the cost of any plant, machinery, utensils, articles or livestock acquired by a taxpayer, for the purpose of any trade, including that of mining, shipping or farming, under any purchase agreement shall be restricted to the cash cost thereof. This provision will apply from February 12.

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Busday 15/2/88

SA unions reject PW's Bothanomics

ALAN FINE

THE LATEST example of the gulf in perceived socio-political interests in SA is the rejection of President P W Botha's new economic deal by the trade unions in the midst of business enthusiasm for the package.

Business enthusiasm is tempered only by a more than sneaking scepticism over whether Botha will fully deliver on his promises, and some dissatisfaction over the comparatively minor issue of the toll roads.

On the other hand the black labour movement — through Cosatu, Nactu and some individual Cosatu affiliates — has had not a single kind word to say about it.

In essence, most of the labour spokesmen have said that the economic solutions proposed by Botha and approved of by business effectively mean further impoverishment for the poor and/or enrichment for the wealthy.

Another central view that emerges is that overspending by government is a function of its apartheid policy, and an economic solution requires, at the very least, a reallocation of state expenditure away from "apartheid expenditure".

In its critique of the package, Numsa rejected present and future forms of indirect taxation — GST and VAT. In that union's view, a greater portion of the tax burden should be carried by the wealthy who could best afford it — through higher marginal tax rates on high personal incomes, and possibly higher company taxes.

Reflection

Not suprisingly, the unions were not impressed by either the wage freeze in the public sector or the appeal for wage restraint in the private sector.

In most statements, attacks on the freeze were less pronounced than those on wage restraint — probably a reflection of the underdeveloped state of Cosatu and Nactu's organisation in the public sector.

Nevertheless, Numsa argued that the freeze was unjustified. If there was a need for cuts in government expenditure, the tremendous expenditure on apartheid ideology — the tricameral system, the duplication of services in the homelands and, above all, the security forces — should be the target.

Numsa expressed fears that government spending cutbacks would further hit already inadequate social services, whereas increased funding was required here as well as for the development of the infrastructure in black townships and rural areas.

Some employers have said that they will try and apply Botha's appeal for wage restraint. But while this may heighten levels of industrial conflict, there is an expectation from employers — and resolve from the unions — that levels of wage increases this year will not be significantly affected by the appeal alone.

Pointing to the absence of any mention of restraint on prices, profits and dividends, union assertions abound that government and employers expect workers alone to bear the brunt of the battle against inflation.

Concentration

Privatisation is widely seen as likely to increase the concentration of wealth in the hands of SA's major private corporations.

Numsa argued this concentration would not increase competition or, therefore, efficiency.

And while the parastatals were now not responsive to community needs, they would become even less so when privatised.

BUSINESS

DD 16/2/88 (320)

VAT may push up house prices 6%

JOHANNESBURG — The cost of a new house could rise by more than six per cent once the new value added tax (VAT) is introduced.

And with building costs expected to rise this year by a minimum 17 per cent, the combined rise could add an extra R23 000 to the cost of a R100 000 house by year-end.

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And with mortgage interest rates expected to rise later this year, the cost of a new home could prove even more "unreachable" to first-time home buyers.

For the past few years the cost of existing, or second-hand, homes has lagged behind that of new homes, making them a relative bargain.

nce

DD 16/2/88

Margo Commission findings significant

by Michael Belling
manager (marketing communications)
Sage Life

The Margo Commission recommendations relating to life assurance and retirement funding are less dramatic than some of the sweeping changes proposed in other areas, but are not insignificant.

They could also be introduced far sooner than many of the controversial major recommendations.

One particularly significant proposed change is in the taxation of lump sum benefits on retirement.

At present, up to R120 000 is exempt from tax on lump sums from pension, provident and retirement annuity funds (the amount may vary in certain cases). Any balance is taxed at average rates.

Another form of lump sum payment is a retirement gratuity, often termed deferred compensation. The first R30 000 is exempt from tax and the balance, within certain limits, is also taxed at average rates.

The commission recommended that all these payments, including deferred compensation, should be taxed at the beneficiary's average rate of tax over the preceding three years, doing away with the tax-free amounts.

The effect would clearly be to increase the tax payable on all these amounts. These plans would, however, still be worthwhile investments as contributions would remain deductible and the lump sums would be taxed at average and not marginal rates.

Withdrawal benefits from pension and provident funds would also fall victim to the recommendations of the commission. They would be fully taxable, in contrast to the tax exemption now on the first R1 800. No tax would be payable if the monies were transferred into a recognised retirement fund.

The most important aspect for many policyholders hardly rated a mention in press coverage of the Margo Commission report, simply because no change was proposed. The proceeds of standard policies, whether on death or maturity, would remain tax free.

While the eventual benefits on individual policies would not be taxed, the rebate currently allowed on premiums would be abolished. It is now only R75 a year, so its removal should not cause major problems for tax payers.

The rebate also includes contributions by individuals to provident and benefit funds. It would fall away here too, but tax relief was recommended when provident fund benefits became payable on death, retirement or when the member withdrew from the fund.

The deductibility of contributions to pension and retirement annuity funds would remain unaffected, as would employer contributions to provident and benefit funds.

The commission also addressed the issue of tax paid by the life assurance companies. The difficulty here is twofold: assessing the actual income and expenditure of the companies and the effect tax has on investment growth (with the impact this would have on policyholders' funds).

The majority of the members of the commission adopted a "pragmatic" approach to the question, leaving the present basis of taxation fundamentally intact. Tax would be paid at company tax rate on income as defined in the proposals.

This differs from taxable income in the case of most other companies as it was a "notoriously difficult task" to ascertain a long-term assurer's actual income and expenditure. Certain deductions allowed to other companies would not be allowed, for example, sales expenses and benefits paid.

The major question remains of whether the Margo Commission report will be accepted at all as the basis for our future tax structure.

Some commentators are cynical about the future of the report, expressing the view that it will never be implemented.

Others feel that certain aspects could be introduced in legislation fairly soon, such as taxation of retirement benefits and the substitution of estate duty by capital transfer tax.

We will probably have to wait until the budget speech to see how Margo goes.

Bothanomics, VAT and all that other jazz

By an Economist

THE four major issues that President P W Botha addressed in his opening of Parliament speech, have been welcomed by many as a long overdue era of economic reform.

The nick-name given to the President's promises, Bothanomics, is apt in that, for once, there is no denial of the inextricable link between the political and economic affairs of South Africa. The major reforms, discussed separately below, should thus be understood within the overall socio-political context of South Africa.

The economic reforms discussed, all centre around the rising level of government expenditure and the growing deficit before borrowing. The deficit, by definition, is the difference between government expenditure and government revenue. Assuming expenditure is not reduced, the Government deficit can be financed by raising taxes and/or by borrowing. It is excessive borrowing which has undesirable implications such as higher interest rates for financial markets, as the national debt and the share of the country's scarce resources going to the government, mounts.

Over the past 20 years, the long term trend in Government spending (relative to the overall size of the economy) has been strongly upwards. This has coincided with a secular decline in the real economy's growth, whose impact was felt via the rising tax burden which accompanied the rise in government spending. The need to borrow funds to finance the deficit becomes unavoidable when spending outruns the ability to collect revenue. Thus the proposals to: place a real wage and salary cut on all Government employees, to administer Government expenditure more carefully, to introduce a more efficient tax system and to privatise the parastatals in order to raise finance, all address the above issues.

The problem with the freeze lies not in its ability to help reduce the need for borrowing, but in its regressive nature. There is an obvious discrepancy in the way a salary standstill will affect the income of a cabinet minister and the income of a manual labourer.

Moreover most of the lowest income earning group in the public sector are black thus injecting a political edge into the debate. The Government is encouraging the private sector to follow the same restraint with respect to wages.

The much debated privatisation issue, where the state sells off part of its monopolies (e.g. Eskom, Sats, the Post Office) to the private sector, also assumed a priority in his speech. By selling off, or privatising, the parastatals over a period of time, it is hoped that the proceeds of the sales will help redeem the public debt. This move is expected to bring about a large saving in current spending in future budgets, easing the pressure on the tax base.

The last major issue dealt with, namely the Value Added Tax (VAT), is perhaps the least understood. General Sales Tax is to be replaced by an invoiced based VAT, that has been reported to be far a simpler and more effective way of collecting sales tax. The cmplexity of VAT is being completely understated by its proponents. The major advantage over and above the present system, is that VAT is more difficult to evade as tax avoidance would involve direct cheating and forgery of invoices.

Moreover, the incentive to avoid tax will be far smaller as the total tax on a product will be collected in stages, as it passes from the producer to the consumer, with each market participant responsible only for a small portion.

There has been much controversy surrounding the tax, whose workings are somewhat of a mystery. Simply described, the VAT is an indirect tax (not a visible, direct tax on the end product) and as such it is hidden and thus more viable politically. The major difference between VAT and GST, is that whereas GST is payable only by the end user, VAT must be paid on each and every leg of the journey from the primary producer to the wholesaler to the retailer to the consumer.

The VAT is thus completely disguised at the point of sale and is passed onto the consumer simply in the form of a higher price.

Another crucial area where the VAT differs from GST is that food and capital goods are included in the former, whereas only capital goods are included in the latter. The inclusion of food is said to broaden the base from which tax can be collected.

Under the present system, close on 80 percent of the food consumed by the lower income group is tax-exempt. The issue of taxing food is obviously an extremely sensitive one, both economically and politically. It is being justified on the basis that only 20 percent of the total exempted foodstuffs, according to the Margo Commission, is consumed by the poor.

The introduction of food stamps to subsidise the lower income groups is fairly likely, although its implementation will be extremely difficult. The absence of a substantial subsidy will probably precipitate an outcry from those most closely affected who understand its implications.

Taxman to eye thoroughbred horse deals

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B/day 17/2/88

JENNY BOBERG

THE taxman is going to fix his beady eye on deals done by buyers of thoroughbred horses.

Tax experts say proposed changes to the Income Tax Act announced last week by Deputy Finance Minister Kent Durr are aimed at delaying the tax write-offs now claimed by livestock investors.

Arthur Young partner Ian MacKenzie says the amendment will prevent livestock investors, in particular those who buy thoroughbred horses for breeding purposes on a suspensive sale, building finance charges into the basic cost of the animals.

Livestock buyers are entitled to immediately write off against income the difference between the purchase price of the animals and their "standard value".

However, the standard value of horses (set at between R30 and R40) bears little relation to market value. So investors can write off most of the livestock cost against income immediately after it is incurred.

□ Throughbred Breeders' Association GM Peter Youell said last night there should be a balance between the interests of breeders and buyers. The industry did not exist merely for tax breaks.

320 B/day 17/2/88

The options for VAT

WILLEM CRONJE of Deloitte, Haskins & Sells believes a 10% VAT rate is feasible when it replaces GST next year. In this article, he analyses some of the options.

GOVERNMENT plans to introduce the new invoice-based Value Added Tax on March 1, 1989, but considerable preparatory work is necessary, particularly as SA is switching from a GST system.

Before going into the detailed planning, however, it is necessary to consider the fundamental aspects of base, rate and regional application (if any).

There are three possible bases for a VAT, namely, Consumption, Income and Product. Consumption is the smallest and Product the largest.

Product would equal Consumption plus Investment — in other words, no credit would be given for VAT on capital goods.

The Income base (nowhere used in practice) would equal the Product base, less an allowance for depreciation. In fact, the Product base itself is rare, the majority of countries having the smallest or Consumption base.

The Finance Minister recently mentioned in Parliament that SA would adopt the Product base and there are compelling reasons why this would be a sound choice. The main one is that SA has a serious unemployment problem, and it would be unwise to alter the relative prices of labour and capital, considering that the present GST is imposed on capital.

To exempt capital under VAT would relatively cheapen capital compared with labour. Besides this, the tax rate would have to be approximately two percentage points higher if capital is to be excluded. The present GST rate would have to go up to about 14% if capital were excluded.

Although it is unusual to tax capital in a VAT system, this can certainly be done.

The fundamental issue regarding the base of VAT is the question of zero rating. A number of countries exempt basic foodstuffs, but in a VAT system the technical term is "zero rate".

The Margo Commission strongly recommended that food be taxed in a system of indirect tax, as the present exemption of food benefitted the wealthy as well as the poor and was, therefore, an ineffective method of assisting those in need.

The Margo Commission recommended that a system of food stamps be instituted, so the relief could be directed to where it was needed.

Capital goods

In the US, where food stamps are firmly established and operate effectively, the system provides a stable demand which benefits the farmer.

The most appropriate base for SA would be the Product base, including capital goods and food, but zero rating exports, so that we are internationally competitive. This would mean an exporter would not only pay no tax on his exports, but would get a refund in respect of the VAT included in his inputs (purchases).

After having determined the base, the tax rate must be considered. Under the present GST system, intermediate goods and certain intermediate services — for example stationery, cleaning materials and advertising — are subject to tax. It is difficult to get good statistics, but intermediates would be somewhat more than the total of basic foodstuffs.

Therefore, if basic foodstuffs were to be included in the base and intermediate goods and services excluded, the VAT rate would theoretically be somewhat more than the present GST rate. However, the actual net effect should be close to neutrality (ie. 12%), as the "gap" created by the exemption of food probably has an eroding effect, taking with it a number of peripheral items which should have been taxed.

Apart from this aspect, it is likely that the total overall evasion under the GST system is more than the evasion that would result under a VAT system. The weakness of the GST system, resulting in the present evasion, is that all the tax is paid at one point, namely the supply by the retailer to the consumer. This is the worst possible point to impose the tax from the point of view of evasion.

Besides this, evasion is fairly easily accomplished with the GST system, and difficult to detect. VAT, on the other hand, is imposed at every level of production, avoiding undue pressure at one point. And the "audit trail" of input and output invoices makes VAT easier to police. It is, however, essential for the policing and control to be effective.

Let us assume that the relative immunity of VAT to evasion is worth 1%. This would mean the same tax under the VAT system could be collected at an 11% rate. For a fairly small revenue sacrifice, there is then a strong case for pitching the VAT rate at 10%. A 10% rate would be more acceptable, making it easier to restore food to the base and also facilitating a tougher approach with respect to evaders.

Regional tax

The Margo Commission recommended the repeal of the regional establishment levy and the regional services levy, replacing these with a piggy-back on the Comprehensive Business Tax. It should be possible to achieve government's objectives of local autonomy and tax responsibility for the regions, while enjoying the efficiency of a piggy-back system.

A possible system could work as follows: Each registered VAT payer would have as his base for regional tax, the total payment for that month. This would equal his output VAT, less his input VAT. This base would be prorated across the regions on the basis of number of employees in each region. Each region could then levy, at its discretion, a surcharge on the base, for example 10% or 20% of VAT.

B/day 17/3/88

Supermarkets' VAT concern

KAY TURVEY

SUPERMARKET chains have expressed concern that the inclusion of foodstuffs in VAT will fuel inflation, hitting lower income groups hardest.

OK Bazaars financial director Barry Jack said, while he welcomed VAT as widening the tax net and reducing evasion, it was set to hurt lower-income consumers.

He said VAT would drive the average cost of purchases up and impact harder on lower-income groups, who spent a greater proportion of their income on foodstuffs at present exempt from GST.

Although government was considering food stamps to assist the poor, Jack said this was still uncertain.

Pick 'n Pay CE Raymond Ackerman said the strongest recommendation should be made to exclude foodstuffs from VAT to counter inflation. As the tax base was being broadened, food should be excluded, as tax could be made up on other goods.

Basic commodities

The British or European example — where many foods were exempt from VAT — should be followed, Ackerman said. He stressed this was particularly important in SA, with its large Third World element and where inflation was significantly higher than in the Western world.

Ackerman said as the essence of the President's opening of Parliament speech was to tackle inflation, the first step should be the elimination of cartels and monopolies which controlled basic commodities and prevent consumers benefiting from free-and-fair competition.

Everyone was euphoric at the announcement that Eskom was to be privatised, yet deregulation should begin with cartels that could be done away with at the stroke of a pen.

Supermarkets: VAT destined to hit the poor

Daily Dispatch Correspondent

9/2/88 320

CAPE TOWN — Supermarket chains have expressed concern that the inclusion of foodstuffs in Value Added Tax (VAT) will fuel inflation, hitting the lower income groups the hardest.

The financial director of OK Bazaars, Mr Barry Jack, said that while he welcomed VAT as widening the tax net and reducing evasion, it was set to hurt lower income consumers.

VAT would drive the average cost of purchases up and impact harder on lower income groups, who spent a greater proportion of their income on foodstuffs at present exempt from GST, he said.

Although the government was considering food stamps to assist the poor, Mr Jack said this move was still uncertain.

The chief executive of Pick 'n Pay, Mr Raymond Ackerman, said the strongest recommendation should be made to exclude foodstuffs from VAT to counter inflation.

As the tax base was being broadened, Mr Ackerman argued that food should be excluded, as tax could be made up on other goods.

He urged that the British or European example be followed, where many foods are exempt from VAT. He stressed this was particularly important in South Africa with its large third world element and where inflation was significantly higher than in the western world.

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The deregulation campaign should begin with bread, wine, petrol and television sets, he said.

Everyone was euphoric at the announcement that Eskom was to be privatised, yet deregulation should begin with cartels that could immediately be done away with at the stroke of a pen, Mr Ackerman said.

Govt loses millions through tax scams

(320) B/day 18/2/88

JENNY BOBERG

GOVERNMENT was losing hundreds of millions of rands a year through chronic tax leakage resulting from "downright dishonest" tax schemes, Deputy Finance Minister Kent Durr said yesterday.

Durr was speaking after a government promise to crack down on tax-avoidance schemes.

He said the "host of schemes" at which governement was looking involved the use of *en commandite* partnerships (limited partnerships).

"This mechanism is used in a variety of industries. The products change but the tax avoidance principles remain the same."

The tax system also tended to encourage abuse, Durr said.

"Using the tax base as a medium to encourage genuine enterprise is inefficient and encourages the abuse of tax allowances.

"Tax collection should be neutral, and assistance for the needy should be granted via the Budget."

Fisher Hoffman Stride partner Anthony Chait said, however, *en commandite* partnerships were perfectly legal.

"People are losing sight of the important distinction between tax evasion and tax avoidance. Evasion is pure theft. But avoiding tax is perfectly legal," he said.

Kessel Feinstein partner Ernest Mazansky pointed out investing in the post office or a building society to get tax-free income was often motivated by tax avoidance.

Government, he said, appeared mainly to be concerned about tax avoidance schemes which fall into the "tax shelter" category. And *en commandite* partnerships were often an important element of a tax shelter.

"They limit the commercial loss while facilitating a greater tax loss. So the tax write-off usually far exceeds the initial cash outlay."

Mazansky said bloodstock schemes were also used to shelter income.

They took advantage of the substantial difference between the cost price of horses (for breeding) and their standard values.

vious year.

CPC TIMES 18/2/88

Tax leakage costs govt 'millions' (320)

JOHANNESBURG. — Government was losing "hundreds of millions of rands" a year through chronic tax leakage resulting from "downright dishonest" tax schemes, Deputy Finance Minister Kent Durr said yesterday.

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"Using the tax base as a medium to encourage genuine enterprise is inefficient and encourages the abuse of tax allowances. Tax collection should be neutral, and assistance for the needy should be granted via the budget."

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TAX AND BLOODSTOCK

Caught red-hoofed

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At last — some say — Inland Revenue has cracked down on bloodstock schemes which, until now, have been one of SA's most irresistible tax shelters. Investors who took the bait will be in deep water with the return of assessments rejecting enormous bloodstock tax losses.

Elizabeth Wilson, *FM* racing correspondent, says the crackdown will "do more good than harm." There is dissatisfaction in the industry about breeders who raised millions of rands on the tax bandwagon. The schemes, however, did allow new, costly bloodstock to be imported.

In a thinly disguised statement last week that did not directly criticise bloodstock schemes, Deputy Finance Minister Kent Durr said that Section 11 (bB) of the Income Tax Act will be "clarified" in amending legislation.

Investment in bloodstock schemes will still be profitable, but the returns will fall dramatically. For example, in a typical scheme, investors' first-year cash gain falls massively from R112 805 to R26 982 (see **box**).

Stables that will be most seriously affected include Robin Scott's Highdown Stud (a scheme worth about R4m); Mick Goss' Summerhill (about R25m); the Doms brothers' Saratoga (amount unknown); Sydney Press' Coromandel (evidently marketed by Robin Bruss of Delta Bloodstock, worth about R24m); Godfrey Gird's Oaklands (R3m-R4m); and schemes marketed by Adrian Gardiner and Tony Ross.

Unfortunately, as Wilson notes, "investors have no recourse."

Bloodstock schemes hinged on the Act's low "standard value" for a horse — R40 — which permits the creation of a disproportionately large tax loss. If a horse is bought for, say, R100 000, the standard value produces a tax loss of R99 960.

This can be offset against any other income — though Revenue *could* (but does not always in practice) attack the scheme if the investor is not a *bona fide* farmer.

Bloodstock tax shelter schemes gained added attraction by capitalising finance costs, for the duration of a typically 10-year scheme, into the first year's costs. Probably capitalisation, above all else, prompted Durr's announcement.

Bloodstock schemes are normally sold with a "pure endowment" insurance policy, allowing a "bullet payment" when the scheme expires — at no further cost. The structure of the scheme allowed the investor to make massive first-year cash gains.

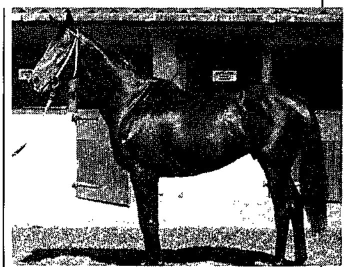
Durr's announcement has apparently been long in the pipeline. This latest blow to tax shelters is a repeat of schemes used in the early Eighties.

"In 1984, the (Act) was amended to minimise the exposure of the incentive and other tax allowances to abuse by taxpayers who were capitalising finance charges into the cost of assets and claiming allowances on the inflated costs thereof," Durr says.

While the principle is little changed, practicalities in the tax world have been all but revolutionised since the early Eighties. Says Price Waterhouse's Chris Frame: "Taxpayers' risk profiles have totally changed. Today, taxpayers are prepared to take enormous risks when investing in tax shelters.

"Previously, if a taxpayer was advised that a scheme had the slightest chance of falling foul of Section 103 — the 'anti-avoision' regulation — they would back off. Today, such advice is all but ignored. Only in cases of extreme prejudice to the taxpayer — certain rejection by the authorities and probably courts — does the taxpayer shy away."

This raises the question of the effect of Durr's announcement. Typically, tax crack-downs affect schemes from the date of the announcement; taxpayers who have already taken the plunge are unharmed.



These legs were made for racing

But such announcements can be and have been, retroactive. The latest announcement is a mixture of the two.

Though S11 (bB) will be amended, in effect there will be no change in law; its *application* will be clarified. The implication is that, in the past, Revenue let bloodstock schemes through, encouraging the bandwagon.

Nobody knows how many tax assessments which include claims of bloodstock tax losses will be thrown out.

Taxpayers whose bloodstock shelters are challenged have little if any chance of getting away with the full capitalised amount. There are at least three prongs of attack.

Apart from the question of a *bona fide* farmer, Revenue can argue that S11 (bB) is in fact already applicable in the way Durr wants. This is now a legal issue and would have to be decided in the Special Income Tax Court and/or other courts. And, of course, there is S103, where issues are only ever finally decided in the courts.

Revenue's planning of the S11 (bB) announcement gives a hint of further statements on related issues. According to a Revenue official, all bloodstock finance is done by way of the *en commandite* partnership, the vehicle used for many other tax shelters, particularly in motion pictures.

But for the "disclosed" partner in the *en commandite*, all partners are secret. The partnership enjoys all the advantages of being a company — mainly limited liability — and suffers few, if any, of the disadvantages.

It has been unofficially confirmed that an announcement that *en commandite* partnerships are to be taxed as if they are companies is imminent (*FM* February 12). This would virtually sound a death-knell for bloodstock, as then tax losses produced by bloodstock activities could be written off *only* against income from such activities.

And the change could go deep. Durr's statement affects not only bloodstock, but areas such as mining equipment, software and shipping, where schemes, it can be argued, have been set up solely or mainly for tax reasons — one main test Revenue needs to satisfy in cases under S103. ■

VAT for beginners

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Des Kruger of Deloitte Haskins & Sells, Cape Town, was previously with Inland Revenue. He was involved in the replacement of GST with a VAT-type impost in the liquor industry.

President P W Botha's statement that the value-added-tax (VAT) to replace GST will be of the invoice-type was scant on detail. But Finance Minister Barend du Plessis' recent announcement that food and capital goods will be taxed gives some indication of the direction it will take.

Under invoice-type VAT the tax is imposed on each transaction in the production/distribution chain, but tax paid by a registered vendor on his inputs (often referred to as "input tax") may be credited against tax collected by him on sales ("output tax").

At the end of the tax period the vendor only pays Inland Revenue the difference between "output tax" collected by him on sales and "input tax" on his purchases.

Where a vendor's input tax credit exceeds his output tax the excess may either be refunded (as in Europe) or carried over to the next period (as with the system which now operates in SA in the liquor industry). However, as an input tax credit will be denied for capital/(intermediate?) goods, it is conceivable that few firms not involved in exports will be in an excess tax position.

Though the Margo Commission indicated that replacement of GST by VAT would result in a higher rate of tax, it excluded capital and intermediate goods from the base. As capital goods and food *are* to be in the base, and more services will no doubt fall within the net, it would appear that the idea is to try and reduce the rate. Failure to do so will merely lead to renewed pressure for the exemption of so-called basic necessities.

What, then, can one expect to happen to prices? A comprehensive study by the IMF into whether the adoption of VAT had been inflationary in nearly 20 countries found that in some cases it had, in others not. But the only country which changed from a retail sales tax (like GST) to a similar-type VAT, Sweden, found that there had been some inflationary pressures.

If the same or reduced revenue will be collected under VAT, why change? The main reason is the perceived inability of GST to function effectively at high rates of tax. GST can be evaded only at the final point of sale, where 100% of the tax can be lost. With VAT the percentage loss is much less.

Another advantage often claimed for VAT is that because the granting of a credit depends on the issue of an invoice by the seller (hence its label as an invoice VAT), it is self-policing. Unfortunately European experience is that this is often illusory.

In Italy — where VAT rates are fairly high — evasion has been described as "pervasive and large." In the Netherlands, a government report based on audits of nearly 80 000 taxpayers found that 34% had evaded VAT. A report by Oldman & Woods of Harvard Law School concluded that "VAT has not been especially effective in curbing tax evasion in Europe."

False statements of sales and excessive input tax credit claims are evasion devices said to be in general use. It would nevertheless appear as if the VAT structure presents a reduced tax loss risk than GST, if only because liability for the tax is spread over the production/distribution chain.

It has been suggested that VAT is favoured by government as it is less visible than GST. However, whether VAT is to be quoted separately on sales to final consumers is a policy decision (as was the decision to opt for the exclusive method for GST), and not implicit in the VAT structure.

What are the essential differences between VAT and GST?

Under VAT, nearly all transactions attract tax, so the onus of deciding whether an input tax credit applies rests with the purchaser, unlike GST. Again, all persons (individuals, firms, and so on) in the production/distribution chain are responsible for payment of VAT, whereas someone who does not supply end-consumers does not actually collect and pay over any GST.

Farmers, for instance, will be responsible for payment and collection of VAT unless somehow excluded. This characteristic of VAT may also result in cash-flow problems for registered vendors, as they will bear VAT on purchases and only recover such VAT when they are paid by their customers. There is already this problem with GST, but under VAT the number of taxable transactions increases substantially.

Under VAT, exports are zero-rated, that is, subject to VAT but at a zero rate. This means that exporters will not have any output tax against which to set off any input tax borne by them and will therefore have to be refunded the credit.

All services, including the professions, are usually subject to tax. In New Zealand, for example, only a limited number of services such as health and education are exempt. However, most countries which impose an invoice-type VAT have not been successful in taxing financial services, while a few have attempted to do so by imposing an additive-VAT on financial institutions.

The main problem in taxing financial services under an invoice VAT is identifying the consideration paid for the service. Banks, for instance, do not charge for every service but recover costs in the different rates of interest paid on deposits and charged on loans.

But, for all the differences, VAT and GST have some administrative features that will help the transition. For example, when the VAT-type dispensation was introduced in the liquor industry, various allowances and deductions (bad debts, cancelled sales, and so on) in GST legislation continued to apply. In fact, the change only necessitated a small amendment to the return to provide for the input tax credit.

An invoice VAT is, like GST, neutral as between forms of business enterprise and type of business operation. Thus its impact is the same whether one adopts a company or individual business form; or whether the entity has a high turnover-low profit margin approach as opposed to a low turover-high profit margin approach. There should, therefore, be no inducement to change the mode of doing business.

Only time will tell if the change to VAT was worth it. But it will be a sad day if this opportunity to simplify the system of indirect tax in SA is missed. The net must be as broad as possible. Exemptions must be kept to an absolute minimum. There are, daily, millions of taxable or potential taxable transactions taking place in the marketplace.

It is, therefore, imperative that the administrative burden be kept to an absolute minimum.

VAT MECHANICS

Margo's example

		VAT Gross	VAT Net (X-Y)*	GST
(A) Goods		100		100
Other costs — say		20		20
mark-up (profit)		10		10
		130		130
(x) VAT 10%		13	13*	nil
		143		130
(B) (incl VAT)	143			
(y) VAT refund	13	130		nil
Other costs — say		30		30
mark-up (profit)		20		20
		180		180
(x) VAT 10%		18	5*	nil
		198		180
(C) Cost (incl VAT)	198			180
(y) VAT refund	18	180		nil
Other costs — say		40		40
mark-up		20		20
		240		240
(x) VAT/GST 10%		24	6*	24
Price to end-user		264	(24)	264

Note: The example compares the operation of a VAT system and the present GST. A, B and C are traders, C being a retailer selling goods to the end-user.

Source: Margo Commission

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Cash flows would be affected

VAT threat to debtors allowance

KAY TURVEY

THE introduction of value-added-tax to replace GST casts a shadow over retailers present entitlement to a debtors allowance.

The absence of such an allowance would heavily effect cash flows, ultimately putting pressure on prices and hence fuelling inflation, say industry sources.

Currently, where sales are predominatly on credit, the allowance alleviates financing costs by providing a deferral on the payment of tax on 50% of the debtors book.

Although it is early days still for finer details and definitions on the imposition of VAT, tax experts believe it will be very difficult to provide for such an allowance under VAT, where all businesses in the production and distribution chain are responsible for the payment of tax.

Arthur Young tax partner Ian Mackenzie says: "The principle of VAT is to provide for collections early and often, therefore it be contrary to give allowances all the way down the line."

Without the allowance, businesses' cash flows are set to suffer for having paid the input tax on purchases, they could then be expected to pay the output tax on a credit sale before full payment had been recieved, leaving them out of pocket.

Amrel financial director Mark Bower says the impingement on cash flows will not be without its hidden costs, as businesses will look to make this up somewhere else.

As VAT input and output payments drive up the carrying value of stock and the debtors book, businesses will be encouraged to look to creditor funding, he says. This funding ultimately snowballing the pressure on cash flows right through the chain and inevitabley leading to price hikes.

Given the cash squeeze, businesses may also look to better and faster stock turns while seeking funding through interest-bearing debt. Increased borrowings would in turn reduce profits and tempt an increase in selling prices.

VAT will be extra burden

320

NM 23/2/88

Who is going to be the beneficiaries of the new system of VAT? It seems the Government will become a bigger employer.

For the Governent there should be more tax collected, for, as you have stated in your paper, the net will be spread wider.

For the civil service, it will mean extra staff and all the perks that go with working in this organisation.

Whereas before only one person, the retailer, had to collect GST, by applying VAT, at least three people will be involved.

There will be three times the amount of forms and work involved. This will necessitate more staff when we are trying to cut down.

The business sector is becoming a collector of taxes for the Government. What with VAT, RSC, and in some cases ad valorem taxes.

Where is the small man now going to get this extra money from? It will be an extra burden to carry.

With GST, the end consumer paid. Now the money will have to be sent in before the goods have been sold to the end consumer.

Bewildered
Johannesburg

Move on tax loopholes in film industry

6/Day 23/2/88 (350)

Political Staff

CAPE TOWN — The government moved to clamp down on tax loopholes in the film industry, dropping a guillotine on old arrangements concerning marketing allowances at midnight last night.

The new measures announced by Deputy Minister of Finance Kent Durr will not apply to anyone "who participated in any scheme under a written agreement formally and finally signed by every party thereto before February 23".

Durr also issued a warning to anyone involved in "en commandite" partnerships to satisfy themselves that the schemes complied with the ordinary provisions of the Income Tax Act.

Durr pointed out that he had warned last year, as a result of tax avoidance schemes involving the financing of the purchase and production of films, that he would introduce legislation to curb these abuses.

He said curbs could have been implemented by "ring fencing", but this would have had a detrimental effect on the local film industry and it had been decided to attack the abuses selectively so that the local industry could still enjoy the benefit of the exporter's marketing allowance.

Sponsors warned to do tax homework (320) B/day 23/2/88

SA sport threatened by tax developments

HELEN CHAPPEL

SA SPORT was under threat from recent tax developments affecting foreign players in SA as well as local sponsorship, a tax expert said yesterday.

Speaking at the Johannesburg Sports International/Topsport conference, Arthur Andersen partner Pierre du Toit warned would-be sponsors to do their tax homework before putting their money down.

"The only real existing special allowance for sponsorship — section 18b of the Income Tax Act — will be likely to diminish in line with the continuing shift in the tax regime from direct to indirect taxes, recommended by the Margo Commission.

"As the system shifts to indirect taxation — VAT, RSC levies and GST — the relative income tax advantages will become less," he said.

"Sponsors may find while still paying indirect taxes (based on turnover, payroll, invoices and so on), they do not really have an income-tax burden from which they need relief."

Currently, 180% of sponsorhip expenses can be deducted, because deductions can be made twice — according to the usual principles that apply for expenses under the Income Tax Act, while up to 80% of the expense may also be deducted under the "special allowance" provision.

Du Toit added: "The Receiver of Revenue is becoming more efficient and aggressive. Where sports sponsors get involved for the tax benefits offered by sponsorship, they should first make sure they in fact qualify for the relief."

If expenses were found to be motivated by "mixed motives", the income tax deduction might not even apply if the expenses did not fall "wholly and exclusively" under the income tax allowance.

Before the cancellation of the "double taxation agreement" between the US and SA, it was possible for US players to structure their performances in SA through an employer so as to avoid SA tax on a material part of their winnings. This would no longer be possible, he said.

Further, the Rangel Amendment would work to the disadvantage of visiting US players: "In the past, they had very often to rely on the foreign taxation credit mechanism for relief from double taxation which would otherwise follow.

"Now that it is not possible to credit SA taxes against US tax — the main relief for US sportsmen — they are probably left in a much worse position than the typical US ex-patriate working outside the US on contract."

He urged sports bodies to seek some form of unilateral tax relief for visiting sports players.

"SA is a capital-importing country that needs foreign expertise, be it in education, science or sport. And sport should not be singled out as this makes it an easy target for pressure groups."

Gamblers to face taxation

23/2/88 (320) B/day

Own Correspondent

DURBAN — Gamblers beware. The Receiver of Revenue is on your tracks with a demand in this year's income tax form for a complete schedule of "profits/losses".

It will not be enough to throw away losing betting tickets — gamblers will have to keep books.

The tax form wants details of money received, which the taxpayer considers is "not taxable".

The 1988 tax forms are in the post. The closing date is May 30 for those whose tax year ends on February 29.

The new demand is for profits made on the disposal, or redemption, of: fixed property; bills of exchange; gold and other coins; marketable securities; shares; stocks or bonds; collectors' items; bankers' acceptances; and member's interest in close corporations.

Details of other receipts, including gambling, are only required if more than R3 000 is received in total from: inheritances; prizes; donations; maturity of insurance policies; proceeds from the sale of jewellery; donations; "all similar receipts"; and gambling and other betting profits or losses.

In the case of gambling, the number of transactions are required, how much was wagered and the amount won or lost.

The form asks whether these receipts are "capital", from outside SA, exempt or a catch-all "other".

Exempt receipts are: distributions by close corporations; bursaries; transfer (relocation) costs paid by your employer; gratuities and "other exempt income".

The "other" is defined as "any other receipts or accruals, including that of minor children, other than income that has been returned in Part 3.4.3" (lump sums from pension, provident or retirement annuity funds).

The controversy about MPs and their allowances has been crystallised, with a request to account for spending of this money.

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Du Plessis warns of fatal pitfalls to VAT

HOUSE OF ASSEMBLY — The introduction of exemptions and differential rates had to be avoided when Value-Added Tax (VAT) was implemented, Finance Minister Barend du Plessis said yesterday.

These two pitfalls had often proved fatal to VAT when it was applied in other countries, he said in reply to the third reading debate on the mini-budget.

"Administrative applicability and ease of operation will be vital to the success of VAT."

The Minister said his department had collected and was examining every available piece of information on the implementation of VAT, but the government needed the assistance of opposition parties in avoiding the pitfalls of exemptions and differential rates.

Responding to a call during the debate from Harry Schwarz (PFP Yeoville) for details of the government's "secret" five-year economic plan, Du Plessis said he could only reiterate his previous explanation.

Profound

This was that details of the plan, as it would be when finally formulated, would have a profound effect on the market place and the business sector.

It would not be right to release them while there was still uncertainty about some of the figures and the government's ability to meet its objectives.

"We are not trying to keep people in the dark, and I hope to be able to make recommendations to the State President on details of the plan before the end of the year," he said.

Referring to the decision not to grant any general salary increases to civil servants this year, Du Plessis said this was motivated by the need for fiscal discipline, and that it was not the first time no increases had been given.

In the 1984/85 and 1985/86 financial years, there had been no general salary increases, and there had been a substantial per capita increase of 20% in civil servants' income in the 86/87 financial year.

There was no question of massive deprivation of civil servants as a result of the decision, he said.

The mini-budget was read a third time with the assent of all parties.

BUSINESS

D/D 24/2/88

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Taxing hitch for gamblers

JOHANNESBURG — Professional gamblers beware. . .the Receiver of Revenue is on your tracks with a demand in this year's income tax form for a complete schedule of 'profits—losses'.

The tax form wants details of money received which the taxpayer considered 'not taxable'.

The new demand is for profits made on the disposal, or redemption, of: fixed property, bills of exchange, gold and other coins, marketable securities, shares, stocks—bonds, collectors' items, bankers' acceptances and member's interest in close corporations.

Details of other receipts, including gambling, are only required if more than R3 000 is received in total from: inheritances, prizes, donations, maturity of insurance policies, proceeds from the sale of jewellery, donations, 'all similar receipts' and gambling and other betting profits—losses.

In the case of gambling the number of transactions are required, how much was wagered and the amount won or lost.

The form asks whether these receipts are 'capital', from outside South Africa, or a catch-all 'other.'

Exempt receipts are: distributions by close corporations, bursaries, transfer (relocation) costs paid by your employer, gratuities and 'other exempt income'.

689 earn in in excess of R250 000 — survey

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DID 26/2/88

PRETORIA — Based on 75 per cent of 1987 income tax assessments, inland revenue statistics show 689 inidividuals earned in excess of R250 000 a year.

Of this number, 680 white, were assessed at R143,5-million, six asians at R952 000, two coloureds at R291 000, and one black at R301 000.

The 1 808,100 assessed with in the survey will pay R6,211bn.

The 1 302,968 whites have been assessed at R5,677bn.The 95 778 asians will pay R160,994-million, 203 076 coloureds R238 638-m, and 206 278 blacks R134,312-m.

The largest number of taxpayers were in the R10 000 to R15 000 category. — Sapa

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Tax: Govt must not be 'naive'

Own Correspondent

JOHANNESBURG. — Businessmen were not going to walk away from a legal tax avoidance scheme merely because it reduced the revenue flow to Treasury, a tax expert has said.

Any government suggestion to this effect would be naive and contrary to the spirit of free enterprise, said Kessel Feinstein partner Ernest Mazansky.

Mazansky was reacting to a statement by Finance Minister Kent Durr describing some of these schemes as "downright dishonest".

"The implication is that businessmen who invest in tax shelters to minimize their tax are crooks. Nothing could be further from the truth," he said.

"By and large these investors are honest and conservative businessmen who only invest in tax shelters after advice from reputable professionals.

"One of the hallmarks of a successful free enterprise system is the application by entrepreneurs of their ingenuity and inventiveness in maximizing returns.

"It would be unrealistic to expect them to direct entrepreneurial spirit only to maximizing pre-tax profits without attempting to lessen their tax charge."

Price Waterhouse partner Chris Frame says government cannot offer allowances in order to redirect enterprise without accepting that the private sector will produce something far more attractive than was intended.

TAXATION (320)

Big guns drawn

Thousands of high-income taxpayers can expect rejections of assessments claiming a lengthy list of tax shelter investments, including motion pictures, books, software, mining equipment, shipping, bloodstock and records.

Deputy Finance Minister Kent Durr made it clear in this week's announcement on motion pictures that each claim may have to be individually proven. Cases could end up in court, if taxpayers have the energy.

But the motion picture industry has not been wiped out, as was feared. To stem abuses, Durr has simply refined the Income Tax Act's S24F, announced last April and promulgated in September.

With S24F considered "clear and unambiguous," how did slick operators find further loopholes? With hindsight, the answer is simple: those "selling" South African motion picture schemes arranged pre-production sale agreements with foreign distributors.

A picture with (say) a R1m negative (production) cost would be sold to a foreign distributor, prior to production, for guaranteed sales of (say) R2m. In SA, this R2m would be a pure book entry, which the South African syndicate/partnership undertook to spend on marketing costs abroad.

In effect, the R2m "cost" in SA was neutralised by the R2m pre-production sale. But

FM → 26/2/88

Kent Durr ... reading the Tax Act

26/2/88 FM (320)

in SA, the R2m qualified for a normal tax deduction (as a cost) and a further deduction under S11 (*bis*) for export marketing — the so-called "double deduction."

So, for an investment of R1m in SA, taxpayers could write off up to R5m against personal incomes. There were numerous variations, but that is a crude example.

Vital are his words: "While it would have been a relatively simple matter to stop the abuse by ... 'ring fencing,' this would have had an extremely detrimental effect on the local film industry."

The dreaded ring fence means tax losses can only be claimed against income generated by the activity giving rise to the tax loss — a death-knell for motion pictures. So what is the change?

The new law will combat the no-lose pre-production sales situation by limiting its ultimate abuse, proportionately absurd marketing spending. Some schemes with R1m negative costs were claiming marketing costs of (say) R6m.

In future, *claimable* marketing costs will be limited by the formula: Y=(2,5xA)-B. A typical production might cost (say) R1m (A) locally; with foreign production costs R700 000 (B), Y=R1,8m. This is now the maximum qualifying for double deduction.

Using the new law, Inland Revenue computations show that, depending on the structure of a scheme, returns vary from about 20% to 30%. Investors must, of course, be able to show that they are "at risk" — stand to make an economic loss if the picture does not generate income. The "at risk" rule is complicated by pre-production sales.

To reinforce the point and cover other tax shelters, Durr has announced a planned general "at risk" change to S11 (*bis*). Referring to "records, books and computer software," Durr says the section will be changed so that exporters will not be able to claim deductions "far in excess" of cash outlays.

In addition, a vague (so all-embracing) statement concerns the *en commandite* partnership — widely used in tax shelter schemes: "The schemes have been structured in such a manner that no liability rests on the partner should the scheme fail."

The result has been, in motion pictures for example, that the scheme gets all its money and the partners/taxpayers are placed in the privileged position of having limited liability.

Durr notes that: "It is contended by consultants who market the schemes that the partners are entitled to a tax deduction of an amount substantially in excess of their contribution to the partnership and to what their true liability would be should the scheme fail."

The effect is shown in the example of R1m spent creating a tax loss of R5m. Durr's answer is that the Commissioner for Inland Revenue, Clive Kingon, "doubts" that the cash invested is "expenditure actually incurred." This is the primary test in the Act and determines whether or not an earmarked amount is tax-deductible.

It is difficult to give an exact illustration of what Kingon means. But if he means that marketing expenditure of (say) R2m is not incurred because of neutralisation by a (say) R2m pre-production sale, there are going to be lots of taxpayer tears. ■

ST 28/2/88

Dealers in a tizzy over VAT

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By Don Robertson

THE motor industry will make representations to the Department of Finance to resolve the problem of VAT charges on the sale of new and second-hand vehicles.

It seems that the private sale of a vehicle will not be subject to VAT, but the sale by a dealer will carry VAT charges.

Minister of Finance Barend du Plessis says his department will discuss problems before VAT is introduced in about a year's time.

The National Association of Automobile Manufacturers of SA (Naamsa) and the dealer body in Motor Industries Federation (MIF) will ask for a meeting with the Department of Finance to discuss these matters.

The motor industry could be given a boost if the seller of a new or used car is required to charge VAT only on his profit margin. At present, GST is charged on the full price of the vehicle.

However, VAT might be charged on the vehicle at the production stage, but the total tax bill would be lower than GST.

With VAT on the dealer margin only, the price of cars would fall.

GST is levied each time a car changes hands. VAT would remove repetitive charges.

Robert Kaiser, assistant secretary of the Southern Transvaal region of the MIF, says it would be unfair for the dealer to be charged VAT on his margin after the private seller had paid no VAT.

It could result in some dealers developing a system which operated as a private sale and thus avoided VAT.

Tax breaks — and penalties

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THE tax implications of foreign travel are complex and often cause confusion.

By THEO SHAPIRO, tax accountant at Ernst & Whinney, Johannesburg

For instance, the costs of a holiday are sometimes tax deductible, but the costs of a bona fide business trip are sometimes not. The difficulty is compounded where employees go abroad with their wives and combine business with a holiday.

Foreign travel costs mean the price of the air ticket and subsistence.

Generally, the costs of business trips are tax deductible provided the purpose is to produce taxable income in South Africa and not to acquire or develop the taxpayer's capital structure. To establish whether foreign travel costs are of a capital nature can be difficult.

Visits for education are a case in point and the tax outcome can depend, among others, on seemingly remote factors, such as whether the student is an employee and even on the extent of the notice period stipulated in his employment contract.

Where a self-employed taxpayer goes abroad to study for a degree or diploma that will help him in his work, the travelling costs will not be tax deductible because he has gone to develop knowledge which is his capital structure. On the other hand, where a company as taxpayer, sends one of its employers abroad for the same reasons, travelling costs may be deductible where it can be shown that the employee, in terms of his contract, is entitled to quit at short notice and the company is therefore not developing its capital structure.

The cost of foreign business travel where the purpose is to attend a refresher course, to acquire raw materials or trading stock and to attend management conferences is generally to generate revenue and is tax deductible.

The cost of an overseas business trip where the purpose is to manage a subsidiary is also revenue in nature, but may not produce taxable income in SA and is possibly not deductible.

Where the purpose of a business trip is to negotiate the acquisition of an agency or right to sell certain products in South Africa, the associated travel costs will be regarded as of a capital nature and not deductible.

Taxpayers who go abroad to promote exports may be entitled to claim a double deduction for travel costs — provided certain conditions are met.

General formula

A taxpayer may claim foreign travel expenses as a deduction under either Section 11 (a) or 11 (b) of the Income Tax Act. Section 11 (a) is the general deduction formula.

Section 11 (b) permits as a deduction so much of any expenditure incurred *outside* SA in the production of income as the Commissioner for Inland Revenue may allow.

The commissioner has absolute discretion whether or not to allow expenditure incurred outside SA as a deduction. Consequently, taxpayers should, as a general practice, incur as much of the travel expenditure involved inside SA by paying a travel agent here.

No taxable fringe benefits arise when an employee travels abroad at the employer's expense on bona fide business.

Where the wife accompanies an employee expenditure relating to travel will be deductible only if it can be established that her presence was essential to the success of the business trip. Furthermore, it is only when such presence is essential that the employee will be able to avoid any fringe benefit taxation. The onus of proof lies with the taxpayer.

Although fringe benefit legislation may curtail the opportunity for an employee to travel with his wife, it is more favourable from him to pay the tax for his wife's expenses which have been provided by the employer than to pay for it himself.

Where foreign travel is purely for a holiday, tax treatment is interesting. Strange as it may seem, the associated travel costs may be tax deductible. This would be the case where a company as a taxpayer pays for an employee's holiday in terms of the employment contract or established company policy to promote settled conditions of employment. The same employee could go abroad at a later stage on genuine business and his employer might not be allowed to deduct the costs involved. Sometimes the truth is stranger than the fiction.

It should be noted that where the employer bears the cost of an employee's foreign holiday such practice will constitute a taxable fringe benefit in the employee's hands and will be taxed at his marginal rate.

Uncertain

Where taxpayers combine a business and holiday trip the tax position becomes complex and uncertain. In tax law any expense which is not incurred "wholly or exclusively for the purposes of trade" will not be allowed as a deduction.

Nevertheless, in practice Inland Revenue may permit, depending on the circumstances, either a full deduction or an apportionment of the cost of the air ticket where it can be shown that the dominant purpose of the trip was for business.

Holiday expenses may be allowed as a deduction provided they were incurred in terms of established company policy or in terms of an employment contract.

In any other circumstances the holiday expenses will not be deductible.

Where a full deduction of foreign travel costs is not permitted on the grounds that part of the trip was for a holiday, all is not lost as Inland Revenue may still be prepared to allow an apportioment of the costs involved.

The concept of apportionment is complicated, but foreign travel costs may be apportioned provided a fair and reasonable basis can be established. The matter will have to be negotiated with Inland Revenue and the facts of each case must be examined as these constitute the basis of negotiations — for example, the relative amount of time spent on business and holiday, the degree of planning that went into the holiday and the extent of business transactions actually concluded can each have a bearing on the tax outcome.

Where a business trip is combined with a holiday, the cot of the air ticket paid by the employer will not, it is submitted, give rise to a taxable fringe benefit in the employee's hands provided the dominant purpose of the trip is business. In othe words, it is only the holiday expenses paid for by the employer that will constitute a taxable fringe benefit in such circumstances.

Expatriates

The cost of an air ticket paid for by the employer of an expatriate in initial recruitment, periodic return visits and final repatriation are generally not taxable in the employee's hands. However, where an employee receives from his employer an amount to cover his repatriation costs and does not use the money for that particular reason, such amount will be subject to tax.

From the employer's point of view the cost of financing the expatriate's passages to and from SA will be deductible if this arrangement is provided for in the expatriate's employment contract.

Taxpayers should exercise care when planning foreign trips because ignorance of the tax implications can prove costly.

Du Plessis warns tax evaders

B/day 1/3/88. 320

CHRIS CAIRNCROSS

HOUSE OF ASSEMBLY — Finance Minister Barend du Plessis yesterday warned that government would introduce retroactive legislation to prevent people from using fancy schemes to avoid their tax liabilities when they had foreknowledge of pending changes to the tax laws.

Replying to the second reading debate on the Additional Appropriation Bill, Du Plessis said it had been estimated that about R800m had recently been invested in partnerships in the forestry industry, hundreds of millions of rands in the film industry, and as much again in bloodstock.

This had been done in an endeavour to reduce tax liabilities in respect of pending changes to legislation.

Du Plessis said although government was loath to pass retroactive legislation, there was "no way we will allow people to get away with these schemes."

The state remained determined to take this step in order to restore the tax liabilities of people who attempted to enter into fancy tax avoidance schemes, said Du Plessis.

Government has introduced retroactive legislation in the past, and been widely criticised as a result.

He said he had been warned that many of these schemes had recently been entered into and that, as a result, it was likely that State revenue collections during February would reflect a considerable decline.

Replying to a question put by Harry Schwarz (PFP Yeoville) concerning the State's practice of selling off assets to finance current expenditure, Du Plessis agreed the system was not satisfactory.

He was in favour of government departments selling-off assets, such as land, particularly where they remained unused.

The funds generated from these sales should preferably also be used for expenditure of a capital nature, said Du Plessis.

D/D 2/3/88 (320)

VAT will cost more — Inland Revenue

PRETORIA — The costs of collecting value added tax (VAT) would be substantially greater than the costs involved in general sales tax (GST) collections, the chief director of the Inland Revenue, Mr Schalk Albertyn, said yesterday.

Mr Albertyn said the numbers on the tax register would increase after the introduction of the tax in 1989, and more payers would be drawn into the net, involving more inspectors.

The volume of accountancy work will also increase, he added.

Meanwhile, the PFP spokesman on finance, Mr Harry Schwarz, said:

"The collection costs will be higher, and more private sector organisations will have an additional burden, but this must be weighed against the increased collections for the fiscus, which should help minimise the rate."

Mr Schwarz said the Margo Commission report quoted the International Monetary Fund as saying that 60 per cent of what was not collectd under GST would be collected under a VAT system.

He added that the tax was self-policing.

"At each stage you make sure the person you bought from paid the tax so that you get the credit." — DDC

VAT costs high

330 B/day 2/3/88

GERALD REILLY

PRETORIA — The costs of collecting VAT will be substantially greater than the costs involved in GST collections, Inland Revenue chief director Schalk Albertyn said yesterday.

It was not possible to make an assessment of the actual costs as tax collection was an integrated operation, but more staff would be needed. The numbers on the tax register would increase after the introduction of the tax in 1989 and more payers would be drawn into the net.

"This will obviously involve more inspections and more inspectors. The volume of accountancy work will also increase," he said.

TAX SHELTERS

But is it art?

Describing reaction to the recent crackdown on tax shelters is as difficult as trying to define tax morality. For up to a decade there have been calls from all quarters for reductions in tax rates. But tax rates have consistently risen. So it's no surprise that, last week, a practising advocate was overheard in the Johannesburg Country Club car park trying to sell a piece of a new motion picture deal that was "perfect under the new law."

Renowned tax publisher Costa Divaris is forthright: "As a taxpayer, thank goodness for the clampdown. What's striking about it is that the authorities held back for so long."

There is anecdotal evidence, if nothing else, to suggest that many tax shelters were no more than scams. Fraud, some say.

Chris Frame of Price Waterhouse argues that tax shelters proliferated because the SA tax system is not sophisticated enough to deal with them. It cannot keep up with commercial developments and realities.

Divaris disagrees. "The Income Tax Act has been in place for decades. It's a robust piece of law, it's survived very well and has long contained every principle it'll ever need. We need to avoid tacking pieces on to it and ending up with a dog's breakfast."

Unfortunately, the Margo Commission

Frame ... sophistication wanted

did not deal convincingly with anti-avoidance. At most, it recommended a general anti-avoidance provision in all fiscal legislation (plugging holes in the Sales Tax, Stamp Duties and Transfer Duty Acts).

Margo hit on the fact that "large-scale tax avoidance schemes are being used with serious consequences to the fisc." But it did not discuss Frame's pertinent observation that: "Today, taxpayers will take almost unbelievable risks. This 'risk' profile has changed beyond recognition in recent years."

To expect the Act to be upgraded to the sophisticated level Frame would want, is a little unrealistic. Divaris's answer is simple: Inland Revenue should fight tax shelters through the courts.

As soon as it gets wind of a new scheme, it should get an example into the Special Income Tax Court. If Revenue's case is based on general tax principles and it wins, a precedent is established.

"That way," says Divaris, "the scheme is dead for all time. This method, which requires highly-skilled management by Revenue, avoids, above all, the unjustifiable — and often extra-parliamentary — use of retroactive law." ■

TAXATION FM 4/3/88

'Trading' in secret?

Oral warnings from Inland Revenue authorities have it that *en commandite* partnerships are an endangered species. The *en commandite*, used particularly in motion picture and bloodstock schemes, has up to 20 partners, the majority of whom are wealthy investors who remain undisclosed. There is a managing, disclosed partner, who, typically, markets and then manages, the partnership.

It seems that the latest attack is that secret *en commandite* partners do not trade — as is necessary to qualify tax losses for deduction from a taxpayer's income. Expenditure incurred may only be deducted against income from carrying on a trade.

The trade test hinges on another attack up Revenue's sleeve — whether the amount invested *en commandite* qualifies as expenditure incurred. Tax losses the taxpayer lays claim to via the *en commandite* substantially exceed his cash outlay.

The neutralisation effect may place doubt on whether the taxpayer has incurred the expenditure. If not, the investment is of a capital nature, making losses useless. In SA, capital items are ignored by tax law.

Then, of course, regarding motion pictures, there is the question whether the taxpayer was at risk, as envisaged in S24F of the Income Tax Act. With bloodstock schemes, there is the old test of whether the taxpayer is a bona fide farmer.

Finally, there is the would-be draconian S103 — particularly the test that a "transaction was entered into solely or mainly (to) avoid or postpone liability for the payment of any tax ..."

If Revenue succeeds on any of these grounds, countless bloodstock, motion picture and other contrived tax investment schemes will fall flat and investors will lose the entire tax shelter on their investment.

But all is not lost. UK precedent, heavily relied on in SA, suggests that the trade and expenditure incurred tests will not work for Revenue.

In 1985, similar arguments were struck down in Reed vs Young in the House of Lords. A limited partner in a film production venture claimed a proportionate share of the loss of the venture, though this exceeded the amount he was liable to contribute to the partnership.

The court held that the taxpayer was entitled to claim in excess of what he was liable to contribute, reasoning that Revenue had always "treated a trading enterprise as such, regardless of its management."

Moreover, it was held that partners act as agents for each other. The implication is that, in SA, the secret partner has the same status as the managing partner.

In any event, Revenue would be going a bit far if it tried to strike down *en commandite* schemes across the board. Particularly in motion pictures, it can be argued that lengthy discussions were held with Revenue to try and produce an equitable outcome.

Blatant cases of abuse, which certainly exist, are as easy to recognise as they are to contest on normal principles. ■

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†The MINISTER OF HOME AFFAIRS:

(1) (a) Yes.

(i) Electoral Division of Pietermaritzburg South, polling station at Pelham Primary School.

(ii) Returning officer.

(iii) Closure of polling station for a period of approximately 30 minutes.

(iv) (aa) and (bb) Guarded by returning officer, presiding officer and police officers.

(b) No.

(c) No.

(2) No.

(3) No.

Employment of aliens illegally in Republic: persons convicted

*26. Mr K M ANDREW asked the Minister of Justice:

Whether any persons have been convicted since 1 January 1987 of employing aliens who are in the Republic illegally; if so, how many as at the latest specified date for which information is available?

†The MINISTER OF JUSTICE:

Yes—32 persons for the period 1 January 1987 until 31 January 1988.

Cape Peninsula: housing units for Blacks

*27. Mr K M ANDREW asked the Minister of Constitutional Development and Planning:

(a) How many housing units for Black occupation were built in the Cape Peninsula in 1987 and (b) what is the number to be built in this area in 1988?

†The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(a) 632

(b) A specific figure cannot be given because of the involvement of various utility companies, the private sector and self-help schemes in numerous building programmes of which particulars are not readily available.

Mr K M ANDREW: Mr Speaker, arising from the reply of the hon the Minister, I should like to ask him whether he does not think, in view of the importance of housing and the problems related to it, that his department should be monitoring it closely, even where the private sector is involved?

The MINISTER: Mr Speaker, the answer is yes.

Mamelodi police station: charge against certain person

*28. Mr P G SOAL asked the Minister of Law and Order:

(1) Whether a charge was laid at the Mamelodi police station on or about 29 January 1988 against a certain person, whose name has been furnished to the South African Police for the purpose of the Minister's reply; if so, (a) what was the nature of the charge and (b) what is the name of this person;

(2) whether this charge has been investigated; if not, why not; if so, (a) by whom and (b) with what result;

(3) whether this person has been arrested; if not, why not; if so, when;

(4) whether any further complaints or charges have been laid against this person; if so, (a) when and (b) what action was taken as a result;

(5) whether the Police at Mamelodi have received any enquiries concerning this case; if so, (a) on what dates, (b) from whom and (c) what was the response?

The MINISTER OF LAW AND ORDER:

(1) Yes.

(a) That he assaulted a person with the intent to do grievous bodily harm;

(b) the name which was furnished by the hon member.

(2) and (3) Yes.

A member of the South African Police investigated the case and arrested the accused on 7 February 1988. He was released in terms of section 72(1)(a) of the Criminal Procedure Act, 1977 (Act 51 of 1977), and cautioned to appear in court on 24 February 1988. His trial took place on that date and he was convicted. He will be sentenced on 25 March 1988.

(4) No.

(a) and (b) Fall away.

(5) No.

(a) to (c) Fall away.

Solvent abuse/glue sniffing

*29. Mr R M BURROWS asked the Minister of National Health and Population Development:

(1) Whether he or his Department is taking any action in regard to solvent abuse or glue sniffing; if not, (a) why not and (b) what bodies are responsible for taking action in this regard; if so, what action has been taken or is envisaged;

(2) whether this matter has been discussed with any organizations or bodies; if so, (a) with what organizations or bodies and (b) when;

(3) whether he will make a statement on the matter?

†The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) Yes;

(a) Falls away.

(b) I referred the tragic problem of solvent abuse and glue sniffing to the National Advisory Board on Rehabilitation Matters for inclusion in the National Plan to Prevent and Combat Alcohol and Drug Abuse.

(2) (a) and (b) This matter is placed on the agenda of the National Advisory Board on Rehabilitation Matters as well as the subcommittee responsible for the implementation of the National Plan. Other organizations concerned such as the South African National Council for Alcoholism, are also represented on the National Advisory Board on Rehabilitation Matters and the mentioned subcommittee thereof.

(3) No.

Mr R M BURROWS: Mr Speaker, arising from the hon the Minister's reply, may I ask him whether at this stage he intends to make any legislative changes regarding the use or control of solvents?

The MINISTER: Mr Speaker, it depends on how effectively the national plan is going to be implemented this year. We will re-evaluate the situation at the end of the year, and following the re-evaluation, consider further steps.

Individual taxpayers: deduction of moneys for educational purposes

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*30. Mr R M BURROWS asked the Minister of Finance:

(1) Whether he or his Department has initiated investigations into the deductibility of moneys of individual taxpayers for educational purposes at school or college level; if not, why not; if so, (a) what matters are being investigated and (b) by what body are they being investigated;

(2) whether representations on this matter have been called for; if not, why not; if so, what are the relevant details;

(3) whether the tax rebate granted for payments by parents in respect of physically disabled children has been altered in the last five tax years; if not, why not; if so,

(4) whether the rebate amount has kept pace with the increase in the educational and medical needs of the physically disabled; if not, why not;

(5) whether he will make a statement on the matter?

The DEPUTY MINISTER OF FINANCE (Mr K D Durr):

(1) Neither I nor my Department have initiated any investigation into the deductibility of expenditure incurred by taxpayers for educational purposes. Two fundamental principles of the South African income tax system are that only expenditure incurred in the production of income may generally be allowed as a deduction and domestic or private expenses are prohibited as a deduction. To deviate from these sound basic principles would only result in numerous other representations being made for similar concessions which would ultimately lead to the serious erosion of the tax base. A further drawback of such a tax expenditure is that it is of little or no benefit to taxpayers in the lower-income groups whose tax saving would be minimal. It should, however, be noted that section 18A of the Income Tax Act does already provide for the deduction of donations, within specified limits, to amongst others, universities, colleges and

certain special education funds established for schools providing secondary education beyond the sixth standard.

(2) The Commission of Inquiry into the Tax Structure of the Republic of South Africa was available to receive any representations regarding tax-related matters.

(3) The deduction of expenditure incurred by physically disabled persons has been increased once during the last five years, in 1984 when the maximum deduction was increased from R2 400 to R3 000, an increase of 25%.

(4) Although the increase has not kept pace with inflation over the last five years the present maximum deduction is generally sufficient to allow the majority of taxpayers to claim the full cost of any physical disability expenditure they may incur each year. Further, during the period 1980 to 1988 the maximum deduction has increased from R600 to R3 000, an increase of 500% which is far in excess of the approximately 121% inflation rate over the same period.

(5) It is not considered necessary to issue a statement on the matter.

Mr R M BURROWS: Mr Speaker, arising from the hon the Deputy Minister's reply, can he tell us whether representations have been received as to the deductibility of parents' payments for children in the primary standards?

The DEPUTY MINISTER: Mr Speaker, there have been representations. These representations are received from time to time. I want to say to the hon member he must be a little patient. He will know that we shall be dealing with the White Paper on the Margo Commission which will be tabled in a few days' time. Then we will have all the time in the world to discuss it.

Mr K M ANDREW: Mr Speaker, further arising from the hon the Deputy Minister's reply, I would like to ask him if he would not accept that, unlike other tax deductions, the expenditure on private school education is a direct saving for the Exchequer in terms of their not having to provide that schooling themselves. So the same principle does not apply to other types of deductions.

*31. Mr R M BURROWS — National Education. [Reply standing over.]

Own Affairs:

Teachers' college at Paarl/Oudtshoorn: take over of facilities after closure

*1. Mr A GERBER asked the Minister of Education and Culture.†

Whether his Department has made a decision about the organizations to which the facilities of the teachers' colleges at Paarl and Oudtshoorn will be made available after their closure; if not, (a) why not and (b) what organizations are being considered in this connection, in each case?

The MINISTER OF EDUCATION AND CULTURE:

Yes, the Paarl Teachers' College will be used by the South African Police, the Paarl Technical College and the Paarl Commercial High School. The Oudtshoorn Teachers' College will be taken over by the South African Defence Force.

Director of Education, Transvaal: closed meetings of school principals/teachers arranged/addressed

*2. Mr A GERBER asked the Minister of Education and Culture:†

(1) Whether the Director of Education in the Transvaal recently arranged and addressed closed meetings of school principals and/or teachers; if so, (a) what is the purpose of these meetings and (b)(i) where and (ii) when did or will the meetings take place;

(2) whether such meetings (a) are held on his or his Department's request and/or (b) are initiated by him or his Department;

(3) whether he will make a statement on the matter?

†The MINISTER OF EDUCATION AND CULTURE:

(1) Yes,

(a) to discuss various matters of interest to education,

(b) (i)	and	(ii)
Witbank Ermelo Nelspruit		21 January
Klerksdorp Lichtenburg Rustenburg		3 February
Krugersdorp Alberton Boksburg		4 February
Pretoria Johannesburg		5 February
Nylstroom Pietersburg;		8 February

(2) (a) no, not at my request. The Director of Education in Transvaal is a very senior official in my Department and is responsible for administering teaching policy in the TED. He is therefore fully entitled to have professional discussions of this kind should he deem them necessary,

(b) it was initiated by the TED which is part of my Department;

(3) no.

Teachers: candidates in municipal elections

*3. Mr D J DALLING asked the Minister of Education and Culture:

(1) Whether teachers employed by his Department are entitled to offer themselves as candidates in municipal elections; if not, why not; if so,

(2) whether any conditions apply to teachers offering themselves as such candidates; if so, what conditions?

The MINISTER OF EDUCATION AND CULTURE:

(1) Yes, with the necessary approval;

(2) teachers may offer themselves as candidates in the coming municipal elections. The existing provincial ordinances and regulations must be taken into consideration by them. In terms of the ordinances and regulations a teacher may not

(a) allow his membership of such a body to intervene with his task as a teacher;

(b) express himself in public on any matter that can further or prejudice the interests of a political party or cause embarrassment to the Department;

(c) disregard the instructions regarding paid employment outside official hours.

In view of the particular role that party politics will play in the coming municipal elections and their activities thereafter, I call on teachers to carefully note these conditions before they offer themselves as candidates. The conditions will be strictly applied.

Mr D J DALLING: Mr Speaker, arising out of the hon the Minister's reply and in particular the reference he made to a teacher making any statement in support of any political party, I want to ask him if this means that no teacher can stand in the coming municipal elections under the banner of a political party.

†The MINISTER: Mr Speaker, there is no provision in that regard that would prevent a teacher from standing under the banner of any political party or as an independent, but his conduct while he is standing and thereafter is very clearly laid down by ordinance and that will be very strictly applied.

Mr D J DALLING: Mr Speaker, further arising out of the hon the Minister's reply, I would just like the hon the Minister to explain how someone can stand under the banner of a political party without promoting the stance of this political party in an election campaign.

†The MINISTER: Mr Speaker, I do not consider it my duty to spell that out. Any person who wants to stand for election as a member must exercise that judgement for himself.

†Dr W J SNYMAN: Mr Speaker, further arising out of the hon the Minister's reply, does that therefore also mean that if a teacher is elected to a local council he may not in public take part in a debate on a political issue or adopt a standpoint on it?

†The MINISTER: Mr Speaker, I want to ask the hon member to have a good look at my reply as well as at the provisions of the ordinances. From that it is clear that every person who is elected to the town council and is a teacher personally has the responsibility to act in such a manner that he does not contravene the provisions of the ordinances.

Mr R M BURROWS: Mr Speaker, further arising out of the reply of the hon the Minister, may I ask him whether he intends in the near future to amend the ordinances and/or legislation in any confiscated by the South African Police in 1987?

The MINISTER OF LAW AND ORDER:

	(a)	(b)
(i) Dagga	10-584 813 kilogramme	R10,58 million
(ii) LSD	6 927 units	R69 270,00
(iii) Heroin	1 830 gramme	R457 500,00
(iv) Cocaine	1 402 gramme	R350 500,00
(v) Mandrax	14,9 million tablettes	R74,3 million
(vi) Other	Opium 26 gramme	R5 200,00
	43 868 tablettes	R214 340,00

NOTE: The amounts furnished in paragraph (b) represent estimated values.

Turkey: import or customs duty on goods

222. Mr D J N MALCOMESS asked the Minister of Economics Affairs and Technology:

(1) Whether any changes were effected recently in the rate of import or customs duty on goods from Turkey; if so, (a) when were the changes implemented, (b) what is the nature of the changes and (c) why were they effected;

(2) whether organizations which are affected by the changes were (a) advised of the changes and/or (b) asked for comment on the proposed changes; if not, why not; if so, when;

(3) whether he will make a statement on the matter?

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

(1) Yes.

(a) 1 January 1988.

(b) A maximum *ad valorem* rate of duty of 3 per cent is levied on all goods imported from Turkey.

(c) In an endeavour to bring about an equilibrium in the imbalance of the trade between Turkey and South Africa.

(2) (a) Yes, by means of a notice in the Government Gazette.

(b) No. Comment prior to publication of the notice was not sought because of the sensitivity and urgency of the matter. The matter is, however, at present being discussed with the industries concerned.

(3) Not at this stage.

Internal Security Act/emergency regulations: persons arrested for attending prohibited gatherings

248. Mr S S VAN DER MERWE asked the Minister of Law and Order:

How many persons were arrested by the security forces in 1987 for allegedly attending gatherings prohibited in terms of (a) section 46 of the Internal Security Act, No 74 of 1982, and (b) the emergency regulations?

The MINISTER OF LAW AND ORDER:

(a) 316 persons.

(b) 56 persons.

Companies/individuals: income tax

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

What is the total amount of income tax assessed for the 1986-87 tax year in respect of (a) companies and (b) individuals?

The MINISTER OF FINANCE:

		AMOUNT ASSESSED	%
(a)	Companies:		
	Mining	R1 136 595 736	
	Non-mining	R1 050 288 131	
	Total	R2 186 883 867	24,76%
(b)	Individuals	R6 232 422 689	67,00%

The statistics in (b) above do not include taxpayers under the Final Deduction System.

Individuals/companies: income tax written off as irrecoverable

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

Whether any income tax was written off in the 1986-87 financial year as irrecoverable; if so, (a) in respect of how many (i) individuals and (ii) companies and (b) what was the amount of tax written off in each category?

The MINISTER OF FINANCE:

(a) (i) 6 223

(ii) 321

(b) (i) R6 142 297,48

(ii) R3 819 555,68

Taxpayers

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

How many taxpayers in each income category in respect of the 1986-87 tax year were (a) White, (b) Coloured, (c) Indian and (d) Black?

The MINISTER OF FINANCE:

The statistics are not complete, because ±25 per cent of individual taxpayers have not yet been assessed.

	(a)	(b)	(c)	(d)
Loss	12 174	213	269	34
0 — 5 000	125 444	36 259	13 299	33 826
5 001 — 10 000	165 894	63 903	24 364	82 972
10 001 — 15 000	194 077	51 276	26 651	60 794
15 001 — 20 000	174 777	26 179	13 991	18 527
20 001 — 25 000	167 402	12 851	7 813	6 086
25 001 — 30 000	140 224	6 098	3 991	2 288
30 001 — 35 000	107 427	2 979	2 272	910
35 001 — 40 000	72 215	1 566	1 267	395
40 001 — 45 000	45 624	863	715	195
45 001 — 50 000	28 212	428	401	108
50 001 — 60 000	28 840	299	352	91
60 001 — 70 000	11 994	80	144	19
70 001 — 80 000	5 850	31	70	14
80 001 — 90 000	3 553	12	57	7
90 001 — 100 000	12 231	14	36	4
100 001 — 150 000	4 585	16	56	5
150 001 — 200 000	1 292	6	18	1
200 001 — 250 000	473	1	6	1
250 001 +	680	2	6	1
TOTAL:	1 302 968	203 076	95 778	206 278

NOTE: The above statistics do not include taxpayers under the Final Deduction System.

Mining/non-mining companies: tax collected

291. 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 1987?

The MINISTER OF FINANCE:

		(a) Mining R	(b) Non-mining R
(a) & (b)	January	28 680 268	557 552 319
	February	1 094 021 972	225 309 525
	March	150 780 390	441 870 569
	April	1 283 303	443 394 890
	May	236 581 298	68 944 397
	June	258 533 826	298 031 554
	July	2 544 109	1 293 969 222
	August	856 646 901	224 046 549
	September	96 367 484	674 063 889
	October	5 023 326	729 893 293
	November	144 164 770	101 502 198

December figures are not yet final.

Individual taxpayers/tax expressed as percentage of total tax

292. 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 the total tax assessed in the 1986-87 tax year and (b) what percentage of each group of taxpayers is Black?

The MINISTER OF FINANCE:

(a) (i) and (ii) (b) The statistics are not complete because ±25 per cent of individual taxpayers have not yet been assessed.

Income category		Number of individual taxpayers in income category	Percentage black taxpayers in income category	Tax assessed in income category as percentage of total tax assessed
Loss		12 690	0,00	0,00
0—	5 000	208 828	1,87	0,07
5 001—	10 000	337 133	4,59	1,53
10 001—	15 000	332 798	3,36	5,00
15 001—	20 000	233 474	1,02	7,70
20 001—	25 000	194 152	0,34	10,67
25 001—	30 000	152 601	0,13	12,24
30 001—	35 000	113 588	0,05	12,42
35 001—	40 000	75 443	0,02	10,67
40 001—	45 000	47 397	0,01	8,30
45 001—	50 000	29 149	0,01	6,13
50 001—	60 000	29 582	0,01	7,67
60 001—	70 000	12 237	0,00	4,07
70 001—	80 000	5 965	0,00	2,43
80 001—	90 000	3 629	0,00	1,76
90 001—	100 000	12 285	0,00	1,28
100 001—	150 000	4 662	0,00	3,54
150 001—	200 000	1 317	0,00	1,47
200 001—	250 000	481	0,00	0,72
250 001+		689	0,00	2,33
TOTAL		1 808 100	11,41	100,00

NOTE: The above statistics do not include taxpayers under the Final Deduction System.

GST: irregularities

293. 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 1987, (b) what is the amount of tax involved and (c) in respect of what date is this information furnished?

The MINISTER OF FINANCE:

(a) 9 791

(b) R113 343 849

(c) Period 1 January 1987 — 31 December 1987.

Concessions granted: amount of tax lost

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

What is the total amount of tax lost or expected to be lost as a result of tax concessions granted to decentralized or deconcentrated industries in respect of the year ended 31 March 1987?

The MINISTER OF FINANCE:

Because many taxpayers (especially companies) have not yet put in their 1987 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 1987 will amount to approximately R28 million.

Burglaries

297. Mr H H SCHWARZ asked the Minister of Law and Order:

How many burglaries were reported to the South African Police during the period 1 July 1986 to 30 June 1987?

The MINISTER OF LAW AND ORDER:

194 286 burglaries.

NOTE: I wish to point out to the hon member that for the sake of efficiency, statistics were furnished for the period 1 January to 31 December 1987. All statistical reports will in future be furnished in calender year periods.

This figure represents a decrease of nearly 2% in comparison with the previous year.

Motor vehicles reported stolen

299. Mr H H SCHWARZ asked the Minister of Law and Order:

(1) (a) How many motor vehicles were reported stolen during the period 1 January to 31 December 1987 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 cannibalized condition?

The MINISTER OF LAW AND ORDER:

(1) (a) 59 936 motor vehicles.

(b) An estimated value of R899 040 000.

(2) (a) 33 177 motor vehicles with an estimated value of R497 655 000.

(b) 7 112 motor vehicles.

(c) 2 040 motor vehicles.

Air traffic controllers: shortage/vacancies

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

Whether there is a shortage of air traffic controllers in his Department at present; if so, (a) how many vacancies are there, (b) at which airports do these vacancies exist in each case and (c) in respect of what date is this information furnished?

The MINISTER OF TRANSPORT AFFAIRS:

Yes.

(a) 11.

(b) 8 at Jan Smuts Airport:

1 at Louis Botha Airport; and

2 at D F Malan Airport.

(c) 24 February 1988.

Lorries impounded

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

Whether any lorries were impounded in 1987 by officials of the Department of Transport; if so, (a) how many in each month and (b) for what reason in each case?

The MINISTER OF TRANSPORT AFFAIRS:

Yes

(a) *Month*	*Number*	(b) *Reason*
January	0	Not applicable.
February	1	Unauthorized road transportation.
March	0	Not applicable.
April	0	Not applicable.
May	0	Not applicable.
June	0	Not applicable.
July	0	Not applicable.
August	0	Not applicable.
September	0	Not applicable.
October	0	Not applicable.
November	0	Not applicable.
December	0	Not applicable.

Bus companies: subsidies

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

What total amount was paid to bus companies in respect of subsidies for the transport of passengers in the (a) Johannesburt/Pretoria, (b) Cape Town Peninsula, (c) Port Elizabeth/Uitenhage and (d) Durban/Pinetown areas in the 1987/88 financial year?

The MINISTER OF TRANSPORT AFFAIRS:

Particulars are not yet available in view of the fact that the 1987/88 financial year only terminates on 31 March 1988.

Black Transport Services Act: contributions from employers

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

What was the total amount collected in terms of the provisions of the Black Transport Services Act, No 53 of 1957, in contributions from employers in the 1986-87 financial year?

The MINISTER OF TRANSPORT AFFAIRS:

R41 131 194.85.

Tsitsikamma toll road: total amount collected

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

What is the total amount (a) collected by the concessionaires, and (b) paid to the State by them after retaining the amount due to them for their expenses and/or commission, in respect of the Tsitsikamma toll road in 1987?

The MINISTER OF TRANSPORT AFFAIRS:

(a) R1 653 471.36

(b) R1 456 967.55.

Tax-free investments threatened

Bond rate could jump if Margo plan accepted

320

B/day 9/3/88

GRETA STEYN

THE scrapping of tax-free investments offered by building societies should put upward pressure on the bond rate, building society spokesmen said yesterday.

Their comments follow speculation that the White Paper on the Margo commission, due to be presented in the current session of Parliament, is likely to contain a proposal in this regard.

The Finance Department, asked whether tax-free investments were to be phased out soon, said the question would be answered in the White Paper. Margo proposed the scrapping of tax-free interest on deposits with building societies and the Post Office.

While the phasing out of tax concessions could contribute to future upward movements in the bond rate, it was unlikely to have a dramatic effect on building societies' rates, spokesmen said.

Perm marketing GM Barry Whitfield said if tax-free deposits were phased out, the societies could face a situation in which they had less funds available for home loans. These funds would have to be replaced, possibly at a higher cost than the tax-free money.

"When funds used to finance home loans become more expensive, there is upward pressure on the bond rate."

Allied MD Kevin de Villiers said it was unlikely tax-free interest on deposits would be abolished in one fell swoop. "Phasing out over a long period of time is unlikely to cause a dramatic move in the bond rate," he said.

Reserve Bank figures show tax concessions are applicable to 29% of all building societies' deposits, with 7,5% of all their deposits totally tax-free.

Though tax-free deposits still represent a large chunk of funding, the societies are less reliant on these funds than in the past, when more than 40% of funding was with tax-free money.

Millions of rands escape net

Govt set to act against tax offenders

320
B/Day 10/3/88

CAPE TOWN — Government is expected to give notice during next week's Budget that it is to crack down even more heavily on tax offenders than it has in the past.

Its motivation is to be that it can no longer afford to do without the millions of rands now escaping the tax net in one way or another.

Some indication of the sums involved were provided in Parliament this week by Finance Minister Barend du Plessis, answering questions put by PFP finance spokesman Harry Schwarz.

Du Plessis noted that more than 6 000 individuals and 321 companies had caused government to write off

CHRIS CAIRNCROSS

almost R10m in income tax as irrecoverable last year.

Irregularities in respect of general sales tax (GST) uncovered since January last year amounted to more than R113m. That does not, of course, include all those amounts yet to be discovered.

Tax revenue lost as a result of tax concessions granted to decentralised or deconcentrated industries is estimated to be about R28m to March last year.

Finance Department sources said those figures represented just the tip of the potential tax-revenue shortfall and efforts would have to be renewed to make up the deficit.

Delay in Paper on tax return

Sowetan 10/3/88

(320)

THE Government's White Paper on the Margo Commission's report on tax reform will not be published today as expected in some quarters.

Ministerial sources in the Department of Finance said yesterday speculation about the White Paper's publication today, or any other day, was premature.

It was confirmed, however, that the White Paper was due to be published during the course of this parliamentary session.

TAX SCHEMES 320

This time, property

A big family of property tax-based leases, involving hundreds of millions of rands, many listed companies, powerful individuals and some of the biggest HQs and shopping centres in the country, is the next quarry on Inland Revenue's hit list.

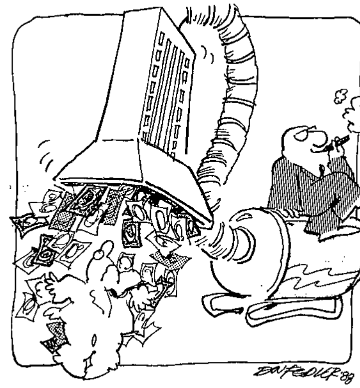
The structures of the schemes, according to a top Johannesburg tax consultant, are explicable only as contrivances to avoid tax. In his opinion, many fall foul of the Income Tax Act's draconian S103 test that "the transaction was entered into ... solely or mainly for the purposes of the avoidance or postponement of liability for the payment of any tax ... "

Until now, Revenue has not had sight of the schemes for the simple reason of non-disclosure. While the need to disclose tax schemes to Revenue is a moot point, all Revenue has seen so far is "rentals" or "instalments" in tax returns. There has been no reason for it to make enquiries.

"The schemes were set up very quietly," says the consultant. "Revenue has not yet attacked any, making it obvious that it has not seen one."

Attempts by the *FM* to secure details of the schemes from firms of accountants and lawyers were futile. A typical response was: "Don't expose these schemes. You have to leave this as our business. Publish it and Inland Revenue will kill it."

The amounts involved probably add up to the single biggest tax avoidance scheme in South African history. There is an enormous spectrum of schemes, but their essence is similar.



In 1983, to curb abuses, S11(g) of the Act was tightened. Land and buildings used for commercial purposes no longer qualified for tax breaks, unlike those used for industry. Since income and expenditure of a capital nature is neither taxable nor deductible under South African law, developers of commercial property were left out on a limb.

The new family of schemes, rooted in the latter part of 1983, saw commercial property developers trying to have it both ways. They wanted (eventually) to own the land and buildings, but also wanted the tax advantages that were no longer available.

Tax experts saw a possibility in leasing. Like S11(g) leases, a non-taxable body (to wit, pension fund or religious trust) put up the finance and leased the development to the developer through tame subsidiaries.

The developer, as lessee, nominally paid rents, which are deductible. But in effect, he was paying off capital and qualifying it for a tax deduction. Tax savings allowed the developer, as lessee, to pay the, say, pension fund a higher rental. Lessees capitalised interest costs into the land and building cost, allowing an even higher tax write-off.

The non-taxable body's rental receipts were, of course, not taxable. The lease would include an option to the developer, via various conduits, to buy the property at the end of the lease, in various ways designed not to fall foul of S8(5) — which in theory taxes a lessee on the difference between what he pays for a property and the market value at the time an option is exercised — to combat the paying off of capital.

Methods used to avoid S8(5) include the Roman-Dutch principle of accretion. Another is that when the option is exercised, shares in the property-owning company — rather than the property itself — change hands. Changing ownership in shares is an "old trick" not yet tested in the courts.

Overall, these property tax schemes allow the non-taxable body a higher than normal return; a 50% after-tax cash saving for the developer; and a substantial bonus for the developer when he exercises the option.

If the family of property tax schemes is successfully hit by S103 — which includes tests for "normality" and "arm's length" transactions — developers stand to be recouped for the entire tax saving.

Before one of the schemes is tested in court, their status cannot be described. But, as David Clegg noted, there is tax avoidance and there is tax evasion. In the late Seventies, finance minister Owen Horwood coined the word "avoision." This, says Clegg, "seemed to refer to morally reprehensible avoidance of tax which was legally perfectly legitimate." Now there is a fourth term. A recent Privy Council (UK) case used the concept of "tax mitigation." This was seen as "an arrangement when the taxpayer reduces his tax without involving him in the loss or expenditure which entitles him to that reduction."

While the "substance over form" test has no place in South African law, the family of property tax schemes hinges on expenditure which, in law, does not entitle the taxpayer to a deduction. Moreover, Revenue's use of S103 in the courts is one thing; it always has the avenue of unilateral retroactive law.

In the current climate of tax crackdowns, erosion of the tax base is of major concern. Unquestionably, the family of property tax schemes has damaged the taxbase substantially. Property leases hundreds of pages thick cannot disguise that. ■

DfD 11/3/88 (320)

Court overturns tax interest ruling

BLOEMFONTEIN — An appeal by the Commissioner of Inland Revenue against a judgment that found that NCR Corporation of South Africa (Pty) Ltd was entitled to interest for taxes overpaid was upheld, with costs, by the Appeal Court here yesterday.

Mr Justice M. M. Corbett altered the judgment of Mr Justice H. Daniels, given in the Witwatersrand Local Supreme Court on February 21, 1986, to dismiss NCR's application with costs.

He held that NCR had not been entitled to interest on any of the refunds of tax received.

Mr Justice Daniels had found that NCR was entitled to interest at the prescribed rate for taxes overpaid for 1973, 1974 and 1976 tax years. He had held that the interest was payable from the date of receipt of the overpayments to the dates on which the amounts were refunded, less interest already paid by the Commissioner.

Mr Justice Daniels had also held that NCR was entitled to interest in terms of Section 88 for taxes overpaid for 1977 and 1978 and to interest on the amounts of interest in regard to the 1973/4/6 years.

Mr Justice Corbett said the appeal concerned the proper interpretation of section 88 of the Income Tax Act.

After an analysis of the relevant section the judge held that NCR was not entitled under Section 88 to be paid interest on any of the refunds of tax received by it.

Accordingly, the question whether the interest should be calculated as from the dates of the receipt of the tax fell away.

The lower court ought not to have made the declaratory order and ought to have awarded the commissioner the costs of the application. — Sapa

FM 11/3/88

TAX RETURNS

Breathing space

320

Normal tax returns have to be filed only by May 30 — two weeks later than last year. As usual, taxpayers with overdue IRP5 forms from tardy employers can apply for extensions.

And, reminds Johannesburg Receiver of Revenue Hannes Hattingh, Inland Revenue will be on hand to help taxpayers fill out tax returns — free.

Contradictory as this may sound, Revenue officials are not only wont to apply doubt in favour of the taxpayer (the *contra fiscum* rule); they also supply ignorant taxpayers with knowledge.

For example, while the normal write-off for a personal computer is 25% a year over four years — provided, of course, it's used to produce income — the rate could be stepped up. The rate applied is purely in Revenue's discretion.

Hattingh says that of about 272 000 salaried individuals on the Johannesburg register — which includes Sandton, Randfontein and Krugersdorp — there are still 30 000 outstanding from last year. Dates for provisional taxpayers remain: February 29; August 31; and a third voluntary payment within six months of the financial year-end.

Backlog problems in the Johannesburg office may be cleared up when teething problems with its sophisticated computer are cured.

Intensified tax blitz

(330) Bday 11/3/88.

GERALD REILLY

PRETORIA — The intensified tax blitz to recover a maximum of the tens of millions of rands lost annually through tax fiddles has started.

And yesterday Inland Revenue chief director operations Schalk Albertyn said last year nearly R1bn in untaxed income was discovered.

In addition evasions totalling R200m had been recovered.

Albertyn said more inspectors were being trained and would be in the field within the next few weeks.

No assesment had been made of the extent of money lost to the exchequer because of tax evasion, but it was "very substantial" and the aim was to reduce it to a minimum.

Tax consultants, however, say uncollected taxes could amount to several billion of rands in any one year.

Business Day reported earlier this week that Finance Minister Barend du Plessis was expected to announce a crackdown on tax offenders in the Budget next week.

PFP finance spokesman Harry Schwarz said it was obvious the more inspectors employed by the department the more tax fiddles would be discoverd.

● To Page 2

Intensified tax blitz to recover lost millions

BDay 11/3/88 ● From Page 1 330

The potentital was that every inspector would discover unpaid taxes many times the value of his salary, he added.

Meanwhile, all 150 000 taxpayers who had so far failed to make returns for the 1987 tax year would be summonsed within the next week, Albertyn said.

Currently about 300 were being summonsed a week in Johannesburg and 200 in Pretoria.

Albertyn said buff forms for the 1988 tax year were in the process of being posted to 2,5-million taxpayers — a record number.

The period of grace for the returns had been extended by two weeks to May 31.

Don't expect too much!

Tax relief will be small, says Schwarz

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Star 12/3/88.

TOS WENTZEL

CAPE TOWN — Taxpayers can expect slight relief in next week's Budget but there will be no dramatic concessions, in the view of the financial spokesmen of the parties in Parliament.

The Minister of Finance, Mr Barend du Plessis, will introduce the Budget in Parliament on Wednesday.

The Margo Commission's recommendations on tax reform will not be implemented in this year's Budget.

A White Paper setting out the Government's reaction the commission's recommendations will be released next week.

Party spokesmen expect that tax cuts will be moderate at best.

The Minister is expected to try to curb State expenditure but demands for more money for black education and development and the need to provide flood relief will make this difficult.

Mr Harry Schwarz, the Progressive Federal Party's chief spokesman on financial matters, said he did not think the Budget would make any dramatic changes to anything.

There would probably be a slight reduction, more of a symbolic nature, in personal tax.

The White Paper on the Margo Commission would be published but most of its recommendations would be for future implementation, except for tax enforcement and policing methods which would be tightened up.

The Minister would have difficulty in cutting back on State expenditure this year and this could be expected to increase by about 13 percent.

Mr du Plessis would have difficulty because he needed to find money for flood relief and there was also a substantial demand for increased defence expenditure.

In addition black education and black development required more money, Mr Schwarz said.

CAPE TIMES 15/3/88

Relief for taxpayers?

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By AUDREY D'ANGELO
Financial Editor

TOMORROW'S budget may lessen the tax burden of the man in the street by doing away with fiscal drag — which erodes the effect of pay increases by pushing people into higher tax brackets fixed at a time when their money was worth more.

This is the opinion of some economists who say that although we cannot expect a stimulatory budget, the government cannot allow the economic upturn to collapse through a lack of consumer confidence.

But others, pointing out that the Minister of Finance, Mr Barend du Plessis, has little scope for cuts, suggest that the bill for flood damage means hope of concessions has been washed away.

All are agreed that we cannot expect a give-away budget.

Among those who think the man in the street will be no better off are the director of the University of Cape Town Graduate School of Business, Professor Paul Sulcas, and the director of the Stellenbosch Bureau for Economic Research, Dr Ockie Stuart.

But Professor Brian Kantor, head of the economics department at UCT, Volkskas Bank chief economist Mr At Engelbrecht and Professor Liston Meintjies of the UCT Graduate School of Business, believe the levels of tax brackets will be raised.

● Green light for growth — Page 8

Pointing out that, in spite of attempts to keep government spending down, huge capital expenditure is unavoidable, Dr Stuart warned: "I don't think we can expect much in the way of tax relief. The minister has no sort of leeway whatever to play around."

Until Value Added Tax (VAT) was introduced, which would not be possible in this year's budget, Dr Stuart believed "any relief will be very minimal — merely token measures".

Professor Sulcas said he expected the budget to be linked to anti-inflationary measures and there would be encouragement to save.

"The State President has said we must pull our belts tighter, and the government needs money. I do not expect any relief from fiscal drag."

Professor Meintjies, agreeing that only cosmetic changes could be expected, said: "I am expecting a reduction in fiscal drag."

This opinion was shared by Mr Engelbrecht, who said that although the government must cut its deficit before borrowing he thought there would be a lowering of personal income tax.

He believed, however, that subsidies would be cut and tax on fringe benefits would be increased.

Professor Kantor said he expected "income tax relief will be limited, though fiscal drag will surely be removed".

The Cape Times will carry a special supplement on Thursday containing the budget, together with an analysis of what it will mean. There will also be comment from economists and businessmen who will explain how it is likely to affect the economy.

P

VIP 16/3/88

Tax relief: Barend's hands tied?

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CAPE TOWN — Financial experts from around the country were gathering here yesterday for today's Budget which could be one of the most momentous in years.

The Minister of Finance, Mr Barend du Plessis, will finally reveal the government's long-awaited reaction to the Margo Commission's proposals on sweeping tax reforms which it is hoped will spread the tax burden on a more equitable basis.

The Budget will be substantially framed around the changes the government hopes to implement.

It was suggested in political circles yesterday that the Budget would have to be seen as a "holding" operation and in the context of the changes which will have to be made over a few years.

It is highly unlikely that Mr Du Plessis will be able to make any major tax concessions today because his hands are tied by a cash flow problem, which could be further aggravated by the transition to the new tax system, a lack of foreign investment and huge flood relief problems.

However, it is generally expected that there will be some tax relief by an upward adjustment of tax brackets to ameliorate fiscal drag. — DDC.

Budget 88

As a result of technical problems, the full Budget speech by Mr Du Plessis, as well as further details and comment could not be published in this edition of the Daily Dispatch.

Partial relief of joint taxation

D/D 17/3/88 (320)

JOHANNESBURG — The abolition of joint taxation for all married couples as recommended by the Margo Commission has not been accepted because it simply "cannot be afforded".

However, there will be partial relief in the form of a new standard income tax on employees (SITE), which in effect exempts certain categories of married couples from joint taxation.

The new tax works as follows: For a man or a single woman whose earnings do not exceed R12 000 a year — or R20 000 in the case of a married woman — tax liability will be finally determined by PAYE deductions. These taxpayers will no longer need to submit tax returns.

Married women earning under R20 000 will no longer be subject to joint taxation. However, where a married woman's income is greater than R20 000 it will — less the existing 22,5 per cent concession — be added to her husband's income and be taxed at his marginal tax rate.

The government accepts that the joint tax burden will still be considerably higher in this case than if she had been subject to the SITE system. In particular, women earning just over R20 000 would be fiscally far worse off than those just under R20 000.

To soften the impact, a system of "shrinking deductions" will be introduced, which will entail a gradual phasing in of the higher tax rate.

Mr Malan. . big bluff

Experts believe the new measures will be welcomed by many married couples. "About 83 per cent of all working wives on register earn less than R20 000 a year, and will consequently benefit from the new dispensation," says Mr Ken Walton, a tax consultant. "However, the remaining 17 per cent are likely to be disappointed."

The new system comes into operation from the beginning of this month. Revised SITE deduction tables will shortly be issued to employers; in the meantime, PAYE tables still apply.

The leader of the National Democratic Movement, Mr Wynand Malan, said the marginal decrease in individual income tax was part of "a big bluff" to create the impression that the economy was improving when it was not.

Go-ahead for tax reform

By TOM HOOD, Business Editor

MOST of the tax changes recommended by the Margo Commission have been accepted by the Government.

The long-awaited White Paper giving the Government's decisions on the more than 300 recommendations was tabled in Parliament yesterday.

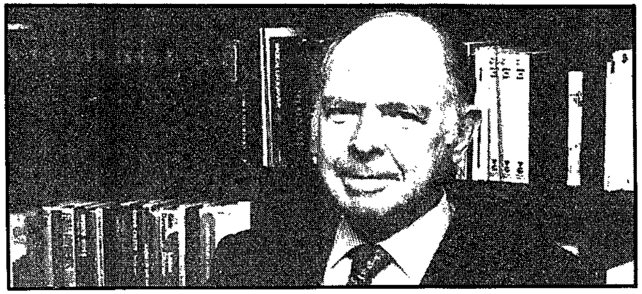
"The Government accepts the broad approach to tax reform as formulated by the commission. However, several of the most important recommendations are acceptable only in a revised form. For example, the proposed comprehensive business tax cannot be supported on the basis suggested."

On balance the Margo proposals would lead to a substantial fall in tax revenue, says the White Paper, but the commission proposed a tax on value added (VAT) to make good this loss of revenue.

The Government kept in mind the priority of its long-term economic strategy — an increase in South Africa's economic growth potential and actual performance in a way that would ensure the maximum benefits of growth to the individual.

"The emphasis in the strategy on measures to boost the supply of production factors — especially scarce ones such as capital and skilled labour — and to utilise them more effectively has been kept constantly in view: in particular the contribution of such things as the elimination of price distorting tax measures (including hidden subsidies) and the elimination or reduction of bracket creep and of taxation that smothers initiative and discourages saving."

Many of the recommendations will mean far-reaching changes in the country's tax structure. The White Paper said the proposals in many cases would be implemented in the current financial year.



LEFT: Mr Justice Margo . . . the White Paper tabled in Parliament yesterday gives government decisions on more than 300 recommendations made by his commission.

Relief granted to more than 80 percent of South Africa's working wives

But some were implemented in yesterday's Budget and these included the introduction of standard income tax on employees, the full deduction of medical expenses over five percent of income, inflation-related increases in the excise duties on beer, wine and cigarettes; the end of rebates on life insurance premiums, the taxation of life insurance companies and the introduction of a 15 percent capital transfer tax.

However, the Government rejected recommendations calling for a uniform duty on beer, an end to tax concessions for sponsors, abolition of stamp duties and market securities tax, passenger charges for the use of airports and a proposal that no special treatment be given to farming property when applying capital or wealth taxes.

A key issue rejected was separate taxation of married couples. The White Paper said this would cost about R3-billion a year or a quarter of the total revenue derived from this source.

Spelling out the reasons for rejecting the separate tax recommendation, the White Paper said:

- The private sector was less interested in separate taxation than in reducing personal income tax, reducing the number of tax brackets or raising tax brackets;
- A greater tax burden would be placed on single-breadwinner families;
- The middle-income group of taxpayers where both husband and wife worked would not necessarily benefit from a change in the system;
- The Inland Revenue saw many problems with the treatment of primary and child rebates; and
- Separate taxation had merits and might serve as a long-term goal of tax policy but was too expensive.

However, the Department of Finance has been told to give special attention to other recommendations by the Margo Commission that may possibly bring relief from the "marriage penalty".

Meanwhile, relief for more than 80 percent of working wives was disclosed by Finance Minister Barend du Plessis, who announced they would in future be taxed separately from their husbands.

The Government accepted the proposal for the introduction of a system of standard income tax on employees to be implemented during the 1988-89 tax year.

Working wives earning less than R20 000 a year will thus no longer have their income added to their husband's for assessment.

Proposals accepted or accepted in principle:

The introduction of a standard income tax on employees whereby tax refunds can be eliminated;

The exemption of food from GST should be withdrawn, provided an adequate and effective system of targeting the same relief for the poor is implemented, such as by food coupons;

Fringe benefits and cash remuneration should be given equal tax treatment;

The values to be placed on the private use of company cars to be increased gradually;

Relief granted to an industry which sees itself being adversely affected by fringe benefits tax should be given outside the provisions of the Income Tax Act;

Additional tax rebates for aged persons should be increased but restricted to people in the lower income brackets;

Gifts to charitable organisations should not be tax-deductible;

No tax relief on interest paid on home mortgage loans;

No change in the present system of taxing alimony and maintenance payments;

Primary rebates should stay but married and unmarried people should be given the same primary rebate;

Dependants' rebate should be abolished;

Unemployment Insurance Fund benefits should be tax free;

Inland Revenue inspection teams should be expanded to conduct more regular and intensive inspections of employers' PAYE records;

Employers and employees should be given more information about their income tax rights and obligations;

The Act should be amended to deal more effectively with the capitalisation of interest into the purchase of price of assets;

Trading stock and stocks of consumables, including spare parts, should be treated equally for tax purposes;

The present system of agricultural standard values should continue but livestock losses should be set off only against farming income;

Farming losses may be set off only against income derived from farming if, after a certain number of years, a farmer has not derived taxable income from farming before capital expenditure;

Long-term assurers should continue to be taxed at a rate applicable to companies;

Investment gains by insurers should continue to be taxable;

The export marketing allowance has no place in the Income Tax Act and the encouragement of exports should be undertaken in other ways;

Tax concessions for training should be converted to a cash grant system;

Concessions for contributions should be retained but not extended except for those for primary schools, while controls should be tightened;

Tax laws granting exemptions to "ecclesiastical" institutions should be amended to refer to "religious" institutions;

Trading activities of charitable, religious and educational bodies should stay exempt from tax provided they are used for furthering the objectives of such bodies and that the exemption is not used in tax avoidance schemes;

A capital transfer tax should replace estate duty and donations tax;

No special treatment should by given for farming property; and

Double taxation agreements in which South Africa is at a disadvantage should be renegotiated or terminated.

Proposals rejected:

- Sponsorship allowances are not recommended but the White Paper says the present system of tax concessions for sponsorships remains;
- The minority report on tax emptions for charitable, religious and educational institutions;
- The principle of user-charging at airports. The White Paper says it does not accept the recommendation as it affects individuals but there is no objection to landing charges; and
- The abolition of stamp duties and similar measures, which bring revenue of R600-million a year, "cannot be entertained".

Recommendations being investigated:

- The cost of security for national key points should be compensated for other than by tax deductions;
- Inland Revenue's internal procedures should be made more cost-effective;
- Foreign exchange gains and losses and their tax treatment;
- Taxation of foreign dividends accruing to South African residents, both corporate and individual (individuals are already liable for tax on foreign dividends);
- The possibility of aiding new and ultra-deep level mines by direct grants rather than capital allowances; and
- The 25 percent surcharge on diamond mining compa-

It's give and take

CMC Times 17/3/88 320

Budget at a glance

TAXPAYERS will gain through . . .

- Higher primary rebates for both single and married people.
- Separate taxation for married women earning up to R20 000 a year.
- Relief from fiscal drag through a rise in the level of earnings at which they move into a higher tax bracket.
- Over-65s can invest at 15% in a new version of "granny bonds".
- A R110-million bonus pay-out for social pensioners.
- Overseas residents will no longer pay tax on interest earned in this country.
- Stamp and transfer duty abolished for amalgamation of companies within the same group.
- Capital transfer tax concessions

LOSSES . . .

- Higher excise duty on beer, spirits and cigarettes.
- Tougher fringe-benefit tax on company cars.
- The R75-a-year rebate for people paying insurance policies, and dependants' rebates, to be abolished.
- Insurance companies will be taxed on 70% of investment earnings instead of the present 40% — resulting in lower pay-outs to policy-holders.
- New minimum tax for companies.
- Levy on owners of heavy vehicles.

* A change in the medical rebate system is a plus factor for those whose medical expenses exceed 5% of income. All the expenses will be tax deductible, but no rebate will be given for those with medical expenses below 5%.

More on the budget

- Barend unveils new tax plan for married women — Page 4
- All the new tax tables — Page 4
- Security services get 20% slice — Page 5
- Cautious budget 'offers little real tax relief' — Page 5
- Drastic improvement needed — Page 7
- Heavy vehicle levy seen to protect SATS — Page 13
- Essential figures of the budget — Page 6
- Govt spending curbs welcomed — Page 12
- Consumers favoured at expense of investors — Page 12

. . . PLUS BUDGET SPECIAL SUPPLEMENT INSIDE

Budget hits booze and cigarettes

By AUDREY D'ANGELO
Financial Editor

MOST people will take home fatter pay packets as a result of yesterday's budget.

The tax-free primary rebates have been raised and so have the levels at which pay rises push people up into higher tax brackets.

Single people will now pay no tax on the first R750 they earn, compared with R650 last year, and married men will pay no tax on the first R1 100 compared with R920 last year.

Wives earning up to R20 000 in full-time employment will be taxed separately from their husbands.

But it was not a give-away budget.

Insurance companies will be taxed on 70% of their earnings on investments instead of 40%. This will hit policy-holders who have been receiving bonuses as a result of the companies' successful investment programmes.

Although proposed government expenditure has been kept down in a way that has earned the praise of economists and businessmen it will be R53,8 billion, 12,6% above last year.

Medical expenses

Among measures to raise the extra money and pay for the cuts in personal taxation will be higher excise duty on beer, cigarettes and spirits — although wine has been spared. A pint of beer or a tot of whisky will now cost 2c more and this is expected [illegible]

Life policy holders to be hit hard

THE holders of life assurance policies have been hard hit by the budget and will lose about R30 000 on an ordinary policy.

The insurance incentive has been hit. First the rebate (automatic standard R30 or R75 maximum) falls away and the taxman expects to save R145 million a year.

The insurance companies also face a huge tax rise. Instead of 40% of their income being taxed, it is now 70% and the taxman expects to get R202 million a year.

This will hit the policy-holders; the payouts on policies are going to crash.

Asked how this would affect the insurers and their payment of bonuses, the chairman of Sanlam, Professor Fred du Plessis, said that bonus rates would be down by perhaps 1,5% a year.

"How is it going to influence each person with an insurance policy? If everything else stays fixed, the normal standard endowment policy with 20 years to go will end up with R30 000 less on average," he said.

The managing director of Old Mutual, Mr Mike Levitt, said it "staggered the mind. We will be giving evidence to the parliamentary standing committee tomorrow and hope the government will reconsider".

The general manager of Southern Life, Mr Graeme Hill, said: "We are outraged — he (the Minister of Finance) is using the life offices to milk the public which is totally unjustified."

Cigarettes are up by 2c a packet of 10, which will raise an extra R60 million.

The R75 a year tax rebate for the payment of insurance premiums has gone. So have rebates for supporting dependants.

Following a recommendation from the Margo Commission, medical expenses above 5% of annual income will be tax-deductible. But the rebate for medical expenses less than this has been lost.

Fringe benefit tax on company cars, eased to help the car industry when it was struggling during the recession, will be tougher although new rates have not been fixed.

Beneficiaries under wills will gain from a new ruling that no capital transfer tax or estate duty will be payable on amounts up to R1 million.

Companies in the same group amalgamated under rationalization programmes will no longer have to pay stamp or transfer duty.

People over 65 will be able to invest up to R30 000 at a current interest rate of 15% in a new version of "granny bonds" available from banks and building societies as well as the Post Office.

Social pensioners will receive no increase but they will get a one-off bonus this year to which R110 million has been allocated.

But many companies which have been paying a low rate of tax will be hard-hit by a new minimum company tax based on the dividends they pay out.

The budget, described as "cautious" and "responsible" by the business community, has been welcomed as a sign that for the first time in decades the government is serious about controlling its expenditure.

It is hoped extra money in taxpayers' pockets will prolong the upturn.

BUDGET '88 . . . The Minister of Finance, Mr Barend du Plessis, shortly before he delivered the budget yesterday.

Tax: What married couples will pay now

More tax tables on Page 4

INCOME INKOMSTE	NO CHILDREN GEEN KINDERS			1 CHILD 1 KIND			2 CHILDREN 2 KINDERS			3 CHILDREN 3 KINDERS		
	1988	1989	REDUCTION VERMINDERING	1988	1989	REDUCTION VERMINDERING	1988	1989	REDUCTION VERMINDERING	1988	1989	REDUCTION VERMINDERING
R	R	R	R	R	R	R	R	R	R	R	R	R
6 500	-	-	-	-	-	-	-	-	-	-	-	-
7 000	55	-	55	-	-	-	-	-	-	-	-	-
7 500	130	-	130	30	-	30	-	-	-	-	-	-
8 000	205	20	185	105	-	105	5	-	5	-	-	-
8 500	280	90	190	180	-	180	80	-	80	-	-	-
9 000	355	160	195	255	60	195	155	-	155	55	-	55
9 500	430	230	200	330	130	200	230	30	200	130	-	130
10 000	505	300	205	405	200	205	305	100	205	205	-	205
11 000	655	440	215	555	340	215	455	240	215	355	140	215
12 000	805	580	225	705	480	225	605	380	225	505	280	225
14 000	1 136	900	236	1 036	800	236	936	700	236	836	600	236
16 000	1 544	1 300	244	1 444	1 200	244	1 344	1 100	244	1 244	1 000	244
18 000	2 018	1 760	258	1 918	1 660	258	1 818	1 560	258	1 718	1 460	258
20 000	2 532	2 260	272	2 432	2 160	272	2 332	2 060	272	2 232	1 960	272
25 000	3 994	3 690	304	3 894	3 590	304	3 794	3 490	304	3 694	3 390	304
30 000	5 702	5 360	342	5 602	5 260	342	5 502	5 160	342	5 402	5 060	342
35 000	7 596	7 210	386	7 496	7 110	386	7 396	7 010	386	7 296	6 910	386
40 000	9 590	9 160	430	9 490	9 060	430	9 390	8 960	430	9 290	8 860	430
45 000	11 684	11 210	474	11 584	11 110	474	11 484	11 010	474	11 384	10 910	474
50 000	13 831	13 260	571	13 731	13 160	571	13 631	13 060	571	13 531	12 960	571
55 000	16 028	15 360	668	15 928	15 260	668	15 828	15 160	668	15 728	15 060	668
60 000	18 228	17 460	768	18 128	17 360	768	18 028	17 260	768	17 928	17 160	768
65 000	20 475	19 610	865	20 375	19 510	865	20 275	19 410	865	20 175	19 310	865
70 000	22 725	21 760	965	22 625	21 660	965	22 525	21 560	965	22 425	21 460	965
80 000	27 225	26 160	1 065	27 125	26 060	1 065	27 025	25 960	1 065	26 925	25 860	1 065
100 000	36 225	35 160	1 065	36 125	35 060	1 065	36 025	34 960	1 065	35 925	34 860	1 065
150 000	58 725	57 660	1 065	58 625	57 560	1 065	58 525	57 460	1 065	58 425	57 360	1 065

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 in respect of the 1988 year.

D/D. 17/3/88

But drinkers and smokers cough up

320

CAPE TOWN - The Minister of Finance, Mr Barend du Plessis, yesterday introduced a Budget which brings mild tax relief to most taxpayers but loads smokers and drinkers with an additional duty burden.

The R53 billion Budget introduces tax relief for working wives, adjusts tax rates and rebates and launches the government's tax reform programme on the basis of the Margo Commission's recommendations.

Mr Du Plessis fully accepted just 10 out of more than 300 of the Margo Commission's recommendations and rejected the key proposals of an omnibus comprehensive business tax and separate taxation for married couples.

Other responses to the Margo report are still on the burner.

The Budget met with generally negative reaction from the finance spokesmen of opposition parties.

The PFP's Mr Harry Schwarz described it as "cautious and unexciting" and the Conservative Party's Mr Casper Uys stated that it was a "holding budget" and it was not clear what future pattern the government was going to follow.

For the man-in-the-street there was an approximately two cent increase in the price of a pint of beer and a tot of spirits — the wine lobby appeared to have triumphed again — and four cents duty on a packet of 20 cigarettes.

For married women earning R20 000 or less there was some relief.

It is, however, not quite as rosy as it appears because women falling into this category will pay 25 per cent PAYE, although their income will not be added to that of their husband for the purpose of taxation.

There is, too, a reduction in the tax rate and also an increase in the primary rebates offered.

The new SITE system — Standard Income Tax on Employees — also sees an end to rebates for dependents and insurance premiums.

Pensioners, already struggling under the welt of inflation, will get a one-off bonus of R60 in October but races other than whites could receive an overall increase later this year as part of the parity programme, according to Mr Chris April, Minister of Health Services and Welfare in the House of Representatives.

A new "granny bond", this time involving banks, building societies and the Post Office, was also announced and there was nearly R400 million for flood relief and more money for upgrading and job creation.

Essentially, however, it was a cautious budget as Mr Du Plessis slowly introduced a new system in which the tax deckchairs are to be re-arranged.

It was, too, a Budget in which at least to some extent the gloves came off.

The minister admitted that sanctions were hurting and he warned bluntly that unless the growth rate increased the government might have little option but to adopt a calculated approach to dropping standards of living.

Essentially, that means white standards of living.

He also indicated that if the exchange rate of the rand dropped then the fight against inflation would be essentially lost.

He praised the situation in Israel where the opposition has agreed not to allow the economy to become a political football in the general election in the national interest.

Reaction page 4

D10 17/3/88

Liquor hike double tax?

63 102 264 320

CAPE TOWN — The extra duty on beer and spirits announced in the budget yesterday will lead to an immediate increase in the wholesale price of spirits which will be passed on to the consumer.

The managing director of Gilbey Distillers and Vintners, Mr Peter Sleck, said that he was extremely disappointed at the substantial increase in excise duty on beer and spirits announced.

He regarded it as a major setback to the spirits industry in South Africa, particularly in the light of current inflationary conditions.

He said the increase of 1,8c a tot represented an increase of about 20 per cent and this price increase would be passed on to retailers with immediate effect.

The chairman of Fedhasa for Port Elizabeth and Uitenhage, Mr Trevor Lombard, said the increase in duty on spirits and beer would be inflationary because it would be passed onto consumers.

"Consumers will be paying double tax on spirits and beer because they will be paying sales tax as well as for the increased excise duty," he said.

Mr Lombard added that he thought it strange that wine had been excluded from an increase in duty yet again.

A spokesman for KWV said that management was obviously pleased that no increase in the excise duty on wine had been announced.

The regional director of Stellenbosch Farmers Winery in the Eastern Cape, Mr Willie du Toit, said he was pleased that wine would not be taxed because it was seen as a healthy drink associated with food, while spirits had always been regarded as a more taxable commodity.

The managing director of South African Breweries' beer division, Mr Graham Mackay, objected strongly to the increase in excise duty on beer but said SAB would only pass on the amount of new excise to recover costs.

He said the increase of 4,8 cents a litre represented a 12,6 per cent increase on the present excise rate and meant that 33 per cent of the price of beer was now composed of government excise duty.

The brewer's prices, he added, would go up approximately 4 cents a quart (750 ml), 2 cents a pint (375 ml) and 2 cents for 340 ml cans and dumpies.

"Beer is the working man's pleasure, but it is the most heavily taxed beverage. This R70-million has to come out of the working man's pocket," he said.

"If the minister was consistent he would put some excise on wine and sorghum beer which have carried no excise burden for some years," Mr Mackay added.

[redacted]

BUDGET

<- co-l Argus 17/3/88 320

What your tax will cost you next year

MARRIED

TAXABLE INCOME R			RATES		
0	–	12 000	14%	of each van elke	R1
12 000	–	13 000	R 1 680 + 15%	of the amount over van die bedrag bo	R12 000
13 000	–	14 000	R 1 830 + 17%	" " " "	R13 000
14 000	–	15 000	R 2 000 + 19%	" " " "	R14 000
15 000	–	16 000	R 2 190 + 21%	" " " "	R15 000
16 000	–	18 000	R 2 400 + 23%	" " " "	R16 000
18 000	–	20 000	R 2 860 + 25%	" " " "	R18 000
20 000	–	22 000	R 3 360 + 27%	" " " "	R20 000
22 000	–	24 000	R 3 900 + 29%	" " " "	R22 000
24 000	–	26 000	R 4 480 + 31%	" " " "	R24 000
26 000	–	28 000	R 5 100 + 33%	" " " "	R26 000
28 000	–	30 000	R 5 760 + 35%	" " " "	R28 000
30 000	–	35 000	R 6 460 + 37%	" " " "	R30 000
35 000	–	40 000	R 8 310 + 39%	" " " "	R35 000
40 000	–	50 000	R10 260 + 41%	" " " "	R40 000
50 000	–	60 000	R14 360 + 42%	" " " "	R50 000
60 000	–	70 000	R18 560 + 43%	" " " "	R60 000
70 000	–	80 000	R22 860 + 44%	" " " "	R70 000
80 000	+		R27 260 + 45%	" " " "	R80 000

UNMARRIED

TAXABLE INCOME R			RATES		
0	–	10 000	14%	of each van elke	R1
10 000	–	11 000	R 1 400 + 15%	of the amount over van die bedrag bo	R10 000
11 000	–	12 000	R 1 550 + 17%	" " " "	R11 000
12 000	–	13 000	R 1 720 + 19%	" " " "	R12 000
13 000	–	14 000	R 1 910 + 21%	" " " "	R13 000
14 000	–	15 000	R 2 120 + 23%	" " " "	R14 000
15 000	–	16 000	R 2 350 + 25%	" " " "	R15 000
16 000	–	18 000	R 2 600 + 27%	" " " "	R16 000
18 000	–	20 000	R 3 140 + 29%	" " " "	R18 000
20 000	–	22 000	R 3 720 + 31%	" " " "	R20 000
22 000	–	24 000	R 4 340 + 33%	" " " "	R22 000
24 000	–	26 000	R 5 000 + 35%	" " " "	R24 000
26 000	–	28 000	R 5 700 + 37%	" " " "	R26 000
28 000	–	30 000	R 6 440 + 39%	" " " "	R28 000
30 000	–	36 000	R 7 220 + 41%	" " " "	R30 000
36 000	–	42 000	R 9 680 + 42%	" " " "	R36 000
42 000	–	48 000	R12 200 + 43%	" " " "	R42 000
48 000	–	54 000	R14 780 + 44%	" " " "	R48 000
54 000	+		R17 420 + 45%	" " " "	R54 000

TAX TABLES: The above figures show the income tax rates for 1988/89

Tax burden moves towards companies

Parliamentary Staff

FINANCE Minister Barend du Plessis has shunted billions of rands around the taxation system in a new deal designed to make companies relieve individuals of some of their tax burden.

This is the net effect of yesterday's Budget, which marked the beginning of major tax reform.

The biggest winners in the exercise are working wives (who will gain R500-million a year when the full impact of the new collection system is felt), senior citizens, the seriously ill and the lower-income salary earners.

Among those who will feel the pinch are long-term insurers, profitable companies paying little tax, users of heavy road vehicles, and drinkers and smokers.

In a post-Budget interview last night Mr du Plessis said he had set out to achieve three objectives:

- To finance Government expenditure properly;
- To make a contribution to the overall state of the economy through the right fiscal and monetary policy; and
- To help the man in the street who is reeling from the ravages of inflation.

"The man in the street benefits from the structural adjustments to the tax system, especially by way of the new Site (standard income tax on employees) system and because of the increased rebate."

Mr du Plessis said he had followed the Margo recommendation to shift more emphasis on to indirect taxation from direct taxation. He had done this by way of the increased excise duties on beer, spirits and tobacco, raising an extra R180-million this year.

He said the Government would be introducing VAT, including foodstuffs, next year, which was also in accordance with the Margo commission's recommendations. That would also be the time for a simultaneous introduction of some mechanism to alleviate the plight of the really needy.

Margo had further advised that the burden of taxation be shifted away from individuals towards the corporate sector, Mr du Plessis said.

"We did exactly that with the minimum tax on dividends, which is not a real tax but rather a credit on profitmaking companies which pay little tax."

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State spends 10% more on black schools

Political Correspondent

STATE expenditure on black education and training has gone up by just over 10 percent in the new Budget.

Substantial increases in the allocation for the Department of Education and Training have been a feature of budgets in the past few years.

This year it is R1 640 728 000 — an increase of 10,28 percent over 1987/88.

From last year to this year there was an increase of 3 745 permanent classrooms, from 30 366 to 34 111, and the number of pupils increased by 80 643, from 1 351 351 to 1 431 994.

Career education is being expanded to farm schools this year.

The department is planning 25 new primary schools and additions to 64 schools which will make available 1 071 additional classrooms.

Provision is also being made for skills centres for career education, sports facilities at schools and the upgrading and maintenance of existing schools.

The number of matric pupils at schools under the department's jurisdiction had increased from 25 584 in 1985 to an estimated 42 346 this year.

Aid to poor in Barend's 'Robin Hood' budget

By DEREK TOMMEY, Financial Editor

THE Minister of Finance, Mr Barend du Plessis, played Robin Hood when he presented his Budget, giving considerable aid to the poor and rather less to the rich.

He has reduced income tax — but the main beneficiaries will be those in the lower and lower-to-middle income groups.

He also announced major concessions for working wives, but again those in lower income groups will, proportionately, benefit most.

Income tax payments by a married man with two children and earning R12 000 a year will drop by R225 or 37 percent.

But payments by a married man with two children earning R18 000 a year will fall by only 11,6 percent, from R2 332 to R2 060, and payments by a man earning R25 000 will fall eight percent from R3 794 to R3 490.

STANDARD TAX

A person earning R50 000 a year will see his or her tax bill fall by only 4,1 percent from R13 631 to R13 060.

The introduction of "standard income tax on employees" (SITE) should lighten substantially the work of the Inland Revenue office.

A married man or single woman whose earnings are derived entirely from their jobs need no longer submit a tax return if they earn less than R12 000 a year. The same applies to married women earning less than R20 000.

The only tax these people will have to pay is PAYE. However, should they not work for a full year they will not receive any tax refund.

● More Budget reports on pages 9 and 21.

Tax structure set for major changes

GOVERNMENT has in principle accepted the bulk of the 300 recommendations made by the Margo Commission, according to the White Paper tabled in Parliament yesterday. Its acceptance implies that far-reaching changes to the tax structure are now in train.

Some of the proposals are being implemented via yesterday's Budget, while others will first be implemented in the 1989/90 financial year or even further down the line.

Where Margo's proposals have not been accepted, this has been chiefly on one or more of the following grounds outlined in the White Paper:

Convert GST

- □ Overwhelming, persuasive and credible evidence has emerged that the private sector is firmly opposed;
- □ Quantifications indicate that in total the various proposed concessions are simply not affordable;
- □ Further investigations, undertaken by the Departmental Task Group and by members of the Margo Commission;

CHRIS CAIRNCROSS

- □ While certain proposals are sound in theory they are for various reasons not practicable.

As indicated by President Botha, government has turned down the proposal for a Comprehensive Business Tax (CBT) and has chosen to convert GST to a VAT, to be implemented in 1989.

Finance Minister Barend du Plessis confirmed in his Budget that it is government's intention to publish a draft Bill concerning the transfer to VAT for comment as soon as possible, perhaps early in the recess, and then submit the final Bill to Parliament early next year.

No technical details are available at this stage. However, in the White Paper, government spells out what the change will involve:

- □ VAT will be a destination-based invoice type tax on added value;
- □ In order that the VAT rate may be kept as low as possible, the cost of capital goods will, at least initially, not be allowed as a deduction in the determination of the taxable amount;
- □ VAT will be as broadly based as possible and must remain so, and most if not all services must be included;
- □ VAT must be applied at a flat rate to all goods and services in the base. Differential rates would considerably enlarge the administrative burden in the application of the tax.

Ceiling

Government has turned down Margo's recommendation that married couples should be taxed separately because this would involve a substantial loss of tax revenue for the State.

It has, however, resolved to move to a system of standard income tax for employees (SITE), which is being implemented in the 1988/9 year. It will apply to all taxpayers who receive remuneration.

The SITE will apply to the remuneration received by individuals below an income ceiling to be fixed by the Minister of Finance. Remuneration above that ceiling will be taxed according to the existing employees tax rate.

SPORTS SPONSORSHIP STAYS TAX DEDUCTIBLE

GOVERNMENT has rejected a recommendation by the Margo Commission that sponsorship for sport should no longer be tax-deductible, according to the White Paper tabled yesterday.

Government had decided that the existing system of tax concessions for sport sponsorships would continue.

The commission's recommendation that tax deductions of donations to educational institutions be retained has been accepted by government. But although it supports the principle of the private sector making contributions to education, it was aware of the many abuses involving this concession.

Before extending the concession to primary schools, as proposed by the commission, the administration of the scheme would have to be improved.

Government has also accepted the Margo Commission's recommendation that the business activities of charitable, religious and educational institutions be exempt from income tax, provided their income is used for the promotion of their objects and not used for tax avoidance schemes. — Sapa.

MR JUSTICE MARGO ... headed the Margo Commission on tax on which government has now commented in a White Paper.

Separate tax principle to be future goal

GOVERNMENT has accepted the principle of separate taxation as a long-term goal of individual income tax policy.

The White Paper on the Margo Commission report tabled yesterday said SA could not yet afford to implement separate taxation of husbands and wives.

But government had asked the department of finance to give special attention to other recommendations of the commission that could bring relief from the so-called "marriage penalty".

The commission's recommendation that the individual should be the tax unit in respect of personal income tax was "the most important recommendation".

"The government's decision in favour of the commission's proposal for the introduction of VAT rather than CBT also has implications for the proposed separate taxation of married couples," the White Paper said.

The commission proposed that if CBT was not acceptable, the move to separate taxation would have to be postponed. — Sapa.

All agricultural points accepted

GOVERNMENT has accepted all the Margo Commission report's recommendations on the agricultural sector.

In its White Paper on the Margo recommendations, tabled in Parliament yesterday, government accepts the recommendation that the present system of standard values should continue, but that losses on the livestock account should be available for set-off only against farming income.

It also accepts that the basis for valuing all livestock that passes from a deceased farmer to his estate and heirs should be standard values.

Other recommendations accepted are:

- □ That farming development and improvement expenditures, excluding expenditures on machinery and equipment, should be retained in paragraph 12 of the First Schedule to the Income Tax Act and be allowed as a deduction only against farming income;
- □ An Income Equalisation Deposit (IED) scheme, whether as a complement to or a replacement for the current averaging scheme, should not be implemented;
- □ An assessed loss, together with balances in the livestock and improvement account at the date of a farmer's death, should be transferable to the farmer's estate to set off these amounts against proceeds in the estate;
- □ An objective test similar to Britain's and the US's tests should be introduced, namely that if after a certain number of years a farmer has not derived taxable income from farming prior to deduction of capital expenditure, the farming losses may be set off only against income derived from farming. — Sapa.

Invoice-based VAT could be about 11%

THE rate of an invoice-based value-added tax (VAT) system to replace GST would have been 10,9% according to calculations for the 1988/89 tax year, compared with the present GST rate of 12%, according to figures in government's White Paper on the Margo Commission.

Other alternatives, including variations of the originally proposed Comprehensive Business Tax, government considered would have narrowed the tax base, resulting in rates of up to 14,7% if they had been in effect this year and had to produce the same total yield as GST.

Advisors in the Finance Department and the Central Economic Advisory Services had made various calculations of the tax base according to the several formulas put forward. The following figures, based on 1988/89, gave an indication of the relative figures:

- □ Additive CBT (including exports but excluding imports) ... R109,7bn;
- □ Subtractive CBT (excluding exports of goods and non-factor services, but including imports) ... R100bn;
- □ Invoice VAT (excluding capital goods and exports) ... R92,1bn; and
- □ Invoice VAT (including capital goods but excluding exports) ... R124,1bn.

It was estimated GST in its present form would yield R12,5bn, which included R1bn from fuel levies.

If GST was then replaced with any one of the above formulas, but the same yield was sought — on the assumption of 90% effective collection — tax rates of 12,4%, 13,5%, 14,7%, and 10,9%, respectively, would have to apply.

Government said the VAT system it had opted for "can indeed remove many of the objections against the commission's CBT".

The system could be destination-based and therefore exclude exports and place less visible emphasis on labour-intensive undertakings.

Apart from these benefits in comparison with the proposed CBT, VAT had the advantage that tax was collected at the different stages in the production and marketing cycle and there was less incentive for evasion.

"In SA, with its large Third World component and the development of an important informal sector, the administrative burden can create many further problems.

"It would therefore be advisable that a reasonably generous exemption limit be introduced along with VAT.

The commission had proposed enterprises with a yearly turnover of R20 000 or less be exempted and that this ceiling could even be much higher.

"The bodies so exempted would then, in the same way as final consumers, pay VAT on their purchases but would not ... have to levy VAT on their sales."

Government's decision for an invoice-based VAT meant it would be destination-based, with capital goods included, but exports excluded.

"In order that the VAT rate may be kept as low as possible, the cost of capital goods will, at least initially, not be allowed as a deduction in the determination of the taxable amount."

VAT should be applied at a flat rate to all goods and services in the base.

"Differential rates would considerably enlarge the administrative burden in applying the tax." — Sapa.

'Drastic' formulas for depreciation

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17/2/88

THE Margo Commission's recommendations on new depreciation formulas for, particularly, the mining and agricultural sectors were "somewhat drastic", government said yesterday in its White Paper.

The commission had recommended that, as long as inflation remained at the present level, depreciation on mining and agricultural assets be written off over three years, on the basis of 50%, 30% and 20% respectively in successive years.

Government's attention had been drawn to the fact this was drastic as both these sectors were already allowed to write off 100% of capex in the relevant year.

The commission was apparently of the opinion that such expenditures should fall under the 50%, 30% and 20% formula only after a mine had come to production and the equipment was in operation.

"For existing mines wishing to expand, this would mean capital expenditure could be written off only some seven or eight years after it had been incurred," government said.

Government had, therefore, directed that the potential impact of this proposal on the mining industry be urgently investigated further by a technical working group.

As far as other sectors of the economy were concerned, government felt the commission's recommendation was too broad and that not all plant and machinery could be written off under the standard 50%, 30% and 20% formula over only three years.

"The economic life of some plant and machinery is frequently much longer than three years and the acceleration of all write-offs for tax purposes after only three years would mean a great loss of state revenue in the first two years.

"It would also steer additional capital expenditure in certain directions and lead to possible misallocation of resources."

Government had therefore accepted the commission's proposed formula for the write-off of industrial and farming plant and machinery, "but is of the opinion that the Commissioner for Inland Revenue should reserve the right in all other cases — as now — to prescribe a longer or shorter period at adjusted rates of write-off.

"The commissioner must in all cases take the economic life of the assets concerned and the ruling and expected inflation rate into account." — Sapa.

Proposals to boost rate of development

THE Margo Commission's proposals, as accepted by government, would be implemented over the next two years and would contribute towards laying a sound base for a higher rate of economic development, according to the White Paper.

It said tax reform was an ongoing process and would not end with the acceptance and implementation of the Margo Commission Report's proposals.

However, the commission had identified many of the problems of the present tax system and had recommended their further investigation.

A great task awaited the permanent Tax Advisory Committee, which would be appointed shortly, in continuing the work.

Some of the investigations had already been disposed of by the Finance Department's Task Group, whereby government had been placed in the position to take final decisions. However, in many cases further work was necessary and this would best be done by the Advisory Committee in cooperation with the Inland Revenue Commissioner.

The White Paper said it would not be possible for all the accepted proposals of the commission to be implemented during this financial year. — Sapa.

Single tax for regions is rejected

Political Correspondent

GOVERNMENT has decided to retain separate regional service council levies, despite a strong recommendation by the Margo Commission that they be replaced by a single regional tax.

It recommended that a single tax be introduced and that the rate should be determined by each region on the tax base of the national comprehensive business tax.

According to the White Paper, the commission said regional tax should be collected on behalf of the regions by Inland Revenue at the same time as the collection of CBT.

The additive CBT formula was origin-oriented and could well have been used for regional taxation.

"The government has, however, already decided that the invoice VAT of the commission's alternative package should be used. The invoice VAT is a destination-based tax and is thus not suitable for a regional tax."

It was possible, however, that the two taxes could be replaced later by a regional sales tax, after GST had been replaced by VAT.

PTO

17/2/88

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Private sector feeling behind govt rejections

GOVERNMENT's rejection of some of the Margo Commission's recommendations had been based, among others, on "overwhelming, persuasive and credible evidence ... that the private sector is firmly opposed", it said in its White Paper.

Other reasons for rejection included:

☐ Quantifications indicating that in total the various proposed concessions were simply not affordable, even with an additional tax by way of CBT (comprehensive business tax;

☐ More investigations, undertaken by the Department of Finance's Task Group and commission members themselves, had yielded "other insights";

☐ While certain of the proposals were sound in theory, they were for various reasons not practicable.

While government accepted the broad approach to tax reform as formulated by the commission, several of the most important recommendations were acceptable only in a revised form.

"In particular the proposed CBT cannot be supported on the basis suggested.

"Government believes VAT (value added tax) as proposed in the alternative package is more appropriate for SA. It will create enough room for the implementation of certain other tax reform proposals."

Government said its approach should be seen in the light of:

☐ Its acceptance of the need for tax reform in SA at this stage;

☐ Its awareness of the expectations created by the release of the Margo report and the ensuing public debate;

☐ Its understanding of the group interests that emerged so clearly in all the submissions made during the past months;

☐ The fact it did not underestimate the heavy task of the Department of Finance, especially the branches of Inland Revenue and Customs and Excise. — Sapa.

New tax taken on SITE

Business Day Reporter

INDIVIDUALS earning more than R1 000 a month, and in the case of married women about R1 700 a month, will have to get used to two deductions from their salary cheques this year.

A new advance tax payment is being added to the familiar pay-as-you-earn (PAYE) deductions.

The new deduction announced by Finance Minister Barend du Plessis yesterday is Standard Income Tax on Employees, to be known as SITE.

SITE will be deducted from the first R12 000 of earnings (salaries, wages and pensions) and in the case of married women, the first R20 000. Any earnings above this will be subject to PAYE deductions.

Not included

Taxpayers subject only to SITE will be deemed to have paid their tax in full for the year, and will not have to submit income tax returns.

For those subject to both SITE and PAYE deductions, SITE will constitute the minimum tax liability.

Where a married woman earned less than R20 000 a year and paid SITE deductions only, her earnings will not be included in her husband's income and the SITE paid will constitute her final liability. This will avoid a shortfall having to be paid on assessment.

If she earns more than R20 000, her entire income is taxable in her husband's hands, with the SITE she has paid counting as a credit against his tax liability.

For taxpayers other than married women, SITE will be calculated at normal rates of tax. Married women will pay SITE at a rate of 25%, with a deduction of R1 075 similar to the primary rebate granted to other taxpayers. Where their income exceeds R20 000, phasing-in relief will be granted.

Earnings not subject to SITE deductions will include lump sum pension benefits, amounts on which a tax deduction can be claimed, part-time remuneration and earnings by a married woman who is the sole family breadwinner.

Revised PAYE deduction tables are to be issued to employers in the near future, showing SITE and PAYE deductions separately. Employers will be required to reflect total deductions separately on employees' tax certificates.

Examples of the effects of SITE on joint assessments are shown in the table on the right.

The table above shows the income tax rates which w[illegible] [illegible]ply in the comin[illegible] tax year.

INCOME TAX RATES: 1988/89

MARRIED		UNMARRIED	
TAXABLE INCOME	RATES	TAXABLE INCOME	RATES
R		R	
0 — 12 000	14% of each R1	0 — 10 00	14% of each R1
12 000 — 13 000	R 1 680 + 15% of the amount over........ R12 000	10 000 — 11 000	R 1 400 + 15% of the amount over........ R10 000
13 000 — 14 000	R 1 830 + 17% of the amount over........ R13 000	11 000 — 12 000	R 1 550 + 17% of the amount over........ R11 000
14 000 — 15 000	R 2 000 + 19% of the amount over........ R14 000	12 000 — 13 000	R 1 720 + 19% of the amount over........ R12 000
15 000 — 16 000	R 2 190 + 21% of the amount over........ R15 000	13 000 — 14 000	R 1 910 + 21% of the amount over........ R13 000
16 000 — 18 000	R 2 400 + 23% of the amount over........ R16 000	14 000 — 15 000	R 2 120 + 23% of the amount over........ R14 000
18 000 — 20 000	R 2 860 + 25% of the amount over........ R18 000	15 000 — 16 000	R 2 350 + 25% of the amount over........ R15 000
20 000 — 22 000	R 3 360 + 27% of the amount over........ R20 000	16 000 — 18 000	R 2 600 + 27% of the amount over........ R16 000
22 000 — 24 000	R 3 900 + 29% of the amount over........ R22 000	18 000 — 20 000	R 3 140 + 29% of the amount over........ R18 000
14 000 — 26 000	R 4 480 + 31% of the amount over........ R24 000	20 000 — 22 000	R 3 720 + 31% of the amount over........ R20 000
26 000 — 28 000	R 5 100 + 33% of the amount over........ R26 000	22 000 — 24 000	R 4 340 + 33% of the amount over........ R22 000
28 000 — 30 000	R 5 760 + 35% of the amount over........ R28 000	24 000 — 26 000	R 5 400 + 35% of the amount over........ R24 000
30 000 — 35 000	R 6 460 + 37% of the amount over........ R30 000	26 000 — 28 000	R 5 700 + 37% of the amount over........ R26 000
35 000 — 40 000	R 8 310 + 39% of the amount over........ R35 000	28 000 — 30 000	R 6 440 + 39% of the amount over........ R28 000
40 000 — 50 000	R10 260 + 41% of the amount over R40 000	30 000 — 36 000	R 7 220 + 41% of the amount over........ R30 000
50 000 — 60 000	R14 360 + 42% of the amount over R50 000	36 000 — 42 000	R 9 680 + 42% of the amount over........ R36 000
60 000 — 70 000	R18 560 + 43% of the amount over R60 000	42 000 — 48 000	R12 200 + 43% of the amount over R42 000
70 000 — 80 000	R22 860 + 44% of the amount over R70 000	48 000 — 54 000	R14 780 + 44% of the amount over R48 000
80 000 +	R27 260 + 45% of the amount over R80 000	54 000 +	R17 420 + 45% of the amount over R54 000

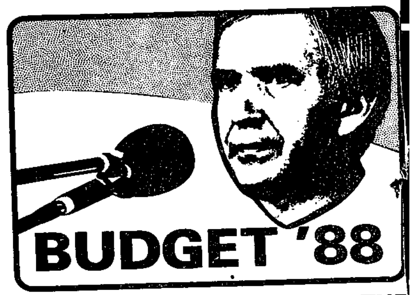
INCOME TAX PAYABLE: 1988 and 1989

TWO-BREADWINNER FAMILY

SALARY		SITE/PAYE		FINAL TAX PAYABLE		
HUSBAND	WIFE	HUSBAND	WIFE	1988•#	1989•	DIFFERENCE
R	R	R	R	R	R	R
20 000	10 000	2 260	1 425	4 620	3 685	935
	15 000	2 260	2 675	6 003	4 935	1 068
	20 000	2 260	3 925	7 475	6 185	1 290
	25 000	2 260	5 345	9 015	8 490	525
	30 000	2 260	6 885	10 610	10 282	328
	35 000	2 260	8 545	12 249	12 081	168
	40 000	2 260	10 325	13 915	13 680	235
	50 000	2 260	14 125	17 325	16 935	390
40 000	10 000	9 160	1 425	12 518	10 585	1 933
	15 000	9 160	2 675	14 190	11 835	2 355
	20 000	9 160	3 925	15 895	13 085	2 810
	25 000	9 160	5 345	17 600	15 098	2 503
	30 000	9 160	6 885	19 328	16 930	2 398
	35 000	9 160	8 545	21 071	18 833	2 238
	40 000	9 160	10 325	22 815	20 749	2 066
	50 000	9 160	14 125	26 303	24 647	1 656
60 000	10 000	17 460	1 425	21 353	18 885	2 468
	15 000	17 460	2 675	23 096	20 135	2 961
	20 000	17 460	3 925	24 840	21 385	3 455
	25 000	17 460	5 345	26 584	23 685	2 899
	30 000	17 460	6 885	28 328	25 390	2 938
	35 000	17 460	8 545	30 071	27 116	2 955
	40 000	17 460	10 325	31 815	28 860	2 955
	50 000	17 460	14 125	35 303	32 348	2 955
80 000	10 000	26 160	1 425	30 353	27 585	2 768
	15 000	26 160	2 675	32 096	28 835	3 261
	20 000	26 160	3 925	33 840	30 085	3 755
	25 000	26 160	5 345	35 584	32 629	2 955
	30 000	26 160	6 885	37 328	34 373	2 955
	35 000	26 160	8 545	39 071	36 116	2 955
	40 000	26 160	10 325	40 815	37 860	2 955
	50 000	26 160	14 125	44 303	41 348	2 955

• These amounts have been calculated on the basis that the taxpayer is a married person with no children.

These amounts have been calculated after the deduction of R1 000 medical expenditure and R75 insurance rebate.



OTHER TAX TABLES ARE IN THE SPECIAL BUDGET SUPPLEMENT

BUSINESS

Most Margo Commission recommendations accepted

11/3/88

Far-reaching reforms of tax structure in offing

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By Magnus Heystek,
Finance Editor

CAPE TOWN — The Government said yesterday that it had accepted most of the recommendations of the Margo Commission of Inquiry into the tax structure of South Africa.

Some of the recommendations are included in the tax proposals announced in the Budget speech made by the Minister of Finance, Mr Barend du Plessis.

"The proposals will be implemented over the next two years and would contribute towards laying a sound base for a higher rate of economic growth," according to the Government's White Paper on the report released yesterday.

Many of the recommendations of the Margo Commission will mean far-reaching changes to the existing tax structure.

The commission report contains over 300 recommendations for the improvement and reform of the tax system, some of them radical and far-reaching, which will affect most spheres of econom[illegible] and personal life.

Ap[illegible] from the many recom[illegible]dations, the Margo report laid down the broad guidelines that have now been accepted by the Governement and which indicate the part further tax reform will take.

In his Budget speech, Mr Du Plessis reiterated the Governement's approach to tax reform:

- Tax reform does not necessarily mean less tax, but rather a change in the structure of the tax system. The tax burden in South Africa rests too heavily on the personal sector, while the business sector contributes too little to total tax.
- The present base of the tax system must be broadened. Tax rates are in general so high as to encourage avoidance and evasion on a large scale.
- The present base has been eroded by a multitude of tax concessions, rebates and expenditures. This must be remedied and, at the same time, broadened.
- All taxpayers and all sectors of the economy should be treated equally and equitably.
- The South African tax system should place emphasis on indirect taxation and less on direct tax.

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Minimum tax may harm companies

Finance Staff

The new minimum tax system will adversely affect companies which have earned tax allowances in the recent past.

This is the view of Mr Nic Nel, Johannesburg-based tax and financial strategist.

He says other companies to be affected are those with large foreign exchange losses such as Nedbank and Standard Bank, as well Trust Bank because of its substantial involvement in leveraged leasing.

Operating mining companies with large capital expenditure programmes will not be able to pay their holding companies and other shareholders the dividends they are currently distributing.

Mr Nel explains that the minimum tax (or advance company tax) will be paid on the base of the excess of dividends paid over the sum of normal tax paid and dividends received.

If a company has a R100 million tax loss and earns a profit of R120 million, accounting for the tax loss, it pays R10 million normal tax. Assume that company earned foreign income (interest, not taxable in SA) of another R20 million and dividends of R15 million. That company has available resources of R135 million to pay dividends.

If it pays R100 million to its shareholders by way of a dividend, its minimum tax liability (advance company tax) is thus based on R100 million, minus R15 million (dividends received), minus normal tax paid of R10 million — R75 million.

Advance tax then payable is 25 percent of R75 million, over and above the R10 million in normal tax.

He concludes: "This tax is contrary to the tenets of supply-side economics, which requires that business taxes be simplified and reduced to check inflation. Companies affected will be mainly manufacturers, which will incur increased financing costs, ultimately paid for by the consumer.

"The tax is essentially the imposition of a loan on the affected businesses, since tax paid is credited to the company's account for the day when it eventually should have paid normal tax.

"The Minister avoided financing deficits through bank loans (the only source still available to him), as his stated intention was to avoid resultant pressures on interest rates and inflation.

"In practice he has forced the financing of his deficit onto productive areas of the economy — by borrowing from them (through) this new tax instead of doing so directly.

"Instead of simplifying business taxes, he has complicated them and the pressures on interest rates will be exacerbated."

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Minimum company tax pleases

KAY TURVEY

THE introduction of minimum company tax (MTC) as announced in the Budget yesterday has been welcomed as a step towards a more equitable distribution between personal and company tax.

Although more or less in line with Margo's recommendations, tax consultants believe it is set to knock companies, which have enjoyed a tax holiday and paid dividends.

The tax payable on September 30 this year — irrespective of the companies year-end — is set to squeeze such companies cash-flows in the short term, as such a measure was unforeseen.

Payable up front, the tax is in fact an advance payment of tax to be held as a credit against the company's future liability for normal or provisional tax.

Finance Minister Barend du Plessis says that "as an income-generating cash flow measure," it is estimated that about R350m will be collected by the end of March.

MTC aims to ensure a contribution to the Treasury by companies which declare dividends, but which because of various concesssions or assessed losses are not liable for income tax.

The formula for MTC will be payable at a rate of 25% on the amount by which total dividend distribution exceeds the sum of dividends received and normal tax paid.

Deloittes partner Anne Pattenheim points out it will affect more significantly operating companies paying lower rates of tax and declaring generous dividends, whereas pure holding companies, which act as a mere conduit for dividends will not be affected.

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Tax burden is shifted to businesses

REINIE BOOYSEN

YESTERDAY's Budget effectively shifts the tax burden from the individual to the business sector.

Where individuals have gained in terms of higher tax thresholds, the business community has lost by the introduction of dividends tax and a drastically higher tax on life assurance companies.

The maximum marginal tax rate for individuals now only becomes payable at a taxable income of R80 000 instead of the previous R60 000. In the process, all the thresholds below the maximum are raised proportionally.

Although this reduces the tax burden for individuals substantially, it fails to offset the effects of "bracket creep" completely.

Real tax burden

While employees' wages are increased to take account of growing inflation, taxpayers move into higher and higher marginal tax rate categories, so the real tax burden is sustained by taxpayers' increases.

Despite the improved situation for each individual, state revenue from individual taxpayers will increase by an estimated 23% from R11,6bn last year to a projected R14,65bn for the coming year.

At the current inflation rate of 14,2%, this increase in revenue represents a real increase of 8,8% or R1,17bn in revenue from individuals, as a result of increased salaries and consequent bracket creep.

Nevertheless, this is an improved situation for individuals made possible by two rather severe blows to the business sector.

Life assurers

Firstly, the budget introduces a new tax on company dividends.

This tax is aimed at preventing companies from escaping tax by investing in schemes which enjoy tax relief.

Although many such companies still succeed in declaring dividends, their tax burden is said to be disproportionately low.

The second burden imposed on the business sector is the drastically increase effective tax rate of life assurers.

"The budget coincides with the government's stated policy of shifting the burden from the individual to the business sector," says Ernst & Whinney partner Roger Bramwell.

Individuals also gained with substantially lighter donations and estate duty taxes. The introduction of abatements, R1m in the case of estate duty tax and R20 000 in the case of donations, helped ease the individual's tax burden, he said.

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BUDGET 1988

Assurers hit by rebate loss

HELENA PATTEN

LIFE assurers, aside from the drastic increase in their tax rate, were further hurt by yesterday's budget provision for the abolition of the rebate for insurance premiums and for contributions to provident and benefit funds.

Finance Minister Barend du Plessis said in his speech, "the Margo Commission has found that the present rebate — a maximum of R75 — for insurance premiums favours one savings medium above the others. The commission also observed that this rebate costs the fiscus dearly — estimated at R145m in a full year — but nonetheless gives no significant relief to individual taxpayers.

"The consequential revenue for the current financial year will be R65m."

Old Mutual MD and Life Offices Association (LOA) chairman Mike Levett said the rebate abolition would be relatively unimportant in money terms, but added that LOA was concerned that the abolition of the rebate could be seen as a positive discouragement of savings.

Drinkers face stiff rise in liquor prices

LINDA ENSOR

LIQUOR prices are set to rise after the stiff increases imposed yesterday on the custom and excise duties payable on beer, spirits and cigarettes.

The increases take effect immediately but Finance Minister Barend du Plessis said in his Budget speech that this did not mean retailers were warranted in immediately raising the prices of stock bought at the old duty rates.

The duty on beer has been increased from 4,8c per litre — about 1,9c a "pint" bottle — with the aim of generating an additional R70m in revenue for the state.

Duties on whisky, brandy and gin have been increased by 156,28c per litre of pure alcohol which works out to about 1,8c a tot. This measure is expected to boost state coffers by an estimated R50m. This could result in the price of a bottle of spirits rising by about 54c.

A 2c increase in the duty paid on every 10 cigarettes was imposed and a similar increase on every 50g of cigarette tobacco in order to generate an additional R60m in revenue.

Du Plessis justified the measure, saying that duties on beer, spirits and cigarettes had remained unchanged for several years.

Fred Thermann, operations director of Fedhasa, said the increases were substantial but he did not expect them to have much impact on the hardened habits of drinkers.

DU PLESSIS . . . a tight grip on spending

Levies worry Assocom

MICK COLLINS

ORGANISED commerce and industry yesterday welcomed Finance Minister Barend du Plessis' Budget but urged that a critical review be made for the need for special levies.

Assocom said that although it acknowledged the trend towards unearmarked funds being channelled to the exchequer it urged that a critical review be undertaken of the extent to which certain special levies were still necessary.

Nonetheless, Assocom welcomed the emphasis on accelerated privatisation and deregulation.

Assocom president Alec Rogoff said he believed it was imperative for the success of the Budget that the expenditure estimates be adhered to.

"This is also important for the safety of the balance of payments and for the success of government's anti-inflationary policy. Clearly, undue competition between the public and private sectors for scarce resources must be avoided for the policy outlined in the budget to be realised."

Rogoff said the overriding factor which had permeated most of the Budget decisions was the high level of state spending.

"Although the Budget shows a decline in the rate of increase in state spending the fact remains that the whole theme of the Budget speech has been to maximise tax revenues wherever possible."

IN BRIEF

GOVERNMENT spending on the construction and maintenance of state airports will almost double to R46,9m this financial year.

In last year's budget, R25,6m was allocated for the planning, construction and maintenance of state airports. This year R46,9m has been budgeted. Most of the increase, R23,6m compared with R4,97m last year, will go towards maintenance of airports.

□ □ □

GOVERNMENT subsidies to the film industry are to go up more than 50% during this financial year and are expected to amount to R9,2m.

In the 1987/88 financial year, R6,7m was set aside for the film industry.

□ □ □

IMPROVED facilities for MPs will cost an extra R7,4m this year.

The Budget vote listed under "facilities for MPs" goes up from R11,35m last year to R18,74m.

The figure is ascribed to "payment of costs arising mainly from resolutions adopted by the appropriate committees of Parliament in respect of provision of clerical assistance, travelling facilities, telephone services and catering services, payment of contribution to medical aid scheme and premium in respect of accident insurance". The total vote for Parliament is R33,10m.

□ □ □

KWAZULU is to receive the largest share of the R3,43bn which is to be voted for development aid in the six self-governing homelands, estimates of expenditure in yesterday's Budget show.

It will get R1,50bn compared with Gazankulu's R423m, KaNgwane's R227m, KwaNdebele's R218m, Lebowa's R893m and QwaQwa's R169m.

REPORTS: Political Staff

Joint taxation still stands but . . .

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ROBERT GENTLE

THE ABOLITION of joint taxation for all married couples as recommended by the Margo Commission has not been accepted because it simply "cannot be afforded". However, there will be partial relief in the form of a new standard income tax on employees (SITE) which, in effect, exempts certain categories of married couples from joint taxation.

The new tax works as follows: for a man or a single woman whose earnings do not exceed R12 000 per annum — or R20 000 in the case of a married woman — tax liability will be *finally* determined by PAYE deductions. These taxpayers will no longer need to submit tax returns.

Thus, married women earning under R20 000 will no longer be subject to joint taxation. However, where a married woman's income is greater than R20 000 it will — less the existing 22,5% concession — be added to her husband's income and be taxed at his marginal tax rate.

Government accepts the joint tax burden will still be considerably higher in this case than if she had been subject to the SITE system.

In particular, women earning just over R20 000 would be fiscally far worse off than those just under R20 000.

To soften the impact, a system of "shrinking deductions" will be introduced, which will entail a gradual phasing in of the higher tax rate.

Experts believe the new measures will be welcomed by many married couples. "About 83% of all working wives on register earn less than R20 000 a year and will consequently benefit from the new dispensation," says Ken Walton, a partner at Ernst & Whinney. "However, the remaining 17% — those who've lobbyied the most for an end to joint taxation — are likely to be disappointed."

Walton also foresees administrative problems regarding the R20 000 cut-off point and thinks there could be much doubt concerning the extent to which those above the limit will benefit from shrinking deductions, details of which have not yet been revealed.

Echoing this view is Jonathan Low, a partner at Pim Goldby. "We could conceivably see married women whose salaries are hovering below the R20 000 level seriously debating the wisdom of accepting a marginal salary increase," he says.

The new system comes into operation from the beginning of this month. Revised SITE deduction tables will shortly be issued to employers; in the meantime, PAYE tables still apply.

GOVT FUNDS FOR SWA CENTRAL AUTHORITY CUT

Political Staff

GOVERNMENT has slashed its budgetary assistance to the South West Africa central authority from R573m to R350m.

No explanation was given of the decision to cut the assistance, which is provided in the estimates of expenditure tabled in Parliament yesterday under the Finance Vote.

The budget for the South West Africa authority service, dealing with statutory and associated duties as well as rendering supporting services to the office of the Administrator-General, which is provided under the President's Vote, has also been reduced from R860 000 to R828 000.

Capital transfer tax adopted

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GOVERNMENT had accepted the Margo Commission's proposal that a capital transfer tax replace the existing donations tax and estate duty, Minister of Finance Barend du Plessis, said yesterday.

It had also accepted that dispositions between spouses, and legacies to religious, charitable and educational insitutions be exempt from tax.

He said in his Budget speech that it had also decided on a "generous concession" in regard to the exemption allowable for a lump sum deduction.

The commission had recommended that the new capital transfer tax should rest on a simplified basis and be levied at a flat rate of 15% on the clause of transfers of capital for which full consideration was not paid. Margo also recommended a lump sum deduction of R10 000 per year during the taxpayer's lifetime and R250 000 on his death be exempted from capital transfer tax and that dispositions between spouses as well as legacies to religious, charitable and educational instiutions, should also be exempt. Government accepted this but decided the deduction for the annual lump sum should be R20 000 and for an estate R1m. — Sapa.

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IS IT SITE OR PAYE?

The answer, for people earning more than R12 000 and married women more than R20 000 a year, may be both. SITE, or Standard Income Tax on Employees, is a new, complicated minimum tax that partially replaces PAYE.

The object is to avoid the inevitable tax owed by married taxpayers, who both work, at the end of a tax year. The effect of the PAYE tables is that a married man with a non-working wife pays too much tax, a married couple who both work each pay too little. The problem has even been cited as a reason for divorce.

SITE seeks to redress this by ensuring that married working women pay more tax during the year. As they are not subject to tax in their own right, a special rate of 25% — subject to a deduction of R1 075 — has been fixed.

For people who earn R12 000 or less a year (or married woman under R20 000), SITE will be all they pay. There will be no further calls for tax and no refunds.

Where a married woman's income exceeds R20 000, it will — subject to the existing 22,5% concession — be added to her husband's income and taxed at joint marginal rates. The overall burden will be considerably higher than had she fallen under SITE.

A declining system of deductions will be introduced to "soften the blow."

Certain kinds of income will not be subject to SITE; for example, lump sum pension payments; commissions from which car expenses are deductible; part-time remuneration; and remuneration earned by a sole breadwinner woman.

A R12 000 category taxpayer who pays PAYE as well as SITE will have to render an income tax return. SITE will, of course, be allowed as a credit. If a married woman earning less than R20 000 a year also earns, say, interest, it will be taxed at her husband's marginal rate.

Where she pays PAYE in addition to SITE, her entire remuneration will be taxed in her husband's hands. In this case, of course, shortfalls become payable — but there is some phasing-in relief. An additional deduction (over and above the wife's normal 22,5% of income) will be allowed on the formula 20% of combined income less 35% of wife's income, subject to a maximum of R5 000.

A taxpayer who would otherwise not be regarded as married, but maintains a child, will be classed as married. There are further provisions to regulate contributions to provident and retirement annuity funds. Total deductions which now apply to husband and wife remain unchanged and an employer will not be able to deduct a woman's RA contributions unless authorised by the Commissioner.

In fact, they turned in only R2,65bn and are budgeted for R2,2bn in the coming year. This decline from what used to be a tax milk cow, puts a burden on other revenue sources.

In the circumstances, the R180m increased excise duties on the old favourites of the fiscus, booze and 'baccy, may be considered modest.

On the old rates, Inland Revenue is budgeted to contribute R39,04bn this year. The changes reduce this by a net R355m to R38,69bn, after tax reductions of R1,3bn (virtually all for individuals, though they still contribute far more than the corporate sector) and increases of R944m (all except R209m on the corporate sector). Last year's revised take was R34,26bn. So not only has the increase been held to 12,9%, there have being big changes in its distribution.

And these changes look even more significant if you remember that: (a) most of them are for only part of a year and would be much higher for a full year; and (b) this year's Budget only paves the way for more fundamental change a la Margo next year.

On the face of it, the R1,52bn increase in Customs and Excise receipts outweighs the Inland Revenue cuts, but R1,34bn of this, relating to the National Road and Central Energy funds, is just an accounting change.

But, as we said last week, the key to the Budget lies not so much on the revenue as on the expenditure side. On that score, the commitment to cut State spending in real terms is a major achievement.

However, it seems that the composition of State spending is still a problem. The *FM* has often pointed out the folly of increasing current spending (largely wages and salaries) while cutting back on capital items. Again, estimated State capex this year, at R4,75bn, is only R109m or 2,4% higher than the R4,64bn provided in 1987-1988.

Moreover, the Budget confirms that the number of people employed by the State rose by 9,1% last year and their wage bill — confirming much-derided projections by the *FM* — a staggering 31,1% — a per capita increase of 20%. Part may be explained by a welcome diminution in racial wage discrimination, but the fact is that private-sector remuneration last year is unlikely to have performed anything like as well.

It will not only be activist trade unions who will find a sour note in setting continued increases in real public-sector incomes against calls to the private sector to "tighten its belt" and exercise wage restraint.

The freezing of public-sector recruitment — except in areas like education — is welcome, but does not go far enough. There must be a real reduction in public-sector employment. The State often claims that the bulk of its employees are in essential areas like education and health. In fact, these account for only 338 000 of the 944 000 paid

THE ONE-BREADWINNER FAMILY

Income Tax payable: 1988 and 1989 (R)

Married — under 60

	No children			1 child			2 children			3 children		
Income	1988	1989	Reduction	1988	1989	Reduction	1988	1989	Reduction	1988	1989	Reduction
12 000	805	580	225	705	480	225	605	380	225	505	280	225
14 000	1 136	900	236	1 036	800	236	936	700	236	836	600	236
16 000	1 544	1 300	244	1 444	1 200	244	1 344	1 100	244	1 244	1 000	244
18 000	2 018	1 760	258	1 918	1 660	258	1 818	1 560	258	1 718	1 460	258
20 000	2 532	2 260	272	2 432	2 160	272	2 332	2 060	272	2 232	1 960	272
25 000	3 994	3 690	304	3 894	3 590	304	3 794	3 490	304	3 694	3 390	304
30 000	5 702	5 360	342	5 602	5 260	342	5 502	5 160	342	5 402	5 060	342
35 000	7 596	7 210	386	7 496	7 110	386	7 396	7 010	386	7 296	6 910	386
40 000	9 590	9 160	430	9 490	9 060	430	9 390	8 960	430	9 290	8 860	430
45 000	11 684	11 210	474	11 584	11 110	474	11 484	11 010	474	11 384	10 910	474
50 000	13 831	13 260	571	13 731	13 160	571	13 631	13 060	571	13 531	12 960	571
55 000	16 028	15 360	668	15 928	15 260	668	15 828	15 160	668	15 728	15 060	668
60 000	18 228	17 460	768	18 128	17 360	768	18 028	17 260	768	17 928	17 160	768
65 000	20 475	19 610	865	20 375	19 510	865	20 275	19 410	865	20 175	19 310	865
70 000	22 725	21 760	965	22 625	21 660	965	22 525	21 560	965	22 425	21 460	965
80 000	27 225	26 160	1 065	27 125	26 060	1 065	27 025	25 960	1 065	26 925	25 860	1 065
100 000	36 225	35 160	1 065	36 125	35 060	1 065	36 025	34 960	1 065	35 925	34 860	1 065
150 000	58 725	57 660	1 065	58 625	57 560	1 065	58 525	57 460	1 065	58 425	57 360	1 065

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 in respect of the 1988 tax year.

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of "another weapon in our refurbished economic armoury" — the principle of user-charging.

In a final word on privatisation, reminiscent of Kinnock/Thatcher rows in the UK, he says that there is frequent reference to the analogy of "selling off the family silver" with the implication that this was something to be avoided. "We should not, however, be misled by this facile reasoning. If the sale of the family silver produces income generating assets whereby that family is put on the path to greater prosperity, then by all means let the silver go. But the position is naturally very different if the silver is flogged merely to provide a new carpet.

"The State President's address to parliament is unequivocal on this score: the proceeds of privatisation, he stated, will not be utilised to finance current expenditure."

Allocating the proceeds to capital items may compensate for the niggardliness of the Budget in this area. But references to the expanded role of Priorities Committees confirm fears that the spirit of market orientation has distinct limits. The risk of uneconomic spending on social engineering remains and will not be dispelled by the vague assurances that have been given so far.

Restraint is also marked on the financing side. The deficit before borrowing (PSBR) is down from R10,01bn to R9,86bn, plus redemptions of R2,67bn (R2,59bn), to make a total financing requirement of R12,53bn (R12,61bn). As a percentage of GDP, of course, the fall in PSBR is even bigger — from 5,8% to 4,9%. Reinvestment of maturing stock and new loans are budgeted at R6,78bn (R4,79bn actual, against a budgeted R4,35bn — already a sharp drop from almost R7,5bn in 1986-1987).

SPENDING RISE

Fiscal year	Budgeted spending	Actual spending	†Percent increase
88-89	53,87	—	—
87-88	46,87	47,84*	18,7
86-87	37,57	40,32	22,5
85-86	31,29	32,91	21,3
84-85	24,95	27,13	21,6
83-84	21,18	22,32	16,4
82-83	18,24	19,18	16,7
81-82	15,87	16,43	20,8
80-81	13,08	13,60	18,9
79-80	11,19	11,44	14,9
78-79	9,81	9,96	11,2

* Estimate

† Percent increase in actual spending from previous year's spending.

Source: Nedbank

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THE DEPARTMENTAL PICTURE

Budget allocations by departmental votes (R billion):

Department	1987-88	1988-89 Budget	% increase
State President	R13,9m	R15,0m	8,6
Parliament	R41,6m	R51,0m	22,4
Bureau for Information	R31,0m	R31,6m	1,9
Commission for Administration	R207,9m	R291,2m	40,1
Improvement of Conditions of Service	R1,1bn	R353,0m	-67,1
Development Planning	R6,5bn	R7,7bn	18,9
Foreign Affairs	R2,2bn	R2,5bn	15,3
National Education	R132,1m	R123,3m	-7,4
Administration: House of Assembly	R5,4bn	R5,3bn	-1,8
Development Aid	R3,0bn	R4,0bn	33,6
Education and Training	R1,5bn	R1,6bn	10,3
Defence	R6,7bn	R8,2bn	22,6
Manpower	R198,9m	R224,8m	13,0
Public Works and Land Affairs	R1,4bn	R1,6bn	15,3
Justice	R240,4m	R277,4m	15,4
Prisons	R489,5m	R630,4m	28,8
Agricultural Economics and Marketing	R708,8m	R316,1m	−55,4
Trade and Industry	R1,0bn	R1,2bn	14,4
Mineral and Energy Affairs	R768,5m	R745,8m	-3,0
Finance	R7,4bn	R8,9bn	20,0
Home Affairs	R148,7m	R148,5m	0,0
Transport	R785,4m	R878,6m	18,6
Administration: House of Representatives	R2,0bn	R2,3bn	17,4
Administration: House of Delegates	R729,8m	R831,8m	14,0
National Health and Population Development	R2,2bn	R2,3bn	2,9
Police	R1,5bn	R1,8bn	17,3
Environment Affairs	R134,8m	R149,7m	11,1
Water Affairs	R323,5m	R353,5m	9,3

Moreover, Du Plessis makes the point that some of the tax reductions are not yet accompanied by the corresponding new or increased taxes recommended by Margo. There is thus a net forfeiting of income. This presumably also inflates PSBR.

The borrowing requirement should not strain the capital market and should certainly prevent any "crowding out" of private-sector capital formation — at any rate, until privatisation leads to the offloading of billions of rands of State assets.

This is the first Budget that really bears Barend du Plessis' personal stamp. And that is not the only way in which it could be the start of a new era. This year's major tax changes will be followed by more next year.

Yet great progress has already been made. Fiscal drag has been addressed. State spending has been held back. Various anomalies have been rectified. Of course, fine words butter no parsnips; words have still to be translated into action.

But in this, Barend du Plessis has one great advantage over his predecessor: the ear and the goodwill of the State President. P W's reputation, too, is now firmly tied to economic reform (some would say, as a substitute for further political reform).

This gives Treasury more of an edge on the spending departments than it has had for years. For all our sakes, let's hope that the line can, at last, be held. ■

JSE ILL-FAVOURED

The Margo White Paper (WP) holds out little light for JSE investors. Apart from the 75% increase in long-term insurers' tax rates and 25% minimum tax on companies (MTC), the WP rejected the abolition of double tax on dividends paid to individuals.

And Margo's recommendation that marketable securities tax (MST) and stamp duties — "particularly stamp duties on share transactions" — should be abolished, has been rejected. The WP notes that the total annual revenue from MST and stamp duties is a significant R600m a year.

For that reason, abolition of the two imposts "cannot be entertained." But the WP contains the proviso that stamp duties should not be applied in a way "which hampers internal reorganisations in company groups."

That sentiment was reflected in the Budget's announcement of a moratorium on company stamp and transfer duties until June 30 1989.

While studies of the WP continue, it is worth noting its acceptance of the idea that the export marketing allowance has no place in the Income Tax Act. This, the WP reminds, is subject to an in-depth investigation of SA's exports incentive regimen. The only alternative for the export marketing allowance is for it to be paid in cash.

20	
20	58,6
40	
99	
41	
44	
85	12,9
05	16,3
60	−1,5
25	
00	
46	
71	3,0
31	−0,6
00	
25	
50	
50	
00	
10	
35	−0,7
4	
4	

LIFE PROFITS SLASHED

Life assurers will see profits slashed by changes to tax rules. They will now be taxed on 70% of income, instead of 40%, which will effectively increase payments to the Receiver by 75%. Revenue is estimated at R170m for the 1988-1989 financial year and R202m for a full year.

Old Mutual's Theo Hartwig estimates the change will cost it R40m; Sanlam's Pierre Steyn puts losses at R50m-plus.

"We are shocked at the magnitude and arbitrary nature of the increase," says Hartwig. "This will definitely impact on bonuses to policy holders and will force us to reconsider the formula on which projections are based."

Steyn criticises the ad hoc basis of implementation.

"It will have a detrimental effect on long-term savings. And since SA is increasingly dependent on domestic and particularly long-term savings, it's a pity this source of risk capital and investment has been dealt a serious blow."

On the other side of the fence, building society executives who have long complained that tax concessions enjoyed by life companies distort the flow of funds, see the move as positive.

Says Association of Building Societies president Bob Tucker: "We welcome any redress in the imbalance of advantages between different types of institution.

"At the moment, insurers are able to offer a 15% tax-free compound growth. We can't compete with that. It is unlikely they will be able to continue to offer such growth. However, precisely what it means to us we can't say at this point."

Whether the change will mean a switch to other types of saving is debatable. It could just mean additional spending.

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MARGO WHITE PAPER

Thanks for the memory

The eagerly awaited Margo White Paper (WP), read with the 1988-1989 Budget, has prompted sweeping changes to the tax system. The focus is clear: dramatic de-emphasis of the personal tax burden, with commerce, industry and financial institutions plugging revenue shortfalls.

But its striking characteristic is that many Margo recommendations are not finally answered. For example, the proposal that the mining capex write-off of 100% in the first year be changed to 50%-30%-20% over three years has been referred for "urgent" investigation by a technical working group.

Indeed, "the recommendation is accepted" is one of the rarer phrases in the WP. Much more common are "this observation is noted;" "... accepted in principle;" "... but the practicality thereof requires investigation;" and "the proposal is accepted, but..."

Many recommendations flowed from Comprehensive Business Tax (CBT), which Margo was evidently certain would be accepted. They become immediately defunct, making the WP an easier document.

Margo's proposed, accepted and implemented Standard Income Tax on Employees (SITE) goes some way to meeting his call for separate taxation. It means that married women earning less than R20 000 a year will be taxed separately, though not on an equal basis with unmarried women.

Some minor recommendations, but with high interest in certain quarters, have been rejected outright, with or without reason. Non-residents' tax on interest is abolished (further to encourage foreign investors and because it raises a trifling R30m a year); sports sponsorship will continue to be allowed as a tax deduction.

It is also striking that Margo appears to have been ignorant about Inland Revenue internal practice. But perhaps this is not so surprising, given that about half of tax is law and the other half practice. And in many recommendations that were "accepted", new discretionary powers will be introduced.

Whereas Margo has been criticised in some quarters as a theoretical exercise in which the minority views were often the more interesting, Pretoria's approach is pragmatic. Of course, the WP has no minority views and the really difficult questions have been sent off for further investigation.

There are disappointments: Margo's wish for fewer income tax brackets did not find a home. The mysterious reason is a hypothetical example with five brackets showing that personal income tax would be reduced by R5,3bn. It will be noted that Britain has just — admittedly in very different budgetary conditions — cut back to only two brackets.

Instead — correctly, in itself — "attention should be given to a revised scale in which all taxpayers will pay less and the maximum marginal rate will be reached at a higher level of income." This is what has been done so why fewer tax brackets are not possible remains a mystery. Proposals were rejected, says the WP, on one or more of four grounds:

☐ If there was "overwhelming, persuasive and credible" evidence from the private sector;

☐ If quantifications showed that, in total, concessions were simply not affordable, "even with an additional tax such as CBT;"

☐ Where further investigations by the Departmental Task Group and the Margo Commission itself yielded "further insights;" and

☐ A proposal may have been sound in theory, but was found to be "not practicable."

The WP is at pains to point out why Pretoria rejected Margo's pet, CBT. Indeed, the reasons are so convincing that taxpayers may wonder why Margo ever thought of such an impost.

Firstly, exports are not easily identifiable in the CBT base; any compensation could lead to retaliatory action under GATT.

Then, the impression that CBT is a tax on labour is "bound to arise"; it is "just another tax on income"; the impression that it favours capital above labour will not be easily effaced; it is simply another sales tax insofar as it can be passed on to the consumer; it would create another tax to be added to the existing three formulae; and it is less sensitive to changes in the business cycle than, say, the invoice VAT. Finally, as said so often by the *FM*, "SA would be the first and only country in the world using a tax of this kind."

The recommended CBT piggyback, to replace the unloved and unwanted RSC levies, falls away. Unfortunately, so sure of CBT was Margo, that it suggested no alternative — so RSC levies will remain and a vital chance for something else has been lost.

Given the WP and Finance Minister Barend du Plessis' Budget, it can be said that a much larger measure of neutrality, equity and simplicity has been introduced into the tax system. With the sweeping personal tax reductions, the spring cleaning prompted by Margo and the introduction of VAT in 1989, the actual package for implementation looks much like Assocom's proposals.

With the huge change in the distribution of the tax burden this decade recently falling heavily on the personal taxpayer, tax reform has reached a stage of fundamental change. While the *FM* had initially read invisibility of taxes as one of the main factors "between the lines" of the Margo Commission, the WP makes this factor explicit.

Under the heading *Technical requirements of a good tax system*, the WP sees "invisibility" as a norm and a requirement, along with factors like low cost of collection and certainty. The truth that all taxes are paid for by the individual is important only in theory. The perception, as the WP sees it, should be that the personal tax burden is as low as possible. This is no doubt why Du Plessis hit long-term insurers with a 75% increase in their effective tax rate. In addition, all companies, including mines, are now subject to a 25% minimum normal tax. Margo's recommendation that dividends should not be subject to double taxation has been rejected.

Furthermore, group taxation, which would reduce effective company tax rates, will not be introduced — something Margo and the WP agree on. And because the WP feels that the Margo proposals "did not really address the problem of inflation," it will go to the permanent Taxation Advisory Committee. The implication is danger for creative accounting that seeks to understate profits behind the guise of rising prices.

Even Margo's proposals for a 50%-30%-20% write-off for depreciation will be subject to Revenue discretion — simply meaning that if something looks like having a longer life than three years, the Exchequer will score. It scores even on the stamp duty moratorium: Inland Revenue's collections will eventually be made easier, after long-needed corporate reorganisations. Recommendations to beef up Inland Revenue, give it better premises and equip it better for fast-changing commercial realities have, of course, been accepted. With new pressure on the Exchequer comes the ominous reminder that tax reform costs money.

D/D 18/3/88

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KWV unhappy with duty hike

Daily Dispatch Correspondent

PORT ELIZABETH — The increase in excise duty on spirits had potentially dangerous repercussions for the spirit industry and for the intended government revenue from this source, the chairman of KWV, Mr Pietman Hugo, said in his reaction to the budget yesterday.

He said the industry understood that the Minister of Finance, Mr Barend du Plessis, was seeking other revenue sources to bring about relief for individual taxes, but thought it strange that an increase on sprits had been announced.

The total spirits market had not recovered from the drastic excise tax increase in 1981 when consumption had declined sharply. This decrease in consumption had actually resulted in a decrease in excise revenue, Mr Hugo said.

The total consumption was still lower than in 1981 and it was therefore highly unlikely that the government would achieve its higher revenue goal of R50 million, he said.

"It appears to be a decision that was not given good thought."

The duties increase also served to defeat the object of a stronger balance of payments.

As a result of the general agreement on tariffs and trade, increased excise duties encouraged imports, particularly of low-priced and low-quality spirits, and inhibited the domestic spirit market.

Mr Hugo said the state got considerable revenue from wine through GST and the fact that brandy and other wine products were being taxed particularly heavily, caused the wine industry's contribution to the government's coffers to be the highest of all industries when taken per product unit.

DP 18/3/88 (320)

VAT may start at 12pc

CAPE TOWN — Value-added tax (VAT) could well be pitched at an initial flat rate of 12 per cent, comparable to the current GST rate, when it is first introduced next year.

This rate will probably apply if the government spreads the VAT tax base to the extent suggested in its white paper response to the Margo Commission's tax proposals. This base would involve all goods and services, including the services provided by financial institutions but excluding medical services.

This emerged during a budget post mortem organised by Old Mutual here yesterday and attended by senior Treasury and Reserve Bank officials and a cross section of representatives from the private sector.

Answering a question from the floor, the Commissioner for Inland Revenue, Mr Clive Kingon, indicated that VAT could possibly be pitched at current GST levels if the government does eventually broaden the tax base to the extent proposed.

At this early stage a final decision on the eventual VAT base to be introduced next year has yet to be made, and this will only be likely after further discussions are held with various interest groups to determine what problems the application of this new tax may pose.

These groups include the specialised financial institutions such as insurers, building societies and banks; agriculture; the mining industry; exporters, importers; professional services; the TBVC and BLS countries; and SWA—Namibia. — DDC

The taxman's beady eye is still on you

The squeeze on companies is slightly tighter, but once again the taxman has his beady eye on you.
By HILARY JOFFE

INDIVIDUALS will be footing the bill for 50 percent of government expenditure this year despite new measures intended to shift more of the tax burden onto companies.

Noting the Margo Commission's recommendations to this effect, Finance Minister Barend du Plessis did introduce measures which will lighten individuals' tax burden and increase the amount of tax paid by companies.

Even so government revenue from individuals, through personal income and general sales tax, is expected to rise faster this year than income from company tax.

Individual income tax in the 1988/89 fiscal year is expected to contribute 23 percent more to revenue than last year, while tax from non-mining companies is estimated to increase by 21 percent. Gold mining taxes are expected to drop by 17 percent.

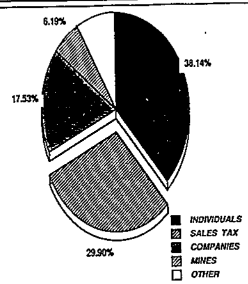
"Tax relief" for individuals, which will cost the government just over R1-billion in lost revenue, still leaves individuals with much of the tax burden: personal income tax is expected to provide 37,5 percent of all tax revenue this year compared with 35 percent in 1987/88.

And although rates are being cut, government's total revenue will rise as salaries increase: a result of inflation and "fiscal drag", where a wage or salary increase pushes the taxpayer into a higher tax bracket.

Du Plessis' two main tax concessions to individuals are the introduction of Standard Income Tax on Employees (Site) and changes in rates and rebates. While these concessions will not even counter the effects of inflation, they could make life a bit easier for many taxpayers.

Site in effect introduces separate taxation for married women earning R20 000 a year or less. It's an indication of the status of women's work that 83 percent of married working women fall into this category.

In terms of Site these women, and single people earning R12 000 a year and less, will only pay PAYE. They will not have to fill in tax returns.



Individuals bear the tax burden

The old system of joint taxation will still apply to a married woman earning more than that. Her income will still be added to her husbands' and taxed at his marginal rate.

However a new formula will take into account how much the wife earns. So for example, a couple where the wife earns R20 500 will not be taxed at the same rate as a couple where she earns R80 000.

In his budget speech Du Plessis said separate taxation was a good idea, but the government couldn't afford it. The introduction of Site, he said, would cost the government R117-million in the coming year.

But Site does have a "pay side" for taxpayers. It removes rebates for dependants, which will probably be built into PAYE, while medical and disability rebates will only apply where these expenses exceed five percent of taxable income.

Du Plessis also announced changes in rates and rebates which will raise tax thresholds and cut rates a little. He said the measures would benefit lower income groups relatively more.

Taxpayers will now reach the maximum marginal tax rate of 45 percent at an income of R80 000 not R60 000 and all rates drop accordingly — though not by more than one percent.

Thus a married couple under 60 with no children and an income of R12 000 will pay R225 less tax in the coming year. The drop for a couple with R25 000 is R304. Singles under 60 with annual incomes of R10 000, R20 000 and R55 000 score R145, R215 and R645 respectively under the new tax dispensation.

Thresholds, the level at which people become liable for tax, are to be slightly raised. A single person under 60 will now start paying tax at an income of R7 857, compared with R6 634 previously.

The moves to raise revenue from company taxes include a 25 percent minimum company tax rate, aimed at companies which have become sophisticated at evading tax.

The fact that the minister has to impose this minimum is some indication of the extent of the problem — the company tax rate is after all supposed to be 50 percent. But with the vast range of incentives and allowances — and tax consultants to exploit them — many companies earning good profits and paying large dividends, have been paying very little tax.

It is this that Du Plessis is trying tc prevent. He estimates the new measure will raise R350-million in revenue in the coming year.

He expects to raise a further R170-million from the the life insurance industry, with measures the life assurers will definitely not like. They previously paid tax on 40 percent of investment income, now they will pay it on 70 percent.

The budget included other measures aimed at squeezing bits and pieces of revenue from other sources, such as the increased excise duty on beer, spirits and cigarettes. Beer (except sorghum beer) rises by 1,9c per 375ml bottle; spirits by 1,8c per tot; and cigarettes by 2c per packet of 10 (note: your local shopkeeper should not up prices on existing stock!).

18-24/3/88 (320) W/Mail

D/D 13/3/88

Full tax on food in VAT system

(320)

CAPE TOWN — Food would be fully taxed again when the new invoice-based value added tax (VAT) system was implemented, the Director-General of the Department of Finance, Dr Chris Stals, confirmed yesterday.

At a press briefing on the Margo Commission recommendations that have been accepted by the government, Dr Stals said the reintroduction of tax on food was expected to increase the tax base by "up to R17 or R18 billion".

However, the government accepted the Margo condition that low-income earners should be compensated and had commissioned the Bureau for Market Research to report on the implications of subsidisation within the next four months.

He ruled out a system of food stamps because of the huge administrative burden. Although the government's bread subsidy system was one of the most effective, the problem there was that it benefited everybody.

A system was needed which directed help specifically towards low-income earners.

Dr Stals also confirmed that financial institutions would be subject to VAT and that investigations were under way to decide how this would be calculated.

Dr Stals said permission had been granted to create a small public relations division within the Department of Finance, mainly to handle the implementation of the Margo recommendations over the next year or two.

The Commissioner for Inland Revenue, Mr Clive Kinghorn, said it was hoped that draft legislation would be published soon after this year's session of Parliament. — Sapa

CAPE TIMES 18/3/88

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Food tax to return in form of VAT

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However, the government accepted the condition that low-income earners should be compensated, and had commissioned the Bureau for Market Research to report on the implications of subsidisation within the next four months.

He ruled out a system of food stamps because of the huge administrative burden and said although the government's bread subsidy system was one of the most effective, the problem was that it benefited everybody, and not specifically those with low incomes. — Sapa

CAPE TIMES 18/3/88 (320)

Life insurers to fight new tax

By LAWRENCE TOTHILL
Investment Editor

THE prices of life assurance company shares fell sharply on the Johannesburg Stock Exchange following the Budget announcement that their tax would be increased sharply, and a delegation of insurers is to make strong representations to government to have the tax decision rescinded.

At a Budget forum held at the Old Mutual, Pinelands, yesterday, Margaret Lessing, of the Women's Bureau, raised the question of how this new tax on life insurers would hit policyholders.

A B Meiring, Old Mutual's manager, legal services, said the tax is going to have a direct effect on holders of normal endowment policies in that the eventual amount they will receive will be less than previously anticipated. It does not affect retirement annuities, nor pensions.

Gerhard Croesser, chief executive, policy, in the Department of Finance, confirmed that in the end the policyholder will pay. The actual reduction in the amount the policyholder will receive when his policy falls due will vary according to size of policy and length of time to run.

The basic sum assured remains unchanged — it is only the bonuses which will be lower.

(320) B/day 18/3/88

Experts at Budget post mortem

12% looks likely first VAT figure

CHRIS CAIRNCROSS

CAPE TOWN — Value-added tax (VAT) could well be pitched at an initial flat rate of about 12%, comparable with the current GST rate, when it is first introduced next year.

This rate will probably apply if government spreads the VAT tax base to the extent suggested in its White Paper response to the Margo Commission's tax proposals.

This base would involve all goods and services, including the services provided by financial institutions, but excluding medical services.

This emerged during a Budget post mortem organised by Old Mutual in Cape Town yesterday. It was attended by senior Treasury and Reserve Bank officials and a large cross-section of representatives from the private sector.

Answering a question from the floor, Commissioner for Inland Revenue Clive Kingon indicated that VAT could possibly be pitched at current GST levels if government does eventually broaden the tax base to the extent proposed.

At this early stage, a final decision on the eventual VAT base to be introduced next year has yet to be made, and this will only be likely after further discussions are held with various interest groups to determine what problems the application of this new tax may pose.

These taxpayer groups include the specialised financial institutions such as insurers, building societies and banks; agriculture; the mining industry; exporters and importers; professional services; the TBVC countries; Namibia; and the BLS countries.

In an exercise by the Department of Finance and Central Economic Advisory Services, and published in the White Paper, it was calculated that GST in its present form would probably yield about R12,5bn during 1988/9.

Norton slams new govt tax

(320) B/day 18/3/88

KAY TURVEY

JSE PRESIDENT Tony Norton says the minimum tax on companies (MTC) proposed in the Budget is confusing and could unfairly penalise the big employers and large investors of the economy.

"Government should review the possible effects of the tax," says Norton, calling for further clarity.

MTC is set to hit banking, mining, manufacturing, export and hire purchase operations, which all make use of legitimate concessions with regard to capital expenditure, export and deferred tax allowances. This is besides companies operating on assessed losses.

Already companies are reviewing accounts. One firm, Deloittes Haskins & Sells, says clients are considering not declaring dividends they had proposed paying.

Tax consultants have lashed out at the tax for giving with one hand and taking back with the other. Criticising MTC as a hurried decision, Deloittes partners have questioned whether the tax will in fact have the intended affect.

Slammed as "unworkable" and "misguided", the tax has raised fears that companies that are essentially the engine of the economy will be prejudiced.

The tax aims to ensure a contribution to Treasury by companies which declare dividends but which, because of various concessions or assessed losses, are not liable for income tax.

However, tax consultants have questioned the efficacy of the tax as a revenue-raising exercise, which government estimates will bring in R350m by the end of March.

The tax, more or less in line with Margo's proposals, ignores the commission's recommendations to provide a necessary safeguard to permit the payment of profits from accumulated reserves.

Kessel Feinstein partner Ernst Mazansky says MTC would have been a lot easier to bear if taxation on dividends received had been abolished in line with Margo's proposals.

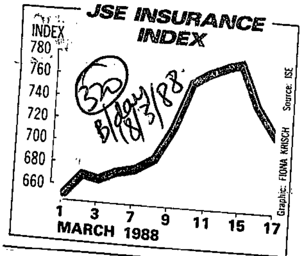
Deloitte partner Anne Pappenheim says many anomalies have yet to be cleared. The tax which Finance Minister Barend du Plessis describes as "very simple" is inappropriate in a highly complicated field, she says.

MTC will be a "disaster" for companies trying to restructure in terms of the moratorium on stamp duties as announced in the Budget, she says.

Huge dividends are often paid on no income, prior to deregistration. This would make dormant companies liable for tax, the credit for which they have no prospect of using.

The retrospective tax is set to put a severe strain on companies' cash-flows.

Life industry in bid to change new tax



HELENA PATTEN

LIFE assurers will attempt to change government's Budget intention to knock the industry for a tax loop when they meet the parliamentary Standing Committee on Finance today.

However, industry spokesmen were not confident they would succeed, and hoped the hike in the calculation of taxable income from 40% of investment income to 70% would be matched in next year's Budget by the full implementation of the Margo's majority recommendation that dividends would become non-taxable.

Life Offices Association (LOA) chairman and Old Mutual MD Mike Levett said yesterday the delegation would stress the importance of encouraging savings, and would note that Wednesday's Budget discouraged savings.

He said the increase in the industry's tax had to be seen in the context that only 29% of life companies' business was affected, as 71% was pensions and retirement annuities, which went untaxed.

Sanlam MD Pierre Steyn said life offices were unlikely to raise premiums in response to the tax hike.

The JSE insurance sector has plummeted 7,5% since the Budget announcement.

DID 19/3/88 (320)

New company tax under fire

JOHANNESBURG — The president of the Johannesburg Stock Exchange, Mr Tony Norton, says the minimum tax on companies (MTC) proposed in the budget is confusing and could unfairly penalise the big employers and large investors of the economy.

"The government should review the possible effects of the tax," says Mr Norton, calling for further clarity.

The MTC is set to hit banking, mining, manufacturing, export and hire-purchase operations, which all make use of legitimate concessions with regard to capital expenditure, export and deferred tax allowances. This is besides companies operating on assessed losses.

Already companies are reviewing accounts. One firm, Deloittes Haskins and Sells, says clients are considering not declaring dividends they had proposed paying.

Tax consultants have lashed out at the tax for giving with one hand and taking back with the other. Criticising MTC as a hurried decision, Deloittes partners have questioned whether the tax will in fact have the intended effect.

Slammed as "unworkable" and "misguided", the tax has raised fears that companies that are essentially the engine of the economy will be prejudiced.

The tax aims to ensure a contribution to the Treasury by companies which declare dividends but which, because of various concessions or assessed losses, are not liable for income tax.

However, tax consultants have questioned the efficacy of the tax as a revenue-raising exercise, which the government estimates will bring in R350 million by the end of March.

The tax, more or less in line with the Margo Commission proposals, ignores the commission's recommendations to provide a necessary safeguard to permit the payment of profits from accumulated reserves.

A partner in Kessel Feinstein, Mr Ernst Mazansky, says MTC would have been a lot easier to bear if taxation on dividends received had been abolished in line with the Margo proposals.

A Deloitte partner said many anomalies have yet to be cleared. — DDC

W/T News 19/3/88

New look at capital gains

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MARCH 19 1988

By DEREK TOMMEY
Financial Editor

IN spite of the Margo Commission being against a capital gains tax, the Government has not completely abandoned the idea of introducing one, Dr Org Marais, Deputy Minister of Finance, said in Cape Town this week.

In its White Paper on the Margo Commission's report, the Government says that the proposed permanent Tax Adviory Committee should in future give further attention to the question.

The Director General of Finance, Dr Chris Stals, said yesterday that the matter of a capital gains tax would undoubtedly be revived, but it was not a high priority at the present.

Countries which have a capital gains tax usually levy it on profits from the sale of shares, property and other types of assets.

Share dealings

However, in South Africa it is possible that were a capital gains tax to be introduced it would be confined to share dealings.

Much of the pressure for the tax appears to be coming from a number of stock brokers.

They have been arguing that a capital gains tax on say, short-term share market profits, would enable investors to know their tax position with more certainty than is the case at present.

This could unlock many portfolios, lead to increased share trading and to a more flexible and fairer pricing structure.

Among the world's leading stock exchanges, the Johannesburg Stock Exchange has the dubious record of having the smallest percentage of its shares traded.

The problem facing South African investors is that when they sell a share at a profit they have to convince the tax authorities that they bought the share as an investment and not as a speculation.

If they are able to persuade the tax man that it was an investment they pay no tax on their profits. But if he rules that it was a speculation their profits are subject to tax at their top marginal rate, which could easily be 45 percent.

The difficulty arises in laying down specific guidelines determining what is an investment and what is a speculation.

Some stock brokers believe that the best way to get around this would be for the Government to tax all capital gains, though at a low tax rate, and in exchange abolish the marketable securities tax and the tax on dividends.

Real gains

Dr Marais said he thought a low-rate capital gains tax had much to commend it. But inflation posed a problem. The authorities would have to be sure they were taxing real capital gains.

Capital gains in the United States are taxed at 20 percent and in Britain at 30 percent. But it is considered that if a captial gains tax were introduced in South Africa it would probably be about 15 percent, the same as the newly introduced capital transfer tax.

The Margo Commission opposed a capital gains tax but recommended that "the present method of subjective criteria in distinguishing between capital gains and gains of an income nature be replaced by objective criteria."

In reply, the Government said the setting of generally acceptable objective criteria posed many problems.

The Margo Commission listed several arguments for and against a capital gains tax.

One of the arguments in favour was that, based on the ability to pay canon, anything that enhanced the tax payer's wealth should be taxed. It was also argued that a capital gains tax would reduce inequalities in the distribution of income and wealth.

Arguments

Arguments against a capital gains tax were that:

- It would created a bias toward holding on to appreciated assets;
- The return on the tax is usually low;
- It is not paid by the 'really rich' who can afford to sit on their gains, but by the small man when he is forced to realise his gains.
- It is complex and difficult to administer;
- It needs to be indexed for inflation which could be complex;
- It probably would be necessary to exempt foreigners;
- As private housing would probably be exempt there would be an unfortuante tendency towards larger houses as has happened in Europe and America.

Dr Chris Stals, said that although the Margo Commission had recommended the abolition of stamp duties and the marketable securities tax, the Government was not in favour ot this step.

He said that these and other smaller taxes brought in about R1,25-billion a year. They were not difficult to administer or costly to collect.

In the present climate it would be difficult to justify the abolition of taxes that were paid by the higher income groups.

Public escapes brunt of the new tax burden

Star 19/3/88 (320)

SVEN LUNSCHE

At least with this latest Budget it looks as if the individual has for once NOT taken the brunt of the tax burden.

Allowing for higher rebates, the introduction of a Standard Income Tax on Employees (SITE) and bracket adjustments, tax revenue from individuals increases only 12,5 percent during 1988/89. This is less than the expected inflation rate.

The table on the right provides a rundown of major changes to rebates and deductions applicable to the taxpayer, but here is a point-by-point evaluation of the various measures, as highlighted by accountants Kessel Feinstein.

Individual tax rates

Tax rates have effectively been lowered by an increase in the thresholds applicable to both married and unmarried people.

The lowest rate of tax has been reduced from 15 to 14 percent and, while the maximum rate of tax remains at 45 percent, it only applies to taxable incomes above R80 000 in the case of married people (previously R60 000) and R54 000 in the case of unmarried people (R42 000).

Rebates

The primary rebate for married couples has been increased from R920 to R1 100 while for single people it has been increased from R650 to R750. In line with Margo Commission proposals, rebatesfor dependants and insurance premiums have been abolished.

Medical deductions

Deductions for medical expenses and physically disabled persons have been changed so that, in the case of under-60s, deductions will be allowed only to the extent that they exceed five percent of taxable income.

For over-60s, medical expenses will be allowed in full.

People under 60 were previously allowed a maximum deduction of R1 500 if they were married and R1 000 if single.

SITE

SITE is a new, complicated maximum tax that partially replaces PAYE.

People who earn less than R12 000 a year or married women who earn under R20 000 a year, will only have to pay SITE as a normal deduction on their monthly salary.

There will be no further calls by the Receiver for tax, but these people will not be eligible for refunds.

If a married woman's salary is higher than R20 000, it will, minus 22,5 percent of her income, be added to the husband's salary.

He will be taxed accordingly and the overall burden will be a lot higher than had she been a SITE payer.

CONCLUSION: Most of the lower to middle income groups should be marginally better off. The better-off will, however, be paying slightly more because of bracket and [illegible] adjustments and the impact of SITE on working women.

● From next year, in a departure from previous policy, tax credits will be paid directly into taxpayers' banks and building society accounts, Mr Chris Dempers, operations control director for the Inland Revenue in Pretoria, confirmed yesterday.

He added: "Where a bank or building society account has been given the number is invalid, cheques will be posted."

A step in the right direction for man in the street

MONEY MATTERS

by Magnus Heystek

The Budget has come and gone. Press and television had a field day. Businessmen, economists and special-interest groups had their say. The price of beer, spirits and cigarettes will increase almost immediately.

But tomorrow life goes on for most people, excepting tax consultants, who now have to digest the fine print of the budget proposals.

Comments on the Budget ranged from "fair" and "balanced" to "restrictive" and even "inflationary", depending on how one approached the Budget.

Some said the Government should spend more, others said less.

The Budget, however, can be considered something of a watershed in our economic history.

But it should not be see in isolation from the Margo Commission's report on our tax structure and the important speech made by State President P W Botha at the opening of Parliament earlier in the year.

While this year's Budget contained some of the recommendations of the Margo Report, most of the changes to our current tax structure will be implemented in next year's Budget.

In this regard, the Budget was nothing more than a holding operation until next year.

And lurking in the background is the groundswell of privatisation and deregulation that will soon start to change the face of South Africa.

I sometimes get the impression that many people are still very sceptical about it. Well, they better start thinking again.

This time next year South Africa will already be deep into its new tax disposition, according to the Margo proposals. Value Added Tax will replace General Sales Tax, many tax loopholes will have been closed (resulting in many tax-avoidance schemes crashing) while some state enterprises will have been sold off to the private sector.

But how does this all relate to the man in the street?

Quite simply, if affects his pocket. Individual taxpayers have endured a considerable erosion of their standard of living in recent years. This was partly the result of a process called fiscal drag by which we all pay higher taxes every year without the tax rates being increased.

This process has resulted in the contribution of individual taxpayers to total government revenue increasing year by year while the contribution of the corporate sector has decreased in real terms.

In 1983/84, individuals contributed R5,6 billion to state revenue. By the end of the 1987/88 financial year this had more than doubled to R12 billion out of total revenue of R34 billion.

Convoluted structure

In recent years the South African tax structure has become complex, convoluted, discriminatory and unfair.

Hopefully, we have seen the start of the reversal of this process.

More than 800 000 taxpayers will experience this simplification of our tax structure this year. They are the taxpayers who will have Standard Income Tax on Employees (SITE) deducted from their salaries and wages and need not bother about filling in income tax forms again.

Indications are that they will be paying less tax than previously.

The level at which the top marginal rate comes into effect has been increased from R60 000 to R80 000. Many people will benefit from this.

In total, more than R1 billion has been handed back to the public by way of tax handouts in the Budget.

It might be a small step, but at least its in the right direction to a fair, equitable and widely-spread tax base.

Barend bleeds life assurance policyholders

22/6/86 11

By Udo Rypstra

Mike Levett ... less said the better for now

NEW tax measures hitting life assurance will bleed the ordinary man more than the industry.

Not only has he lost the right to a rebate on his premiums, but the return on his investment will also fall. Finance Minister Barend du Plessis's 75% tax increase on life companies' investment income will come from money previously passed on to policyholders

Assurers will have to pass on the impost unless they can find loopholes or other ways, like changing their product mix, to keep long-term saving attractive.

New blow

The Life Offices Association (LOA) met the parliamentary Standing Committee on Finance on Friday. It argued, as it did to the Margo Commission, that saving had fallen in the past 10 years, and the tax was a new blow to thrift.

The LOA hopes that the increase in tax liability of assurers' investment income from 40% to 70% will be compensated for in next year's Budget by the full implementation of the Margo Commission recommendation that dividends become non-taxable.

LOA chairman Mike Levett said yesterday that the matter was so sensitive that he did not wish to discuss what could happen.

Some industry sources fear that Mr du Plessis's move could mean that long-term savings through insurance will become unattractive, and that the public may divert funds to tax-free short-term saving with building societies and the Post Office.

However, Mr Levett says returns on life assurance are still a lot better than the negative real rates of interest offered by other financial institutions.

There has been concern for several years about the inflow of money to the life assurers' coffers at the expense of the other financial institutions.

Piet Badenhorst, chief executive of UBS Holdings and chairman of UBS Bank, questions the relatively small contribution of assurers to the fiscus. Others believe too much economic power lies in too few hands.

Bay Jordan, of accountants Ernst & Whinney, says two assurers have together increased their premium and investment receipts by R1,3-billion. He says that shows the industry is drawing a large share of national savings.

However, their combined net tax surplus increased by only R17,8-million. The combined return on income was only 3,3%, which was low.

There are two main reasons for the return being so low.

High costs

The first is that the costs of writing a policy are high. These costs are incurred immediately and recovered through premium payments over several years. That is why the initial surrender value of a policy is so low.

The second is that the assurer has to set aside enough money to meet future liabilities to policyholders. Every year, actuaries calculate these liabilities, which include bonuses from profits made by the assurer on investments.

Mr Jordan says: "The transfer to actuarial reserves underscores the principle that assurers hold money in trust on behalf of policyholders. This is an established concept, confirmed by the Louw Commission in 1976. It is the underlying reason why tax is different for assurers. It seems that, as argued by the assurers, the increased tax will not affect them, but will reduce the returns to policyholders and thus the ultimate policy benefits.

"The industry admits that it would be able to reduce the impact of this tax by changing the marketing mix of its business. Only investment income from certain types of business, such as annuities and pensions, is taxable. Nevertheless, it appears that ultimately it is the policyholder who will bear the cost — according to industry estimates, a 1,5% reduction in the rate of return."

Loopholes

It has been said that the life assurance industry exploits tax loopholes and does not invest in new enterprises. It prefers to back established businesses.

Mr Jordan says: "The proper solution appears to be stricter financial reporting requirements by the assurance industry to reflect the true nature of its business and in particular disclosure of the movements in the actuarial reserves."

He believes that "something as radical as the total abolition of income tax on investment income, for all sectors of the economy, could result in stimulating savings, equalise competition and help fight inflation."

Marginal companies will be hit

MTC could 'encourage pull-outts'

(320) B/day 21/3/88

Business Day Reporters

MINIMUM Tax on Companies (MTC) could encourage disinvestment if it is indiscriminately applied.

This warning comes from tax experts who say that unless appropriate exemptions from MTC are developed and applied, foreign companies could be further tempted to withdraw funds from SA.

MTC, which will tax companies who are not paying full tax but still pay dividends, was introduced in last week's Budget.

It has drawn sharp criticism for being "unworkable and impractical".

Now a debate over the impact of the tax on foreign investors has surfaced, with some accountants and tax experts expressing fears that it will prompt further disinvestment.

Others argue this will happen only in marginal cases where MTC makes the difference between a company staying or leaving.

Coopers & Lybrand partner Eric Louw, while welcoming the attempt to achieve greater fairness in the spread of the tax burden between companies and individuals, says MTC is not in the national interest.

"There are risks that the application of this tax could prejudice particular companies which have not been reducing their tax liabilities artifically.

"Take, for example, a foreign company which has tax losses and which currently has a high rate of dividend in order to avoid prejudice should the Reserve Bank freeze profits.

"The application of MTC could make it rethink its attitude to ongoing investment," says Louw.

Kessel Feinstein partner Ernest Mazansky says: "In a marginal case it may make the difference between staying or disinvesting, but I don't believe that as a general rule this in itself will make a difference."

Fisher Hoffman Stride partner Anthony Chait agrees, saying it would only affect foreign companies which had not been paying normal tax in SA.

Shareholders of these companies could find their flow of dividends reduced.

Government has proposed that MTC be applied at a rate of 25% on the excess of dividends declared by a company over the sum of normal tax payable and the amount of dividends received during the year.

The tax is payable in respect of the latest year of assessment ended on or before February 29, 1988.

This could bruise US companies not paying full tax and which — in light of the US legislation on double taxation — repatriated funds in the form of dividends before the end of 1987, says Deloitte Haskins & Sells partner Anne Pappenheim.

The US tax authorities ceased giving credit to companies for tax paid in SA from January 1, 1988.

Hansard

(b) (i) Cape: 9
Natal: 0
OFS: 0
Transvaal: 57

(ii) Cape: 1
Natal: 0
OFS: 0
Transvaal: 5

Ministerial Representatives: members of provincial education councils

*3. Mr R M BURROWS asked the Minister of Education and Culture:

(1) Whether he or his Department has attempted to have Ministerial Representatives become members of the provincial education councils; if so, (a) why and (b) when;

(2) whether any Ministerial Representatives have attended any meetings of the provincial education councils; if so, (a) in what capacity and (b) which meetings did they attend;

(3) whether any Ministerial Representatives were excluded from those meetings of the provincial education councils from which non-members of such councils were excluded; if not, why not;

(4) whether any Ministerial Representatives have taken any steps which impinge on the activities of the provincial education departments; if so, (a) what steps and (b) on what dates;

(5) whether he will make a statement on the matter?

†The MINISTER OF EDUCATION AND CULTURE:

(1) No,

(a) and (b) fall away;

(2) yes,

(a) as observers,

(b) Cape: 24 August 1987, 26 October 1987
Natal: 26 August 1987, 27 October 1987, 26 February 1988
OFS: 20 August 1987, 27 October 1987, 26 February 1988
Transvaal: 31 August 1987, 26 October 1987, 25 February 1988

(3) No, in terms of section 5(7)(a) of the National Education Policy Act, No 39 of 1967, each provincial education council determines its own rules and procedures regarding their meetings:

(4) no,

(a) and (b) fall away;

(5) No.

Private schools: subsidies

*4. Mr K M ANDREW asked the Minister of Education and Culture:

How many private schools which applied for subsidies of 45 per cent in 1987 received a subsidy of (a) 45 and (b) 15 per cent?

The MINISTER OF EDUCATION AND CULTURE:

Schools apply for a financial grant and not for a particular percentage category;

(a) the number of schools that received a 45% grant is:
Cape: 29
Natal: 37
OFS: 4
Transvaal: 34

(b) the number of schools that received a 15% grant is:
Cape: 9
Natal: 0
OFS: 0
Transvaal: 57.

For written reply:

General Affairs:

Advertising expenditure: income tax deduction

8. Mr F J LE ROUX asked the Minister of Finance:†

Whether (a) private individuals, (b) (i) public and (ii) private companies and (c) close corporations receive any rebate for income tax purposes in respect of expenditure on advertising for their businesses and/or products; if so, what is the formula for the rebate in each case?

The MINISTER OF FINANCE:

(a), (b) & (c)

Any advertising expenditure actually incurred in the Republic in the production of income is

320

Hansard

allowable as a deduction as a normal business expense in the determination of taxable income, provided such expenditure is not of a capital nature.

This rule applies irrespective of whether the expenditure is incurred by individuals, public companies, private companies or close corporations.

General sales tax: reduction/changes

320

295. 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?

The MINISTER OF FINANCE:

(a) & (b)

During his address at the opening of the 1988 Session of Parliament the State President announced that the Government had accepted the Margo Commission's alternative recommendation that sales tax be replaced by an invoice-based value-added tax.

Draft legislation providing for the introduction of VAT will be prepared and published for information and comment during the second half of this year and presented to Parliament in its final form early in 1989.

It may, nevertheless, be necessary to propose certain technical amendments in the customary Sales Tax Amendment Bill which will be introduced later this year.

As the rate is a budgetary matter, I will deal with it in my Main Budget.

(i) & (ii) Fall away.

Overseas visits

574. Mr P G SOAL asked the Minister of Public Works and Land Affairs:

(1) Whether he or the Deputy Minister of Land Affairs undertook any overseas visits in 1987; if so, (a) which countries were visited and (b) what was the purpose of each visit;

(2) whether he or his Deputy Minister was accompanied by any representatives of the media on these visits; if so, (a) what were the names of the journalists involved, (b) which newspapers or radio or television networks did they represent, (c) to which countries did each of these persons accompany him or his Deputy Minister and (d) why;

(3) whether any costs were incurred by his Department as a result, if so, what total amount in that year?

The MINISTER OF PUBLIC WORKS AND LAND AFFAIRS:

(1) Yes. I undertook an overseas visit but not the Deputy Minister of Land Affairs.

(a) Spain

(b) Private

(2) No

(a) Falls away.

(b) Falls away.

(c) Falls away.

(d) Falls away.

(3) No.

Christmas cards sent out

605. Mr P G SOAL asked the Minister of Defence:

(1) Whether (a) he and/or (b) the South African Defence Force sent out Christmas cards in 1987; if so, (i) what total number of cards was printed, (ii) to whom were they sent, (iii) what was the total cost of producing and distributing these cards, and (iv) who was responsible for printing them, in each case;

(2) whether postage stamps were used to send out these Christmas cards; if not, how were they distributed?

The MINISTER OF DEFENCE:

(1) (a) Yes

(i) No Christmas cards were printed in 1987.

(ii) Ministers and Deputy Ministers: 45
Members of Parliament: 232
President's Council members: 58
Board and Management of Armscor: 24
General officers: 49
Local ambassadors and attachés: 15

141

DID 22/3/88

Increased threshold for tax liability

320

JOHANNESBURG — As a result of the slightly reduced rates of income tax and increased primary rebates announced by the Minister of Finance, Mr. Barend du Plessis, in his Budget last week, the thresholds at which taxpayers become liable for tax have been increased and are in force with immediate effect.

New tax deduction tables giving effect to these changes are to be published shortly in the Government Gazette, according to a statement released in Cape Town yesterday by the Commissioner for Inland Revenue.

Meanwhile, Inland Revenue has issued a schedule setting out the new thresholds for each category of employee.

In yesterday's statement, Inland Revenue notes that in terms of the employees tax deduction tables still currently in use, employees tax would normally be deductible from the remuneration of those employees whose incomes are below the revised thresholds.

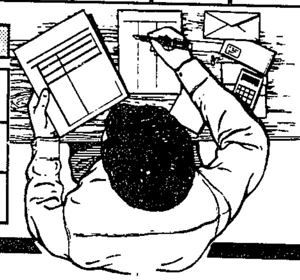
In order to correct this situation, bringing it in line with the new order, the Commissioner for Inland Revenue has also ruled that employers should not withhold tax if an employee's remuneration is below the new threshold. — DDC

MONTHLY INCOME MARRIED TAXPAYER

CHILDREN	0	1	2	3	4	5	6	7	8	9
UNDER 60	R 655	R 714	R 774	R 883	R 893	R 952	R 1 039	R 1 118	R 1 189	R 1 254
60 - 65	726	786	845	905	964	1 022	1 103	1 175	1 241	1 302
65+	952	1 011	1 067	1 118	1 167	1 211	1 274	1 333	1 388	1 442

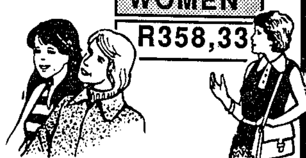
SINGLE TAXPAYERS

UNDER 60	R 446,42
60 - 65	517,83
65+	744,00



MARRIED WOMEN

R358,33



GRAPHIC BY JAMES DE VILLIERS

Taxman releases guide to clear up confusion

By Michael Chester

The Commissioner for Inland Revenue yesterday released a set of tables to explain to bewildered taxpayers just who now escapes the income tax net completely — and precisely how much they can earn before they need bother about tax demands in future.

The tables cut through many confusions created by the reshuffling of tax levels in the 1988 Budget outlined last week by Finance Minister Mr Barend du Plessis.

So far, tax tables have been more concerned about the reduced tax burden on middle and higher income groups. The new ones clarify the position for taxpayers in the lower income brackets.

The directives spell out how:

- A married man aged under 60 and with two children — often regarded as the profile of the average taxpayer — will pay no income tax whatsoever on wages under R9 286 a year, or R774 a month.

TAX-FREE RIDE

- If the parent is aged between 60 and 65, the tax-free ride goes on until annual income reaches R10 142. Over that and into pension age, income is tax-free up to R12 800 a year.
- Single taxpayers stay out of the tax net until their annual income climbs above R6 214.
- Married women, although still deprived of total separate taxation, need pay no tax bills on earnings under R4 300 a year or R358,33 a month.

The new guidelines will be published in a Government Gazette to dispel lingering doubts about the effects of higher thresholds at which tax becomes liable in the wake of Budget announcements about increased primary rebates and reduced income tax rates.

Employers are being advised to deduct no tax at all from pay packets if the monthly income of their workers falls below the levels set out in the accompanying tables.

Changes to GST on cards?

P/D 23/3/88 320

CAPE TOWN — Certain changes to GST, possibly relating to the rate levied, may be introduced later this year prior to the replacement of GST by the new invoice-led VAT in 1989.

Any changes are to be incorporated in the Sales Tax Amendment Bill which, as is customary, will be tabled in Parliament later this year, according to the Minister of Finance, Mr Barend du Plessis.

Answering a question in the House of Assembly from the PFP's spokesman on finance, Mr Harry Schwarz, Mr Du Plessis refused to say what rate change, if any, was contemplated.

As indicated in his Budget last week, Mr Du Plessis again repeated that draft legislation providing for the introduction of VAT will be prepared and published for information and comment during the second half of the year.

It will be presented to Parliament in its final form early in 1989. — DDC

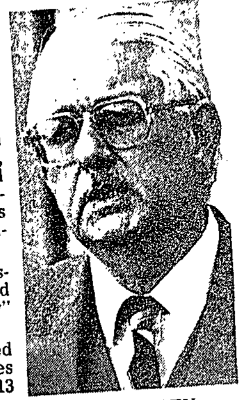
1 million blacks not attending school

D/D 23/3/88 81/82

Political Correspondent

CAPE TOWN — More than a million black children between the ages of seven and 16 were not attending school, the Minister of Education and Development Aid, Dr Gerrit Viljoen, said yesterday.

He stressed that his department was doing everything possible to reduce this figure.



DR VILJOEN

Dr Viljoen said pupils who were refused permission to register late for schools this year "did not really want to study".

In reply to a question from Mr Ken Andrew, (PFP Gardens), he said of 1 300 pupils who applied, one tenth was granted late registration.

Those refused permission to register should earn "pocket money" and enrol next year.

Mr Andrew asked what job opportunities were available for 13 and 14 year olds in the Cape Peninsula.

- From March 2 to 4, 5 310 pupils staged a stayaway at schools in the Cape Peninsula, Dr Viljoen said.

A pamphlet urging pupils to "sympathise" with late applicants refused admission, by maintaining three "days of concern", was interpreted as a stayaway call.

A counter-pamphlet pointing out the senselessness of stayaways was distributed by the Department of Education and Training.

On March 7, school attendance was virtually back to normal.

Since March 8, the average daily attendance had increased.— Sapa

DD 23/3/88

VAT may be introduced at current GST rate (320)

Daily Dispatch Correspondent

CAPE TOWN — Value added tax (VAT) could well be pitched at an initial flat rate of about 12 per cent, comparable to the current GST rate, when it is first introduced next year.

This rate will probably apply if the government spreads the VAT tax base to the extent suggested in its White Paper response to the Margo Commission's tax proposals.

This base would involve all goods and services, including the services provided by financial institutions — but will exclude medical services.

The Commissioner for Inland Revenue, Mr Clive Kingon, indicated that VAT could possibly be pitched at current GST levels if the government does eventually broaden the tax base to the extent proposed.

At this stage, he said, a final decision on the eventual VAT base to be introduced next year has yet to be made.

Only after further discussions with various interested parties to determine what problems the application of this new tax may pose, will any firm policy be made.

These taxpayer groups include specialised financial institutions such as insurers, building societies and banks; agriculture; the mining industry; exporters and importers; professional services; the TBVC countries; SWA-Namibia; and the Botswana-Lesotho-Swaziland countries.

According to statistics gathered by the Department of Finance and Central Economic Advisory Services, it was calculated that GST in its present form will probably yield about R12,5bn over 1988-89.

(370) B/day 23/3/88

5% rule undermines other rebates

Medical aid tax relief loss hurts earners

HELEN CHAPPEL

GOVERNMENT's scrapping of medical aid deductions significantly wipes out the benefits obtained from other concessions, Aiken and Peat partner Pat McGurk says.

In terms of the Budget, contributions for medical-aid schemes will only be tax deductable if they exceed 5% of taxable income.

Commenting on the effect of the scrapping, McGurk said that it "undermines the concessions granted through an increased primary rebate and threshhold level.

"An income-earner of about R80 000 a year will only be better off this year by R490 when compared with last year, despite the increased concessions — because he will lose on the deduction for medical-aid contributions."

McGurk said there was a need for clarity on whether the deduction for contributions in excess of 5% of taxable income was a full deduction — although this might encourage the taxpayer in a borderline case to spend an extra R100 to qualify for the whole deduction.

Discretion

"The scrapping of the deduction could encourage non-contributory medical-aid schemes where the employer bears the full cost of contributions. Discretion would be needed to check the rules permitting this however, so problems relating to fringe-benefits' tax do not arise."

Price Waterhouse partner Chris Frame said the scrapping was a retrogressive step from a social point of view, though the "fiscal reason" was in line with government's rationalisation policy towards allowances for private expenditure, as compared with those regarding income-generating activity.

"Essentially it would be nice if the money could be diverted to assist the poor and meet their medical expenses in a more direct way. Small sums are more important to the small earner and the relief formerly obtained was more vital to the smaller income group.

Concession

"The 5% concession will only assist the upper-income groups in extraordinary medical expenditure."

Representatives' Association of Medical Schemes (RAMS) executive director Rob Speedie said: "A substantial burden is already falling on employers to contribute to medical-aid schemes — they pay at least rand-for-rand in most schemes, up to R1,50 a R1 in others — and the scrapping of the deduction can only exacerbate the situation.

"It is difficult to quantify the effect but the man-in-the-street will most likely be hardest hit."

Speedie said as prices increased, contributors would more quickly approach the expenditure level of 5% of taxable income, and to this extent "it could be argued the allowance-level is encouraging cost-increases".

DID 23/3/88

Schwarz attacks logic of new company tax

320

CAPE TOWN — One of the causes of concern in the Budget was the ad hoc nature of the new taxes to be imposed, the Progressive Federal Party spokesman on finance, Mr Harry Schwarz, said.

He told the Institute of Credit Management of Southern Africa (Western Cape division), that the new taxes showed a degree of "hastily contrived" measures to improve cash flow.

The new minimum company tax was not based on logic in its present form and meant that even capital profits declared as dividend could result in an imposition of this tax.

"It's retrospectivity also is inconsistent with the normal canons of taxation," he said.

The new tax formula for insurance companies also did not appear to have been thought through carefully.

Mr Schwarz said looking at the Budget more carefully, one could ask what the so-called tax concessions really amounted to when set off against the increases.

He said the net situation of tax and excise duties (without including the national road and energy fund assets) amounted to only R175 million. If the benefits for non-residents were taken off, this would amount to R145 million.

"But, and here is the catch, revenue collections on personal income tax are budgetted to increase by R2,846 billion so the R145 million net reduction reduces this to R2,701 billion, that is Barend du Plessis is giving away only five per cent of the extra tax he anticipates collecting in the 1987/88 tax year. After all the great noises, 20 times extra will be collected than the so-called concessions," he said.

If the estimates of the GST collections were examined, it would appear that there was provision for an increase of R1 423 million.

Excise duty was expected to increase by another R205 million "so without other taxes which burden the individual, this is another R1,628 billion increase. Together with the net increase in income tax, the total is R4,329 billion extra to be collected in the coming year".

So much for tax concessions, he said.

The abolition of the medical expense rebate in certain circumstances would penalise the ordinary middle-class wage earner "and will certainly not affect those who have particularly attractive specially-tailored medical aid schemes". — Sapa.

Growing criticism . . .

Du Plessis says MTC temporary

CAPE TIMES 24/3/88

320

Own Correspondents

JOHANNESBURG. — Finance Minister Barend du Plessis yesterday responded to growing criticism over the new Minimum Tax on Companies (MTC) by saying the tax was temporary.

The tax, levied on companies not paying full tax but still paying dividends, has been described as impractical and imprecise by tax experts and the private sector.

It is understood that a number of financial groups, including large mining houses, had contacted Treasury asking for clarification on MTC.

Du Plessis said yesterday that MTC in its present form was intended as a temporary measure only.

In a statement released in Cape Town in response to the large number of "concerned" inquiries directed to his office from the private sector, Du Plessis restated comments in his Budget speech that MTC would be introduced as an income-generating cash-flow measure to tide the government over during its tax reform programme.

He said that as the implementation of this programme proceeded and other sources of revenue were developed the need for MTC would diminish.

While stressing the tax was a temporary impost only, Du Plessis refused to declare the tax may not again be reimposed at some later stage if the need arose.

Assocom is to go ahead with representations to government on MTC.

Chairman of Assocom's taxation committee Bob Wood said yesterday: "The business community does not have to accept the tax merely because it is temporary."

"It is completely different to what was envisaged in the Margo Commission's report," Wood said.

"Even if it is a one-off tax in the current financial year, it means in the next financial year the fiscus will have to find R350m from another source."

The Chamber of Mines is understood to be preparing a strong-worded representation to government.

Though the chamber did not wish to comment on the issue, sources said it was concerned about the potential harm that could be done to mining through the imposition of MTC.

"Uncertainty about the exact details of the tax regime must always be inhibiting. If MTC is indeed a one-off tax it shouldn't have any significant effect on new investment," says Anglo American group tax consultant Marius van Blerck.

"If there was a proposal for change for the better, the uncertainty would be more tolerable. But as it stands the industry has no clear idea what the tax situation regarding capital expenditure is going to be."

Price Waterhouse tax expert Chris Frame said the mining industry was already under pressure from declining grades and rising working costs.

"Our economy is at a cross-road in its effort to develop secondary industry. The foreign exchange earnings of the mining sector must be protected in order for this project to succeed."

Criticism of new tax growing

Du Plessis: MTC is only temporary

B/day 24/3/88

Business Day Reporters

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He said that as the implementation of that programme proceeded and other sources of revenue were developed, the need for MTC would diminish.

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Assocom is to go ahead with representations to government on MTC.

Assocom's taxation committee chairman Bob Wood said yesterday: "The business community does not have to accept the tax merely because it is temporary."

Describing the tax as "impractical and imprecise", he gave these objections to MTC:

- It is a tax on capital transactions and not on income;
- It is payable by firms entitled to tax allowances in terms of the Income Tax Act;
- It creates distortions in the economy by placing a greater burden on certain sectors of the economy compared with others.

Wood said: "It is completely different to what was envisaged in the Margo Commission's report.

"Even if it is a one-off tax during this financial year, it means during the next financial year the fiscus will have to find R350m from another source."

The Chamber of Mines is understood

● To Page 2

MTC is only temporary, says Du Plessis

● From Page 1

B/day 24/3/88

to be preparing a strong-worded representation to government. Though the chamber did not wish to comment on the issue, sources said it was concerned about the potential harm that could be done to mining through the imposition of MTC.

Tax experts said the White Paper released last week might lead to some uncertainty in the minds of local and foreign investors in the mining industry.

The new MTC could have the effect of harming the relative attractiveness of investment in mining companies for foreigners, particularly in view of the advantageous tax regime governing gold mining in Australia.

Anglo American group tax consultant Marius van Blerck said: "Uncertainty about the exact details of the tax regime must always be inhibiting. If MTC is indeed a one-off tax it shouldn't have any significant effect on new investment."

Company tax is only temporary says Du Plessis

D/P 24/3/88 (320)

CAPE TOWN — The new Minimum Company Tax (MCT) announced in the Budget is intended to be a temporary measure only in its present form, the Minister of Finance, Mr Barend du Plessis, said yesterday.

In response to the large number of "concerned" enquiries, Mr Du Plessis again restated comments made in his Budget speech that the MCT would be introduced as an "income-generating cash-flow measure" to tide the government over during its tax reform programme.

He said that as the implementation of this programme proceeds and other sources of revenue are developed the need for the MCT will diminish.

Mr Du Plessis set the MTC at a rate of 25 per cent of so much of the dividends declared by a company during the year of assessment as exceeded the sum of the normal tax paid for that year.

To ensure an income flow from this impost during 1988/89, companies are obliged to make a payment on the basis of figures for the past year of assessment — effectively making the tax a retrospective measure.

Mr Du Plessis said it was hoped that some R350 million will be collected in this manner over the next year.

The MCT has faced widespread criticism since it was announced last week.

The PFP spokesman on finance, Mr Harry Schwarz, described the tax as having no logic in its present form, stating that its retrospectivity was totally inconsistent with the normal canons of taxation.

He said it meant that even capital profits declared as a dividend can result in an imposition of the tax.

Tax specialists sectors of the business community have warned that the MCT could give impetus to disinvestment if applied indiscriminately. — DDC

320

TAX PLANNING

Barend opens another door

SA's "Big Eight" accounting firms are working around the clock on schemes to transfer the benefit of the abolition of the 10% non-resident tax on interest (NRTI) to dividends earned by foreign shareholders, still subject to 15% non-resident shareholders' tax (NRST). But there are serious constraints, not least forex controls.

The stakes are high. Budget estimates show that R360m is expected from NRST in 1988-1989. Double Tax Agreements (DTAs) effectively reduce rates foreigners actually pay and, assuming an actual 10% NRST against the official 15%, R3,6bn could go out this year as dividends.

Any scheme that converts dividend streams due to foreign shareholders into interest owed will earn high priority on investors' agendas and fortunes for accounting firms. The candidates most likely to benefit, given all the constraints, are foreign firms operating in SA which have high shareholders' funds relative to borrowings.

The scramble to find a way of converting dividend income into interest income has not gone unnoticed, with Finance Minister Barend du Plessis and Inland Revenue alerted. The other major official party involved is the Reserve Bank, which oversees flows of money to and from foreigners.

The main constraints to finding a perfect scheme, says Deloitte Haskins & Sells' Trevor McGlashan, include:

- □ The yet-to-be published legislation abolishing NRTI;
- □ The debt moratorium. If, somehow, foreign-owned equity is converted into loan capital, it could fall into another debt standstill net;
- □ Restrictions on the levels of borrowing allowed foreign-owned companies in SA;
- □ DTAs that have already been cancelled. For example, a US resident is liable to tax in the US on any earnings from SA, regardless of classification. Companies in tame tax havens can, however, be used as conduits;
- □ Sanctions-related moves. Again, for example, the US has virtually banned all "new" loans to SA; somehow converting a US resident's equity holding in SA to a loan-type scheme would simply not be allowed;
- □ The complications of converting foreign-owned equity (via the financial rand) into loan capital (via the more expensive commercial rand). This would raise eyebrows at the Reserve Bank and earn the investor constant future scrutiny by officials; and
- □ The limitation on foreign investment via the financial rand to certain equities and property. This leaves loans in the province of the more expensive commercial rand.

A foreign-owned company with high shareholders' funds and low borrowings could, conceivably, cash in on the abolition of NRTI. Where a company is 100% foreign-owned, borrowings may be only 50% of effective capital/shareholders' funds.

The latter, in turn, are defined as issued ordinary share capital; share premium; distributable reserves; and non-distributable reserves created out of profits. The definition also includes shareholders' loans/preference shares, if contributed or held pro rata by residents and non-residents to the ordinary shares.

If this proviso is complied with, a company falling within the definition has definite opportunities to change dividend to interest payments, capitalising on NRTI abolition. There is, of course, another constraint regarding dividends — those declared out of earnings with a capital element must be given Exchange Control approval.

Foreign holders of South African equities — who include many UK residents and ex-SA residents — have a far more difficult problem. On first analysis, they have little chance of switching dividend to interest earnings. They might be able to create a conduit South African company which would be given an option to buy the foreigner's dividends. The foreigner would lend the conduit money for the transaction, earning interest which the conduit earns from tax-free dividend receipts. But this structure would attract immediate attention at the Reserve Bank.

And, whereas Inland Revenue cannot supply information to the Bank, the restriction does not apply in reverse. Such a scheme would, in any event, be subject to many of the pitfalls mentioned earlier; for example, the still open-ended debt moratorium.

The NRTI-NRST scramble raises several points of broad tax policy. SA has no laws on "thin capitalisation" — shareholders' loans which really form part of permanent capital and are thus disguised equity.

Several countries restrict the amount of interest a company can pay out on "disqualified" shareholder loans. By imposing a debt-equity ratio, the excess payment is treated as a dividend. The Margo Commission did not recommend rules for thin capitalisation, which was accepted by the WP. But, in practice, Inland Revenue and the Bank are known to regulate thin capitalisation.

The other major point is that abolition of NRTI and not NRST violates the tax principle of neutrality — that similar things should be treated as similarly as possible.

The main reason given by Du Plessis for abolishing NRTI — that it raises a trifling R30m a year — conflicts with one of the Margo WP's main philosophies: that a recommendation should, wherever possible, be revenue neutral. Loss of revenue from abolition of one tax should be compensated for from an increased, or new, tax.

One result of not sticking to neutrality is fierce competition among the Big Eight to cash in on interest/dividend differentials. When NRTI legislation is finally revealed, we can expect a series of restrictions to combat schemes that arise. Their chance of success is about fifty-fifty. ■

CPI

Inflation anomaly

Inflation of only 13,7% in February is good news. And, with wage and salary increases to public servants held back this year, no administered price rises in the pipeline and plenty of moral suasion from various authorities aimed at keeping down both wages and prices, the outlook for the rest of the year is encouraging. Some even hope for a return to single-digit inflation.

Certainly, there is far less inflationary impetus than in December 1984, the last time the rate, as reflected in the consumer price index (CPI), was lower — 13,4%. The following month, the price of petrol increased by 40%, electricity increased by 10% and a whole range of prices leapfrogged over each other.

Not surprisingly, in January 1985, CPI rose to 13,9% and in February to 15,99%.

We have since become accustomed to double-digit inflation — in January 1986, CPI was over 20% — and can hardly believe our luck when we see the tempo slackening.

25/3/88

LIFE ASSURERS' TAX

The feathers fly

For years, succeeding Finance Ministers have lusted after a bigger share of the profits generated by the lucrative life assurance industry. Maybe it's all part of the Hoggenheimer complex — the theory that big is bad and thus a worthy target for punitive taxation. Whatever it may be, since his notorious "after-dinner speech" in 1985 — when he announced sweeping restrictions on company-owned life policies with a high investment content — Barend du Plessis has shown signs of acting on his impulses. He goes to it with a whim.

Not, of course, that he does so without encouragement from various quarters — including, of course, the building society movement. Pugnacious UBS CE Piet Badenhorst has bitterly attacked tax benefits enjoyed by the life offices. In his own after-dinner speech at *Business Day's* Business Achievement Award banquet in May last year, he described life assurers as the greatest threat to building societies today. Well he would, wouldn't he?

More important than lobbying from rival industries, however, has been support from Judge Cecil Margo for a change in the tax dispensation. In the report of his Commission of Inquiry into Tax Reform, he made various proposals which, overall, would have the effect of increasing the tax paid by life offices.

Among these was implementation of a new formula for deduction of expenses. Under the present system, assurers are taxed on only 40% of gross investment income, at the normal company rate of 50%, which means an effective 20%. Margo's proposed formula allows for deduction of actual expenses, including investment, administration and management expenses — but excluding selling expenses which constitute the biggest component of total expenses.

Accountants calculate that under this system, the proportion of taxable income could be as high as 95%.

However, the impact would be neutralised by significant forms of relief. For instance, acceptance of Margo's proposal that all dividend income be tax-free would substantially benefit life offices. The extent to which this would offset the new expenses formula would depend on the type of business done by individual life offices.

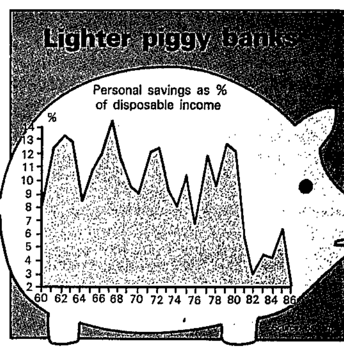
Meanwhile, in presenting his Budget for 1988-1989, Du Plessis increased the proportion of taxable income from 40% to 70%, putting the effective tax rate at 35% — for years of assessment ending between April 1 1988 and March 31 1989. And, so far, there is no relief on dividend receipts.

Increasing taxation on the life assurers feeds through to policyholders and the ability of the nation as a whole to save in the face of continued double-digit inflation. As with Minimum Company Tax (see page 38), the cut of Barend's latest Budget proposals in this sphere may simply have the effect of cutting economic growth — and at little gain for the fiscus.

The immediate effect is that instead of an estimated R270m for a full year, life assurers will now pay an additional R202m. Moreover, policyholders have lost the benefit of premium rebates amounting to about R140m. So they will bear an additional tax load of R342m — an amount which is less than 1% of total revenue to the Receiver.

Moreover, says Sanlam's George Rudman: "The effective 35% is higher than the tax rate paid by most policyholders."

So who benefits from this new dispensation?



Theoretically, the taxpayer does — or at least the uninsured taxpayer. However, since it is impossible to calculate what might have been, it could be that the fiscus has simply absorbed the additional income. If so, the money could have been more constructively raised by taxing liquor and tobacco. If Barend needs the money that badly, why not another few cents on beer and 'baccy? Nigel Lawson in the UK went that route.

Again, other financial institutions may benefit.

Building societies and banks have been unable to compete with life offices for the savings of the nation, mainly because of a soaring inflation rate which steadily erodes traditional savings deposits. And to compound distortions created by inflation, the tax dispensation has favoured life policies. The result is that 75% of liabilities to households are now with life assurers and pension funds. The other institutions would understandably like to see a dramatic reversal of this trend and hope the change in the tax law will start the process.

Who loses?

Life offices, obviously. But it must be remembered that they are taxed only on business *other* than pensions and retirement annuities — as the proceeds of these are taxed in the hands of the investors — which contributes about 70% of total income. Only 30% is at issue. In 1986, the industry paid tax of R236m, less than 1,8% of total income of R12,9bn.

Assurers would argue that to calculate their tax payments as a proportion of income in this way is not valid — because total income includes investments into non-taxable vehicles; and because it includes premium income (savings). But whatever the validity of the calculation it nevertheless establishes that the sum involved is relatively small in terms of life office income.

Policyholders, of course, will be seriously disadvantaged. Already their investments are taxed several times. Firstly savings come from after-tax income; secondly investment incomes earned on savings are taxed; and indirectly returns are taxed again in that life offices have to invest in prescribed assets.

Certainly they will eventually be considerably poorer. People who — having had both earning power and ordinary savings devalued over the years — were relying on endowment policies to supplement future income will see their projected returns depressingly diminished. An initial investment of R25 000, over a period of 10 years, will have a projected return of R80 000-R83 000 instead of the expected R95 000.

The original projection was based on an average annual return of 15% to the policyholder, which requires at least 18% return to the company. Now a return of more than 20% is needed to maintain the validity of that projection.

But the most serious casualty of the new system may be the savings of the nation itself. Whether investors, deprived of some of the tax benefits implicit in life policies, will now redirect their funds to other institutions remains to be seen. Rather than see their savings wash away like a bar of soap in a bathtub, they may prefer to put their money into hard assets or high living.

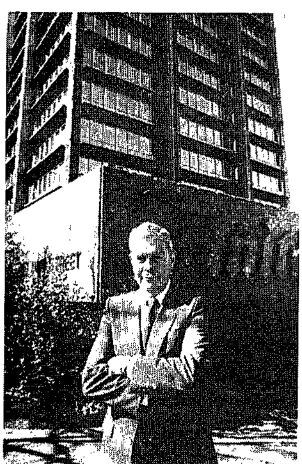
For SA, deprived of its sources of foreign capital, this by-product of the new arrangement would have serious consequences.

Personnel savings are already at historic lows. Sanlam economist Pieter Calitz points out that as a percentage of personal disposable income, savings plunged from an average of 10% between 1960 and 1980 to as low as 2% in 1986 when only R1,8bn of personal disposable income of R79,2bn was saved. By the third quarter of 1987, seasonally adjusted annualised savings were slightly up — to 3,5% — with savings at R3,4bn and personal disposable income at R98,2bn.

By way of comparison, in 1986 contractual savings via life assurance and pension funds stood at R15,8bn. (This is a component of the R1,8bn personal savings but the latter is a net figure which includes dissavings, withdrawals — hence the apparent anomaly.) And the relative importance of savings in life instruments is clear.

So perhaps, if the playing fields are to be levelled, it should not be at the expense of the nation's savers — a point made repeatedly by the Life Offices Association (LOA) in both oral testimony and 160 pages of evidence to the Margo Commission.

The real enemies of deposit-taking institutions are not life offices but inflation and over-regulation. LOA chairman Mike Levett suggests that the relative disadvantage of building societies in recent years has nothing to do with tax: "Their industry is simply over-regulated. They have to invest 80% of their assets in mortgage bonds which means they can't offer depositors a competitve return after inflation. Though one solution to their problem may be to regulate the life industry to the point where it can also not offer a positive after-inflation return, it would obviously be preferable to deregulate building societies."



UBS's Badenhorst ... tilting at 'unfair' financial advantage

Association of Building Societies chairman Bob Tucker does not disagree: "We would push for a functional rather than an institutional approach."

This would mean, for instance, that any type of one-year investment would be fully taxable while any 10-year investment is tax-free — an approach favoured by the life offices as well, says Lifegro's Chris Cunningham-Moorat. "Opening up financial servicing would be more constructive than having everyone fighting to defend their own piece of territory."

Another area of agreement is that the tax system should be equitable. The fundamental disagreement is over *what* is equitable.

Tucker sees the latest tax change as a step in the right direction.

Punitive policy

Life assurers who saw the proportion of taxable income increased from 30% to 40% in 1982 and from 40% to 70% in 1987 (and who fear further measures in the form of capital gains tax on sale of shares) see it as punitive.

"This is a highly emotional debate," says Deloitte Haskins & Sells Willem Cronjé, an adviser to the Margo Commission.

He provides a new perspective: "The tax shelter built into this type of investment has created an arbitrage situation, where people have been borrowing money to buy insurance policies. This creates distortions and, as a move towards eliminating the arbitrage opportunities, the reduction in tax benefits is positive."

However, to redress the balance, he would favour non-taxation of dividends which would provide relief and he is opposed to the introduction of a tax on assurers' capital gains, "as these are largely a reflection of inflation."

Cronjé also highlights an issue rarely raised: the need for different tax treatment for mutual and corporate insurers.

"Corporate insurers pay dividends to shareholders without paying tax on the transfer. And 70% of these profits are derived from pension and retirement annuity business — which is tax-free. This has never been aired. It is glaring by its omission."

The subject is layered with complexities. But despite their technical nature, they are of concern to everyone who contributes to or benefits from government expenditure; to anyone who has given up on money as a store of value and invested in insurance policies; and to workers whose jobs are generated by capital investment derived from savings. That means the nation.

The real villain of the piece is obviously

Tax expert Cronjé ... ironing out arbitrage

inflation. As long as it is out of control it will continue to distort the rhythm of our economic life. Economic stability and not more taxation will restore harmony.

It should be noted that economic *instability* is the ultimate product of inefficient government — and so is more taxation, which feeds into the spiral. Welcome as the thrust of Du Plessis' Budget may have been on deregulation and privatisation and on curbing State spending, it is disquieting that what amounts so ill-conceived revenue garnishees have the ability to rock the already troubled financial institutions. Remember the Granny Bonds fiasco? Is the attack on the assurers destined for a similar fate? If so, the credibility of government's entire economic and financial strategy is under fire. ■

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A LAST-MINUTE TAX?

Given the enormous scope of work covered by the Margo Commission, it's not surprising to find a few inconsistencies in Government's White Paper (WP). But it's a little disturbing to find diametrically opposed statements on MTC in different parts of the WP.

The implication is that, just as Margo appeared to dive at Comprehensive Business Tax as a last-minute plug for all the concessions recommended, so Pretoria opted for MTC at the 11th hour.

Margo recommended that a "minimum tax should be considered for all companies that declare dividends." In division 7.5 of the WP, we find: "The government agrees with this proposal . . . **and supports a minimum tax of this kind . . .**"

But, in another section (chapter 10.121), the WP says: "It is not considered that a further investigation is necessary as it is not felt advisable to introduce a minimum tax." The *FM* understands that the statement accepting MTC was inserted just before tabling of the WP on March 16, leaving the earlier rejection intact in the other half of the WP.

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for some corporations to report large earnings and pay significant dividends to their shareholders, yet pay little or no taxes on that income to the government."

Why introduce MTC when it will make the removal of concessions — the root cause of the problem — more difficult? The doubtful principle in MTC is contained in the dictum that an entity should pay a certain minimum rate of tax regardless of how efficiently it utilises legitimate tax concessions.

MTC, while violating the general principle of neutrality, at least hits each company at the same nominal rate.

There may be some political comfort in that for those who are either ignorant of economics or uphold collectivist solutions. The Conservative Party, for one, has been quick to point out that certain companies do not appear to be shouldering their fair share of the tax burden. The illusion now is that to some degree this inequity has been redressed.

Those affected will be relieved that Du Plessis is applying a 25% rate, rather than the 50% suggested by Margo — albeit on a slightly different base. And there is the point, which no doubt Pretoria will use to justify MTC, that it "would not be designed to raise more tax in the long run, but to counter unreasonable deferral of tax."

Put another way, the nominal 25% MTC rate could be lower, depending on how a company times its investment and dividend decisions. These will, like human nature, never be the same from company to company. Some indication is that in 1984-1985 (latest), 28% more company tax would have been paid were it not for deductions for certain qualifying spending.

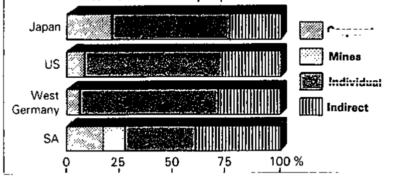
The most important deductions reducing company tax in 1984-1985 were machinery investment allowance, machinery initial allowance (now abolished), exporters' allowance, training allowance, and industrial building investment allowance. A company with a perfect mixture of these allowances — and there are many — would have paid no tax.

Seen in its macroeconomic context, MTC, as a minimum tax, is based on the sensible and widely accepted philosophy that the tax authorities should attempt to tax off a broad base. By placing a limit on the amount of tax deductions a company or individual can claim in any year, those with the most effective tax planning do not undermine the general acceptability of the tax system.

This is all very laudable — but nobody is likely to be satisfied that the MTC formula is anywhere near satisfactory. A minimum tax is normally designed to be a percentage of taxable income before special deductions; or as a percentage of the deductions themselves — the "excise" minimum tax.

SA stands out

International tax proportions 1985



The *FM* is not satisfied that MTC meets the three specific minimum tax requirements raised by Margo, that:

- ☐ Administrative work is not increased;
- ☐ Complex rules are not needed to decide whether an expense incurred ranks as a deduction of minimum tax purposes; and (to repeat)
- ☐ The rationale for eliminating tax allowances — the root of the problem — is not weakened.

Finally, we note that in the UK a very similar tax to MTC, the much-maligned Advance Corporation Tax, has led to accumulated legislation several inches thick. The same could happen here.

On its current formula, MTC is almost certain to be a one-off tax. The justified complaints that will predate its payment on September 30 will, if they are considered, solve some of the problems before legislation is drafted. But the main objection will remain. Certainly, if precedent is anything to rely on, the South African taxing authorities are loth to abolish a tax. So it could be that MTC is converted into a more refined form — rather like GST into VAT — to alter the perceptions of who is paying.

But the unpleasant taste remains — that this new tax is partly a political sop to the rightwing and the unions, as it bashes big business. Clearly it is intended to finance the personal tax concessions (taking from Peter to pay Paul). In its present form, we doubt that it contributes either to the process of rational tax reform or enhances economic growth, which would ultimately be to the greater benefit of all. ■

MTC AND THE JSE

More for the bears

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Certain mining companies look to be prime targets for the new minimum tax on companies — and that could affect foreign confidence in these stocks. Taking in Sappi and other industrial concerns, Barend du Plessis' tax take should soon exceed his ambitions.

The imposition of the minimum tax on companies (MTC) could further dampen investor sentiment on the JSE. Which companies will be affected and the impact on cash flows, dividends and share prices, will depend greatly on any exclusions or other provisions eventually included in the supporting legislation.

But on the strength of the simple and sweeping formula outlined by Finance Minister Barend du Plessis in the Budget, all types of companies could be affected.

Unless the authorities adopt a more cautious and discriminating approach and publish exclusions in the MTC legislation, certain share prices could get hammered. This will apply particularly to certain mining companies. Because of the pressure that the MTC could apply to some gold producers' dividend potential, there is even a risk of renewed selling by overseas investors.

By no means all companies will be involved. An initial examination of the latest annual accounts suggest that about 30 companies listed in the JSE industrial sector will be liable for MTC payments this year. For many of these, immediate MTC liabilities may not be all that large — although it should be borne in mind that payments will have to be funded either from borrowings or from the current year's cash flow, which is

-ver fully predictable.

But, apart from the listed industrial com-anies, there could be harsher implications for those in the financial and mining sectors, particularly certain gold producers.

Implications are harsher for gold mining companies because they generally have little or no flexibility to handle a retroactive tax such as this. Like others liable for MTC in the current year, they are locked into specific MTC liabilities which will be based on dividends already declared and on tax already paid or assessed. South African gold mines traditionally pay out to shareholders all earnings remaining after capital expenditure and taxation and lease payments.

This means that two types of gold mines are particularly vulnerable: new ones which are not yet liable for tax payments and those which have large capital spending programmes and which are, therefore, paying low tax rates — often because of their capital commitments. The South African formula for gold mining taxation allows all forms of capital spending to be expensed currently against lease and corporate tax payments.

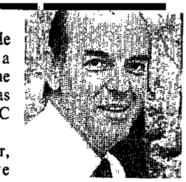
Because of capital and investment allowances, Elandsrand and Deelkraal, two fairly new gold producers, are not yet in a tax-paying position but are already making good profits and are paying substantial dividends. As things stand, both could now pay considerably lower dividends this year than would have been the case without MTC.

In its year to end-December 1987, Elandsrand paid a dividend of 95c a share for a total outlay of R91,8m, yet its tax and lease payment was only R3,3m; the dividend, therefore, exceeded the latter by R88,5m, which implies a current MTC outlay of R22,1m. This will have to come out of profits made in the 1988 financial year and cannot but curb the dividend potential for this year. Deelkraal, in its year to end-June 1987, paid dividends of R64,7m and only made a provision for R4,3m in non-mining tax; 25% of the difference suggests an MTC liability of R15m.

Developing mines that have not yet started production would not be liable until dividend payments start. But, if the principle spelt out in the Budget remains in force, the forecast dividends — and possibly their payment dates — of mines such as Joel and Oryx may no longer be met. For Joel, this means that the dividend projections and present value calculations made by analysts and professional investors must become questionable.

For Oryx, which comes to the market via a rights offer next month, the proposed financing details may have to be re-examined. In both cases, there may also be implications for the share prices. Similar problems would presumably apply to the developing platinum producers such as Lefkochrysos.

The effects of MTC could be particularly harsh for marginal and expanding gold mines, which are obliged to invest heavily and whose cash flow and dividends are closely linked to rand gold prices and operating costs. In its year to end-June 1987, Harmony, a relatively low grade and high cost producer, paid a dividend of R57,8m while the tax and lease payment was R6,6m; this indicates a MTC liability of R12,8m.


Van As

Earlier this month, however, Harmony chairman Clive Knobbs announced that the mine had passed its final dividend for the June 1988 year, owing to grade and production problems over the past six months. Knobbs was optimistic that the grade and tonnage would improve during the current half, but, clearly, the mine has less cash available this year. It must, nevertheless, find the funds to pay a tax based on dividends paid last year.

Two other low grade mines which, by necessity, are big spenders and have recently had relatively low tax payments are Randfontein and Anglo's mega-mine, Freegold. On the basis of June 1987 year taxes and dividends, Randfontein is in for some R8m MTC — equivalent to about 130c per Randfontein share or 7,4% of last year's dividend — while Freegold in its September 1987 year paid R360,2m in dividends and R230m in tax, indicating a MTC liability of some R32,6m. Freegold has a large capital programme, which last year absorbed some R548m and the mine could be expected to benefit from investment allowances.


McKenzie

On the financial board, the major banking groups may see cash flow squeezed in some of the companies they control, rather than in the numbers that show up in the consolidated accounts. However, these groups have considerable flexibility to fund the MTC payments and these are not expected to represent any major problems.

First National Bank senior GM Jimmy McKenzie says that FNB will be required to make a minor payment this year and there will be an effect on cash flow. "We are looking into what it will mean for next year and how we can respond to it," he says. "There must be a lot creative thinking going on and I expect there will be a lot of lobbying." Nedbank GM John Bunting says his group also expects to be liable for MTC this year, although the cost of funding the amount would not be significant, relative to the overall figures and there is no question of any constraints on dividends.

The general impact on the JSE industrial sector should be limited as relatively few companies are involved. Even so, examination of the latest available accounts for the current year has thrown up a number of shocks. The most obvious target among listed industrials is Sappi, which, owing to a combination of investment and export allowances and assessed tax losses, is currently paying no tax, yet declared large dividends on its ordinary and deferred ordinary shares in the year to end-December 1987.


Knobbs

Based simply on Sappi's 1987 total dividend declaration of some R85m, it is liable for MTC this year of well over R20m. Unless some exclusions are announced later, such as export allowances, there appears to be little that Sappi can do to avoid this sudden and unplanned-for demand on its cash flow during the 1988 financial year.

With the preferred ordinary shares due to be converted to ordinaries from the beginning of 1988, it is doubtful that the board would want to curb dividends this year, but there would be higher financing costs. Sappi financial director Bill Hewitt says that the group will probably make representations to the authorities jointly with others in the industry. Analysts believe it was just such extreme cases as Sappi that Du Plessis saw as the prime objective of the MTC tax. Whether the authorities appreciated the range of companies which could be sucked in by such a sweeping announcement must be a moot point. Ask MD Eugene van As.

Yet if Sappi seems the hardest hit of listed companies, the record for this year will probably be set by Sasol 3, which is owned 50% by the listed Sasol with the rest owned by government. On its 1987 figures, Sasol 3 is in for a payment of R37,5m; it paid a dividend of R150m on pre-tax profit of R175,6m and paid only deferred tax. Its dividend cover was less than 1:1 because profits had fallen sharply, but cash was available since the stage some years ago when dividend cover was as high as nine times.

Whether the MTC will affect Sasol 3's dividend declaration this year — and income accruing to Sasol — will depend on its current profitability (unlikely to be improved in view of the recent oil price) and on remaining cash reserves after capital expanditure.

A number of other substantial MTC payments look probable for industrial groups. Prominent among the rest are CMI, the Kersaf group companies, Safren, Pep Stores, Robor and Kohler. More than a dozen other smaller companies would also be included, but for less significant amounts. There are also other unlisted companies owned by listed groups, such as Amic's Mondi and, probably, Barlow's Middelburg Steel.

Once the mining sector is included, it seems that Du Plessis' estimated figure of R350m could be reached very quickly. It will all make a mockery of financial planning.

Andrew McNulty

PENSIONS

320 FM

Heading for a storm

Government appears to be heading into another serious political storm following disclosures that coloureds — and possibly blacks and Indians as well — are to get increased social pensions, while whites are not. Coloureds will get R12 a month more — an increase of less than 10% — and Indians and blacks are expected to get similar amounts, although officials were unable to confirm this before the *FM* went to press.

The increases are aimed at further narrowing the gap between white pensions and those paid to coloureds, Indians and blacks, which is in line with government's commitment to achieving pension parity. The increases will not require additional money to be voted by parliament and will come from allocations to the provinces, in the case of blacks, and to the coloured and Indian "own affairs" administrations.

25/3/88

Finance Minister Barend du Plessis was quoted in the Cape Nat mouthpiece *Die Burger* this week as saying "own affairs" administrations were free to increase pensions if they wished, but this meant that less money would be available for other "own affairs" functions. It seems that the same reasoning could apply to the provincial allocations.

Nevertheless, the issue has given the Conservative Party useful ammunition to use against the NP in the final days before the Randfontein by-election. ■

TAX REFORM 320

Pretoria's limits

As Wits economist (and consultant to Econometrix) Mark Addleson sees it, Pretoria faces a taxing problem. Government keeps on spending and spending, but most South Africans can't afford to pick up the tab.

"We don't have the economic growth or a wide enough tax base to support constantly rising government expenditure," Addleson warned at a Budget seminar last week.

The problem is of Pretoria's own making. For decades, it kept blacks out of the economic mainstream through laws restricting their right to seek jobs, own land and open businesses. Then it built an expensive bureaucracy with such notable features as 16 education departments. Now it faces a low-growth economy and largely impoverished population.

Addleson says it's estimated that the top 20% of income earners earn 60% of income and the bottom 40% earn 7%.

So where can government turn for more revenue? It can continue to hit the same small group of companies and individuals with increasingly higher taxes. But that can anger white voters, encourage emigration, price products out of foreign markets, discourage foreign investment and grind down the productive sector.

Wits's Addleson ... can't afford the tab

Such steps as closing loopholes and imposing a minimum corporate tax put a heavier burden on those who already bear most of the burden, he says.

On the other hand, government can try to throw its tax net wider. It's doing that by switching from GST to value-added tax (VAT). The idea is to collect tax from those who evade GST, such as many in the informal sector. But poor people don't make a very good tax base, Addleson says. "One reason the informal sector does not pay GST is because most of that market cannot afford to do so. When the poor pay tax, they literally have less food to live on."

The disenfranchised don't make a very good tax base, either. As inflation pushes more black workers onto the income tax roll, Pretoria gains a little money (see table) and a lot of headaches. "Taxation without representation is a fundamental issue. More and more blacks pay taxes to the central government directly from their income without any say in how taxes are spent or raised," says Addleson.

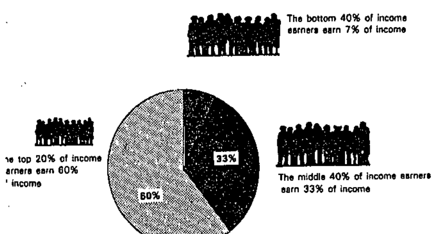
The problem, in short, is that "the tax base is narrow because the distribution of income is very unequal."

The solution? "Economic growth. Red tape has impoverished blacks and they will benefit most when it's removed. We should then see the rise of a substantial middle class.

"Broad taxes make sense when you have a broad tax base that can afford them. In the meantime, government must reduce spending and stop trying to squeeze more revenue out of the economy," Addleson argues. A R54bn Budget is too high. "If they want to streamline the tax system to improve incentives and boost productivity, the only way is to reduce government spending."

A taxing problem

The unequal income distribution and small tax base



INCOME TAX BY RACE

	% of taxpayers 85/86	86/87	% of taxes paid 85/86	86/87
White, Coloured and Asian	93,6	77,9	98,7	96,3
Blacks	6,4	22,1	1,3	3,7
Total	100,0	100,0	100,0	100,0

Source: Econometrix

FM 25/3/88

28/3/88 320 FM

CLOSE CORPORATIONS

CCs to pay 45%

The Margo Commission's recommendation, that Close Corporations (CCs) pay the top personal marginal rate, has been accepted in government's White Paper.

Removal of this anomaly, which frustrated taxpayers and tax planners alike, means CCs will pay 45% rather than the official company rate of 50%.

The current system of taxing CCs at 50% means a taxpayer saves by conducting business other than through a CC — say, through a partnership, *inter vivos* trust, sole proprietorship or one of many hybrid business vehicles.

While there were advantages in converting from a company to a CC, start-up CCs made little sense for tax reasons, despite the many practical advantages.

The acceptance of Margo on the CC tax rate is an example of a coming change to remove an anomaly that should never have been there in the first place. ■

(320)

PM 25/3/88

NCR LOSES CASE

In the Appellate Division (AD), Mr Justice M M Corbett, who has given many judgments on tax matters, has reversed a finding in the Witwatersrand Local Division, by Mr Justice H Daniels that NCR was entitled to interest on taxes overpaid.

Saying that "the appeal concerned the proper interpretation of Section 88 of the Income Tax Act," after analysing the section the judge held that NCR was not entitled to be paid interest on any refunds of tax received by it. The diametrically opposed findings are interesting if only because Section 88 is more of an administrative than a taxing section of the Act.

While the judiciary has played little part in interpreting tax law, this case may be evidence of change. In judgments in the Louw, De Beer and (especially) Nemojim cases, the AD adapted clear and unambiguous provisions in the Act.

Lawyers, in particular, are asking if the AD has departed from the traditional approach, embodied in tax law in the precept *contra fiscum*; that in case of doubt, the taxpayer should be favoured. While it remains unclear whether the principle applied in NCR's case, the finding is a little disturbing.

Judge Corbett gave some hints about his way of thinking in Nemojim when he said: "It has been said that 'there is no equity about a tax.' While this may in many instances be a relevant guiding principle in the interpretation of fiscal legislation, there is nevertheless a measure of satisfaction to be gained from a result which seems equitable, both from the point of view of the taxpayer and from the point of view of the fiscus. And it may be fairly inferred that such a result is in conformity with the intention of the legislature."

TAX STRATEGY (320)

Difficult times

Are tax-related products the way to maintaining profitability in the corporate banking sector? Senior bankers seem to think so, particularly in the uncertain atmosphere generated by the Margo Commission.

With dull profit margins on interest rate spreads and increasing inter-company lending (disintermediation), bankers can't remember it being so difficult to find new business at reasonable margins.

Indeed, bankers feel that SA is over banked and its banking sector overstaffed. Increasing competition from building societies and life assurers has not helped. They're attracting more money than ever before and making continual inroads.

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Then there are the professionals. In 1986, Arthur Andersen reported that, for the first time, auditing fees comprised less than 50% of global income. Management advisory services and taxation were the bulk.

Everyone handling money — or anything near it — is threatening bankers. Even credit cards issued by some retailers are seen as a tool to deprive bankers of their time-old source of income, the difference between depositors' and lenders' interest rates.

Banks' main initial advantage in risk-management — pooled knowledge — is being eroded daily by advances in computer technology. Ironically, perhaps, corporate disintermediation often takes place through electronic networks established by banks for other reasons.

So it is that, increasingly, bankers see their future more in marketing service than in offering the "sharpest rate." And that's where, particularly now, bankers see an edge in tax-related products.

Sure, they say, auditing firms have an established client base to whom they can peddle new tax products. But banks can do all that plus one — provide funds.

Still, that's not seen as the final point. There has to be some kind of completion of the process of educating clients about the more arcane tools used in financial analysis.

Terms that have long been the catch words of organising finance, such as internal rates of return and discounted cash flows, are used more widely by the day. Clients ask and compare such rates as loyalties continually dilute.

Given SA's accounting disclosure levels, tax advantages through the leasing mechanism that stay off balance sheet could help bankers to return to the halcyon days. ■

320 Bday 25/3/88.

MTC could be disastrous

HELEN CHAPPEL

THE Minimum Tax on Companies (MTC) might prove disastrous for dormant shell companies which have been stripped of their assets through dividend payments.

Tax experts say the liability of these companies to pay MTC is yet another indication that MTC is ill thought-out and needs a great deal more definition.

Ernst and Whinney partner Chris Hassall highlighted the problem which would arise from dividend-stripped companies.

"These companies are not excluded from the MTC and have no reserves to pay the tax," he said. He criticised the retrospectivity of the tax which would upset capital expenditure budgeting, where dividends were paid before year-end.

MONEY AND YOUR LIFE

Martin Spring

Pros and cons of Standard Income Tax for Employees

W/C ARGUS 26/3/88 (32)

ON the tax front one of the most interesting developments is the introduction of a final deduction system for low-income earners. It is to be known as SITE (Standard Income Tax for Employees).

Almost everybody who receives a pay packet will be subject to SITE, which will operate exactly like PAYE. If you earn more than R1000 a month, or if you are a married woman earning no more than R1 667 a month, you will be subject to SITE deductions only.

If you earn more, you will continue to pay PAYE in addition to SITE, although the two deductions together will be roughly the same as the old PAYE deduction.

SITE offers three major advantages and one disadvantage.

The first advantage is that anyone paying SITE but no PAYE — because he or she is below the specified limits — will, after deduction of SITE before receiving his or her pay packet, no longer have to worry about paying any more income tax through later assessment. That's why it's called a FINAL deduction system.

The second advantage is that married women earning below the specified limit will no longer have to worry about their husbands' receiving demands for additional tax in respect of their earnings.

SITE is a final discharge of their income tax liability in respect of their earnings (but not, be it noted, in respect of other income such as interest on a savings account).

Even better, they no longer have to disclose their earnings to their husbands, which in the past has been unavoidable because of husbands' obligation to report both their and their wives' incomes.

Of all working married women, 83 percent fall under the R1667 a month ceiling.

The third advantage is that all of them, and all other registered income tax payers — one-third of the total — falling under the R1000 a month ceiling, will no longer have to complete annual tax returns, the notorious "buff forms".

The disadvantage

The disadvantage? If you over-pay site, you will not be able to get a refund. So it is going to be very important that your employer gets his calculations right when making SITE deductions from your pay.

SITE deductions for taxpayers other than married women will be sufficient to cover normal income tax liability based on the new tax rates announced in the Budget.

If you are a man or an unmarried woman and your pay exceeds the SITE limit, you will still have to make an annual tax return. SITE and PAYE deductions will count as credits against your eventual tax liability for the year.

If you are a married woman and your pay is above the SITE limit, you will be in a similar situation except that you will not be able to keep your earnings a private matter, as your total earnings will have to be aggregated with your husband's in the same way as under the old system.

However, two tax exemptions now apply. The first is the old allowance of 22,5 percent of your earned income. What is left after deducting this is called your net income.

The second exemption is more difficult to calculate. You have to apply the following formula: The lesser of 20 percent of combined husband and wife income, minus 35 percent of the wife's income (in both cases only the wife's net income is taken into account) or R5000.

The effect of this is to give an additional exemption to most wives of R5000 a year.

Everyone will be affected differently according to income level and the relationship of husband's and wife's incomes, but overall there will be significant tax savings . . . except for the forgotten wives.

Who are they? They are wives who work in association with their husbands — for example, the wife who helps run the office for her husband's business or the reception room for her husband's professional practice.

They get no tax concessions at all. Their incomes are taxed in their husbands' hands at the marginal rate applying to their combined incomes.

On the whole, SITE is a considerable improvement in our tax system, and one offering particular benefits for working married women.

● Martin Spring is editor of Personal Finance Newsletter.

D/D 28/3/88 (320)

New format for tax returns

EAST LONDON — The office of the Commissioner of Inland Revenue has introduced a new format tax return in an attempt to alleviate the pressure on its mailing department, a spokesman at the Department of Finance said yesterday.

Selected taxpayers would be receiving their tax returns in a new computerised envelope.

The envelope came with illustrated instructions on how to open it without destroying that part which was to be used to return the completed tax form to the Receiver.

The taxpayers selected for this "taxing" challenge are those who receive their income from a source other than a fixed salary cheque, or who receive additional income on top of their fixed wage or salary.

Such people used their initiative to generate their income and so were more likely to take the time to follow the printed instructions when opening the new envelope than was the ordinary salaried person, the spokesman said.

And for those who enjoy a challenge: the new format required that the tax return and the accompanying brochure be sent in two separate envelopes. This was necessary because of "technical problems" relating to the mailing machine used, the department said.

The advantage of the new format was that it was much quicker and cheaper to distribute. The mailing machine for the old format tax return required 6 or 7 persons to operate it.

This meant that staff had to be borrowed from other sections.

The machine used to prepare the new format tax return required only one assistant. It could also complete the task in a fraction of the time taken by the old system.

The cost of posting two separate new format envelopes would only be "slightly higher" than the cost of postng one old format envelope, as the new format was lighter in weight.

The saving in time and manpower more than compensated for the extra postage costs, the spokesman said.

D/D 29/3/88

Tax thresholds increased

(320)

Daily Dispatch Correspondent

CAPE TOWN — The thresholds at which taxpayers become liable for tax has been increased and are in force with immediate effect.

The move is a direct result of the slightly reduced rates of income tax and increased primary rebates announced by the Minister of Finance, Mr Barend du Plessis, in his Budget.

According to a statement released in Cape Town yesterday by the Commissioner for Inland Revenue, new tax deduction tables giving effect to these changes are to be published shortly in the Government Gazette.

Meanwhile, Inland Revenue has issued the accompanying schedule setting out the new thresholds for each category of employee.

In yesterday's statement, Inland Revenue notes that in terms of the employees tax deduction tables still currently in use, employees tax would normally be deductible from the remuneration of those employees whose incomes are below the revised thresholds.

In order to correct this situation, bringing it in line with the new order, the Commissioner for Inland Revenue has also ruled that employers should not withhold tax if an employee's remuneration is below the new threshold.

D/D 30/3/88

Insurance tax hike slated

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CAPE TOWN — The government has been requested by the joint Parliamentary Standing Committee on Finance to investigate further the implications of imposing a 70 per cent tax on insurance companies.

This request has come after the standing committee had heard evidence from a number of organisations that the increase in the tax formula to 70 per cent was undesirable.

The standing committee also said it believed it was important that an acceptable long-term basis of taxation for insurance companies should be implemented as soon as possible and expressed its reservations over the minimum company tax (MCT) announced in the Budget. — DDC

D/D 30/3/88

(5) whether any wards in State hospitals are overcrowded; if so, (a) in which specified hospitals and (b) to what extent?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) No. Hospital facilites are provided according to the wishes and needs of the community.

(2) No; see (1)

(3) No. A committee is at present busy with an investigation into the utilisation of empty spaces in State hospitals. The committee's report will be studied and further action will be planned accordingly.

(a), (b) and (c) Fall away.

(4) Yes.

(a) and (b) The information is not readily available.

(5) Yes.

(a) and (b) The information is not readily available.

Section 50, Internal Security Act: detainees

423. Mrs H SUZMAN asked the Minister of Law and Order:

(a) How many persons were detained in 1987 in terms of section 50 of the Internal Security Act, No 74 of 1982, and (b) for what period was each detained before being released?

The MINISTER OF LAW AND ORDER:

(a) None.

(b) Falls away.

Black school pupils: *per capita* expenditure

509. Mr R M BURROWS asked the Minister of Education and Development Aid:

What was the *per capita* expenditure, (a) including and (b) excluding expenditure of a capital nature, on Black school pupils in the 1987/88 financial year?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

	1987/88		1986/87
(a)	R560,50	(a)	R476,95
(b)	R466,79	(b)	R368,56

*Note: These figures are based on projections as the Department's books for 1987/88 have not yet been closed.

Persons employed by SAP

521. Mr C J DERBY-LEWIS asked the Minsiter of Law and Order:

How many Whites, Coloureds, Indians and Blacks, respectively were employed by the South African Police in each of the latest specified five financial years for which figures are available?

The MINISTER OF LAW AND ORDER:

I do not consider it to be in the public interest or the interest of the country to furnish this information.

Administration of estate duty tax: cost

524. Mr C J DERBY-LEWIS askeed the Minister of Finance:

(a) What was the cost of administering the estate duty tax in each of the latest specified three years for which information is available and (b) what was the amount realized in such tax in each of these years?

The MINISTER OF FINANCE:

(a) Estimated cost*

1984/1985	R300 000
1985/1986	R428 000
1986/1987	R486 000

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(b) Amount realized

1984/1985	R100 383 241
1985/1986	R139 360 485
1986/1987	R147 278 888

* The true cost of administering the Estate Duty Act cannot be determined as the assessing of estate duty is integrated in the administration process in Masters' offices while the collection and administration in Inland Revenue forms part of the administration of other taxes.

Diamond industry: cost of policing

528. Mr C J DERBY-LEWIS asked the Minister of Law and Order:

(1) What is the cost to the State of policing the diamond industry in the Republic of South Africa;

(2) whether the South African Police are involved in policing the diamond industry in South West Africa; if so, at what cost to the (a) State and/or (b) Police;

(3) in respect of what date is this information furnished?

The MINISTER OF LAW AND ORDER:

(1) The South African Police does not police the diamond industry of the Republic.

(2) No

(a) and (b) Fall away

(3) Fall away.

Milnerton/Maitland/Pinelands: arrests for vagrancy/drunkenness

544. Mr J J WALSH asked the Minister of Law and Order:

How many (a) males and (b) females of each race group were arrested in 1987 for (i) vagrancy and (ii) drunkenness in the (aa) Milnerton, (bb) Maitland and (cc) Pinelands police station areas?

The MINISTER OF LAW AND ORDER:

	(a)	(b)
(i) (aa)	14 persons	9 persons
(ii)	93 persons	49 persons
(i) (bb)	26 persons	18 persons
(ii)	2 425 persons	890 persons
(i) (cc)	none	none
(ii)	572 persons	34 persons

Separate records of the race of persons arrested are not kept, therefore only the total number of persons arrested is furnished.

New work opportunities for Blacks

557. Mr J J WALSH asked the Minister of Education and Development Aid:

(a) How many new work opportunities were created for Blacks in each employment sector by the South African Development Trust in the 1987-88 financial year and (b) what was the cost per opportunity in each sector?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

As the 1987/88 financial year has not been completed, figures are not available as yet, and therefore 1986/87 figures are stated. Figures indicated in the table below are in respect of the South African Development Trust Corporation (STK).

	New work opportunities created (a)	Cost per work opportunity (b)
STK's activities		
1.1 Commerce, services and housing	50	*1)
1.2 Industries	5 942	R8 580
1.3 Small industries	20	*1)
1.4 Mining	nil	nil
1.5 Agriculture	1 300	R10 961
1.6 Transport	nil	nil
1.7 Other	nil	nil

*1) Not available as yet.

Note:

(1) Activities which are undertaken by the Department of Development Aid on South African Development Trust land, are mainly handled by private contractors. As a result of rotation of employees between projects inside as well as outside South African Development Trust-areas, and fluctuating contract periods, the desired information cannot be calculated.

(2) The number of temporary work opportunities for occasional workers created on South African Development Trust land, by means of the special employment creation programme, for the period 1 April 1986 to 31 March 1987 amounted to 57 582. An amount of R2 724 million was spent for this purpose. A sectoral division of this employment is not available.

STK: manufacturing concerns/persons employed/amount invested in self-governing territories

558. Mr J J WALSH asked the Minister of Education and Development Aid:

As at the latest specified date for which information is available, what was the total (a) number of (i) manufacturing concerns and (ii) persons employed and (b) amount invested by the South African Development Trust in each of the self-governing territories where decentralization concessions or incentives are applicable?

(b) 31 December 1987.

(2) (a) Unknown as details of land acquired for consolidation purposes are not kept apart in a register. The land referred to in paragraph (1)(a)(ii) and (iii) includes the land acquired for consolidation purposes.

(b) The required information is not readily available as particulars on a Provincial basis are not kept in a register.

Ibayi Municipal Council: allegations of fraud

670. Mr D J N MALCOMESS asked the Minister of Law and Order:

Whether the South African Police are investigating allegations of fraud in respect of the Ibayi Municipal Council; if so, (a) what progress has been made and (b) when is it anticipated that the investigations will be completed?

The MINISTER OF LAW AND ORDER:

(a) and (b)

The investigation is being conducted in co-operation with internal auditors and is expected to be completed in 4 months time.

Bus boycotts, Botshabelo: persons killed/injured by SAP

672. Mrs H SUZMAN asked the Minister of Law and Order:

(1) Whether any persons were shot and (a) killed or (b) injured by members of the South African Police during the course of bus boycotts in Botshabelo in 1987 and 1988; if so, (i) how many, (ii) on what dates, (iii) what were the circumstances surrounding these incidents and (iv) what were the (aa) names and (bb) ages of each of the persons shot;

(2) whether any of these persons were hospitalized; if not, why not; if so, where;

(3) whether any persons were charged with offences in connection with these incidents; if so, (a) how many and (b) what were the charges in each case?

The MINISTER OF LAW AND ORDER:

(1) Yes.

(a) No.

(b) Yes, in 2 instances.

(i) 2 persons.

(ii) 4 January 1988

(iii) and (iv) In one instance stones were thrown at a bus. Members of the South African Police who were passengers on the bus, wanted to arrest the stone-throwers. One of these members was attacked by the stone-throwers and he fired one round of birdshot at the persons. A 17-year-old Black male was wounded.

In the other instance, stones were thrown at a bus. A member of the South African Police, who was a passenger on the bus, fired one round of birdshot at the stone-throwers and wounded a 22-year-old Black female.

However, I do not consider it to be in the interests of the persons to furnish their names.

(2) Yes. Botshabelo hospital.

(3) Yes.

(a) and (b) The Black male was charged with public violence and the Black female with malicious damage to property.

State revenue obtained from income tax/excise and customs duty/sales tax

678. Mr A GERBER asked the Minister of Finance:†

What percentage of the total State revenue was obtained from (a) income tax from (i) individuals, (ii) companies and (iii) gold mines, (b)(i) excise and (ii) customs duty, (c) sales tax and (d) other specified sources in each specified tax year from 1975 for which figures are available?

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The MINISTER OF FINANCE:

SOURCE OF REVENUE	1974/75 %	1975/76 %	1976/77 %	1977/78 %	1978/79 %	1979/80 %	1980/81 %	1981/82 %	1982/83 %	1983/84 %	1984/85 %	1985/86 %	1986/87 %
CUSTOMS AND EXCISE													
Total: Customs and Excise	20,50	21,08	20,76	24,09	17,21	13,21	11,10	13,89	13,25	10,12	8,06	7,15	7,61
Inland Revenue													
Income Tax:													
Companies (other than mining)	22,91	26,48	23,33	23,95	17,90	18,73	18,16	21,65	21,33	17,06	16,10	16,39	15,20
Individuals	22,08	24,66	25,14	26,78	22,80	19,86	15,71	21,95	24,97	29,73	31,05	28,52	29,42
Gold Mines	11,79	8,50	4,40	4,95	7,69	11,93	21,00	10,70	7,44	8,91	6,83	8,37	7,62
Other Mines	1,82	0,94	1,12	1,55	1,47	2,89	1,59	0,73	1,16	0,80	0,96	1,65	2,80
Sales Tax	—	—	—	—	5,99	12,76	12,42	14,68	18,54	20,31	25,04	27,46	26,92
Gold Mining Leases	3,73	3,20	1,66	1,39	2,26	3,42	6,30	4,09	2,14	2,73	1,60	2,04	1,98
Non-resident Shareholders Tax	1,71	1,65	1,26	1,32	1,28	1,65	2,23	2,24	1,43	1,36	1,05	1,18	1,22
Stamp Duties and Fees	1,67	1,33	1,06	1,18	1,09	1,26	1,03	1,00	0,86	1,10	1,03	0,92	0,96
Transfer Duty	1,29	1,11	0,78	0,68	0,61	0,91	1,16	1,19	1,11	1,66	1,22	0,91	0,87
Estate Duty	0,71	0,69	0,64	0,65	0,53	0,59	0,46	0,46	0,50	0,46	0,43	0,48	0,44
Interest and Dividends	3,82	3,96	8,30	7,54	7,50	6,77	4,30	3,48	3,33	2,67	2,14	1,24	0,89
Other	7,98	6,41	11,54	5,92	13,66	6,02	4,55	3,94	3,94	3,10	4,51	3,71	4,07
Total: Inland Revenue	79,50	78,92	79,24	75,91	82,79	86,79	88,90	86,11	86,75	89,88	91,94	92,85	92,39
Total: Ordinary Revenue	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00

Excluding amounts payable to TBVC countries and self-governing National States
Excluding transfers from reserve accounts
Excluding transfers from Central Energy Fund
Excluding standing allocations of revenue and loan levy

Overseas visitors: interviews with political parties

685. Mr C J DERBY-LEWIS asked the Minister of Foreign Affairs:

With reference to his reply to Question No 533 on 7 October 1987, how many overseas visitors who were guests of his Department in 1987 were unable to meet representatives of (a) the National Party, (b) the Progressive Federal Party, (c) the Conservative Party, (d) Inkatha and (e) the Soweto Civic Association as a result of the itineraries of these guests not permitting of such meetings?

The MINISTER OF FOREIGN AFFAIRS:

It is customary to arrange interviews with representatives of the political parties of all three Houses of Parliament. Sometimes there is not enough time available to fit in meetings with representatives of all the parties and the guest concerned is consulted on his preferences. It also happens that guests themselves ask that appointments be cancelled or altered. Alterations to programmes are thus made all the time, sometimes at the last moment. The Department does not specifically keep record of such alterations. The Department also does not keep record of the discussions with guests regarding their preferences at the arrangement of appointments.

(a) (b) (c) (d) and (e) fall away.

Cahora Bassa Hydro-electric Scheme in Mozambique

715. Mr C J DERBY-LEWIS asked the Minister of Foreign Affairs:

(1) Whether the South African Government and the Portuguese Government have reached an agreement in regard to repairing damaged power pylons and renewing cables carrying electricity from the Cahora Bassa Hydro-electric Scheme in Mozambique to the Republic; if so, (a) when, (b) what will be the amount of (i) South Africa's and (ii) Portugal's contribution towards the repairing of damage and the renewal of cables and (c) by which Government Departments will South Africa's contribution be provided;

(2) what are the main terms of this agreement?

The MINISTER OF FOREIGN AFFAIRS:

(1) Yes.

(a) South Africa accepted in principle the proposals mentioned in paragraph (2) below on 16 March 1988,

Insurance industry hails tax probe

By Ann Crotty

Yesterday's recommendation of the Standing Select Committee on Finance that the increase in tax on insurance companies should be investigated further has been well received by the industry, although it is now apparently resigned to having to deal with the increase until at least the next Budget.

Yesterday, the committee recommended that "in the light of opposition from a number of organisations, the recently announced increase in tax on insurance companies should be investigated further". It noted that in hearings on the Appropriation Bill evidence was given that the increase of the percentage in the formula to 70 percent (from 40 percent) was undesirable and should be reconsidered: "The committee regarded it as of importance that an acceptable long-term basis of tax on insurance companies should be implemented as soon as possible after negotiation with all interested parties."

Representatives of the industry were generally enthusiastic about the committee's encouragement of negotiations. Sanlam senior general manager Mr George Rudman said: "Any opportunity for discussion is to be welcomed. We think the proposal went too far and believe that we have a very good case to make." Mr Rudman was hopeful that Finance Minister Mr Barend du Plessis would listen to the committee's recommendation and then be persuaded to return to the old basis of a 50 percent tax on 40 percent of investment income until the majority proposals of the Margo Commission had been "thrashed out".

But other industry sources were sceptical that they would be saved from the increase in the 1989 budget year chiefly because Mr du Plessis had built in the additional R202 million of revenue into his estimates and would be hard-pressed to make it up elsewhere. In post-budget discussions with the industry, he has apparently indicated he is not open to change in the coming budget year. But he has suggested it is only an interim arrangement pending the implementation of the recommendations of the Margo Commission.

Old Mutual chief actuary Mr Theo Hardwicke, who was gratified by the committee's view, accepted there was unlikely to be a change in the coming budget year, but was hopeful there would be some relief the following year.

Liberty's Mr Donald Gordon was pleased the committee was looking at the situation: "The fortunes of life insurance companies are very much inter-linked with their policyholders and for this reason the perception that they are fat cats and should be targeted for making up any shortfall in the budget is certainly not in the interests of the economy, particularly as the industry plays a major role in capital formation." Mr Gordon was particularily disturbed that life insurers were the only companies having to pay 35 percent tax on dividend income, which already bears a 50 percent tax at source.

The committee recommended that further consideration be given to minimum tax on companies to ensure that if proceeded with, "its application would be equitable and would not act as a disincentive to local and foreign investment".

Insurance tax probe

Bday 30/3/88 CHRIS CAIRNCROSS (320)

GOVERNMENT has been asked by the joint Parliamentary Standing Committee on Finance to probe the implications of a 70% tax on insurance companies.

The committee has heard evidence from a number of organisations that the increase in the tax formula to 70% should be reconsidered.

The standing committee expressed reservations about the extent of the tax rate, but also said it believed it was important that an acceptable long-term basis of taxation for insurance companies should be implemented as soon as possible, but only after negotiation with all interested parties.

REPUBLIEK VAN SUID-AFRIKA

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GOEWERMENTSKENNISGEWING

KENNISGEWING 218 VAN 1988

INKOMSTEBELASTING, 1988

KENNISGEWING OM OPGAWES VIR DIE 1988-JAAR VAN AANSLAG TE VERSTREK

Hiermee word bekendgemaak dat, onderhewig aan wat in paragraaf 1 hieronder gesê word, die volgende persone wat vir nomale (inkomste-) belasting aanspreeklik is, hetsy persoonlik of in 'n verteenwoordigende hoedanigheid, ingevolge die bepalings van die Inkomstebelastingwet, 1962, belastingopgawes moet verstrek:

(a) Elke persoon (behalwe 'n getroude persoon of 'n maatskappy) onder die ouderdom van 60 jaar, of 'n verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1988-jaar van aanslag meer as R4 600 was.

(b) Elke persoon (behalwe 'n getroude persoon of 'n maatskappy) wat bo die ouderdom van 60 jaar (maar nie bo die ouderdom van 65 jaar nie), of 'n verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1988-jaar van aanslag meer as R5 400 was.

(c) Elke persoon (behalwe 'n getroude persoon of 'n maatskappy) bo die ouderdom van 65 jaar, of 'n verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1988-jaar van aanslag meer as R7 900 was.

(d) Elke getroude persoon onder die ouderdom van 60 jaar, of 'n verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1988-jaar van aanslag meer as R6 500 was.

(e) Elke getroude persoon bo die ouderdom van 60 jaar (maar nie bo die ouderdom van 65 jaar nie), of 'n verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1988-jaar van aanslag meer as R7 300 was.

(f) Elke getroude persoon bo die ouderdom van 65 jaar, of 'n verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1988-jaar van aanslag meer as R9 800 was.

(g) Elke persoon in sy hoedanigheid van verteenwoordigende belastingpligtige van 'n trust.

(h) Die openbare amptenaar van elke maatskappy.

(i) Elke persoon aan wie 'n inkomstebelastingvorm uitgereik word, afgesien van die bedrag van inkomste van so 'n persoon.

GOVERNMENT NOTICE

NOTICE 218 OF 1988

3-20

INCOME TAX, 1988

NOTICE TO FURNISH RETURNS FOR THE 1988 YEAR OF ASSESSMENT

Notice is hereby given that, subject to what is said in paragraph 1 below, the following persons who are liable to normal (income) tax, whether personally or in any representative capacity, under the provisions of the Income Tax Act, 1962, are required to furnish returns for the assessment of the tax:

(a) Every person (not being a married person or a company) under the age of 60 years, or a representative of such person, who derived a gross income in respect of the 1988 year of assessment in excess of R4 600.

(b) Every person (not being a married person or a company) over the age of 60 years (but not over the age of 65 years), or a representative of such person, who derived a gross income in respect of the 1988 year of assessment in excess of R5 400.

(c) Every person (not being a married person or a company) over the age of 65 years, or a representative of such person, who derived a gross income in respect of the 1988 year of assessment in excess of R7 900.

(d) Every married person under the age of 60 years, or a representative of such person, who derived a gross income in respect of the 1988 year of assessment in excess of R6 500.

(e) Every married person over the age of 60 years (but not over the age of 65 years), or a representative of such person, who derived a gross income in respect of the 1988 year of assessment in excess of R7 300.

(f) Every married person over the age of 65 years, or a representative of such person, who derived a gross income in respect of the 1988 year of assessment in excess of R9 800.

(g) Every person in his capacity as representative taxpayer of a trust.

(h) The public officer of every company.

(i) Every person to whom a form of return is issued irrespective of the amount of the income of such person.

Vorms

Die vorms wat deur die Kommissaris voorgeskryf is vir die verstrekking van opgawes is op aansoek verkrygbaar by die aanslagkantoor vir die gebied waarin die persoon wat die vorm moet invul, woonagtig is.

Aanstuur van opgawes

Opgawes moet per pos aangestuur word na of afgelewer word by die kantoor van die beampte soos aangedui op die vorm.

'n Koevert gemerk: "Inkomstebelasting—Amptelik", sal kosteloos oor die pos vervoer word.

Strafbepalings

Iemand van wie 'n opgawe vereis word, maar wat versuim om dit binne die tydperk hierbo genoem te verstrek, is strafbaar met 'n boete van hoogstens R100 of met gevangenisstraf vir 'n tydperk van hoogstens drie maande of met sowel die boete as die gevangenisstraf. Boonop kan sy belasbare inkomste geskat en driedubbele belasting daarop gehef word.

Enige belastingpligtige wat willens en wetens 'n valse verklaring in sy opgawe doen of belasting ontduik of probeer ontduik, en enige persoon wat daardie belastingpligtige behulpsaam is om dit te doen, is strafbaar met 'n boete van hoogstens R1 000 en/of gevangenisstraf vir 'n tydperk van hoogstens twee jaar. Boonop is die belastingpligtige blootgestel aan die heffing op aanslag van drie maal die bedrag aan belasting wat hy probeer ontduik het.

Niemand is vrygestel van boete bloot omdat hy nie persoonlik aangesê is om 'n opgawe te verstrek nie.

Nadere inligting

Nadere inligting of hulp kan verkry word òf by die kantoor van die Ontvanger van Inkomste van die aanslaggebied waarin u woon òf by die kantoor van die Kommissaris van Binnelandse Inkomste, Vermeulenstraat 240, Posbus 402, Pretoria, 0001.

C. E. KINGON,
Kommissaris van Binnelandse Inkomste.

(31 Maart 1988)

Forms

The forms prescribed by the Commissioner for the rendering of returns are obtainable on application to the assessing office for the area in which the person required to complete the form resides.

Forwarding of returns

Returns must be forwarded by post to or be delivered at the office of the official indicated on the form.

An envelope marked: "Income Tax—Official" will be carried post free.

Penal provisions

Any person required to render a return who fails to do so within the period mentioned above, is liable to a penalty not exceeding R100 or to imprisonment for a period not exceeding three months or to both such fine and imprisonment, and to have his taxable income estimated and to be charged three times the amount of tax thereon.

Any taxpayer who knowingly and wilfully makes any false statement in his return or evades or attempts to evade taxation and any person who assists that taxpayer to do so, is liable to a penalty not exceeding R1 000 and/or to imprisonment for a period not exceeding two years. The taxpayer is, in addition, liable to be assessed and charged three times the amount of the tax which he sought to evade.

No person is exempted from penalty merely by reason of the fact that he may not have been called upon personally to furnish a return.

Further information

Further information or assistance may be obtained either from the Receiver of Revenue in whose assessing area you reside or from the office of the Commissioner for Inland Revenue, 240 Vermeulen Street, P.O. Box 402, Pretoria, 0001.

C. E. KINGON,
Commissioner for Inland Revenue.

(31 March 1988)